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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2023

The board of directors (the "**Board**") of Postal Savings Bank of China Co., Ltd. (the "**Bank**") hereby announces the unaudited results of the Bank and its subsidiaries for the six months ended June 30, 2023. The Audit Committee of the Board of the Bank has reviewed such interim results. This announcement complies with the relevant content requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to preliminary announcements of interim results. The printed version of the Bank's Interim Report for 2023 will be sent to the shareholders of the Bank in due course and the Interim Report for 2023 is available for viewing on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and of the Bank.

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

Beijing, PRC
August 30, 2023

As at the date of this announcement, the Board of the Bank comprises Mr. Liu Jianjun and Ms. Yao Hong as Executive Directors; Mr. Han Wenbo, Mr. Chen Donghao, Mr. Wei Qiang, Mr. Liu Yue and Mr. Ding Xiangming as Non-executive Directors; Mr. Wen Tiejun, Mr. Chung Shui Ming Timpson, Mr. Hu Xiang, Ms. Pan Yingli and Mr. Tang Zhihong as Independent Non-executive Directors.

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

Important Notice

The Board of Directors, the Board of Supervisors, Directors, Supervisors and the senior management of the Bank undertake that the information in this report is true, accurate and complete and contains no false records, misleading statements or material omissions, and they assume individual and joint legal liabilities for such information.

The 2023 interim report, highlights and results announcement were reviewed and approved at the meeting of the Board of Directors of the Bank held on August 30, 2023. The number of Directors who should attend the meeting is 12, among which 11 Directors attended the meeting in person. Director Yao Hong entrusted Director Liu Jianjun in writing to attend the meeting and vote on her behalf due to other business arrangements. The attendance was in compliance with the requirements of the Company Law of the People's Republic of China and the Articles of Association.

With the approval at the 2022 Annual General Meeting held on June 30, 2023, the Bank distributed cash dividends of RMB2.579 (before tax) per ten shares, totaling approximately RMB25,574 million (before tax), to all the ordinary shareholders whose names appeared on the share register as of July 12, 2023 after the market close. The Bank did not declare or distribute interim dividends of 2023, nor did it convert any capital reserve to share capital.

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

The 2023 interim financial report of the Bank, prepared in accordance with PRC GAAP and IFRSs, has been reviewed by Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu in accordance with domestic and international review standards respectively.

The Board of Directors of Postal Savings Bank of China Co., Ltd.
August 30, 2023

Mr. Liu Jianjun, Legal Representative of the Bank, Mr. Xu Xueming, Vice President in charge of finance of the Bank, and Ms. Deng Ping, General Manager of Finance and Accounting Department of the Bank, hereby declare and warrant the truthfulness, accuracy and completeness of the financial statements contained in this report.

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

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

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

Contents

Overview

Corporate Governance

Discussion and Analysis

Financial Statements and Others

Columns

Business Features

Capability Building

Definitions

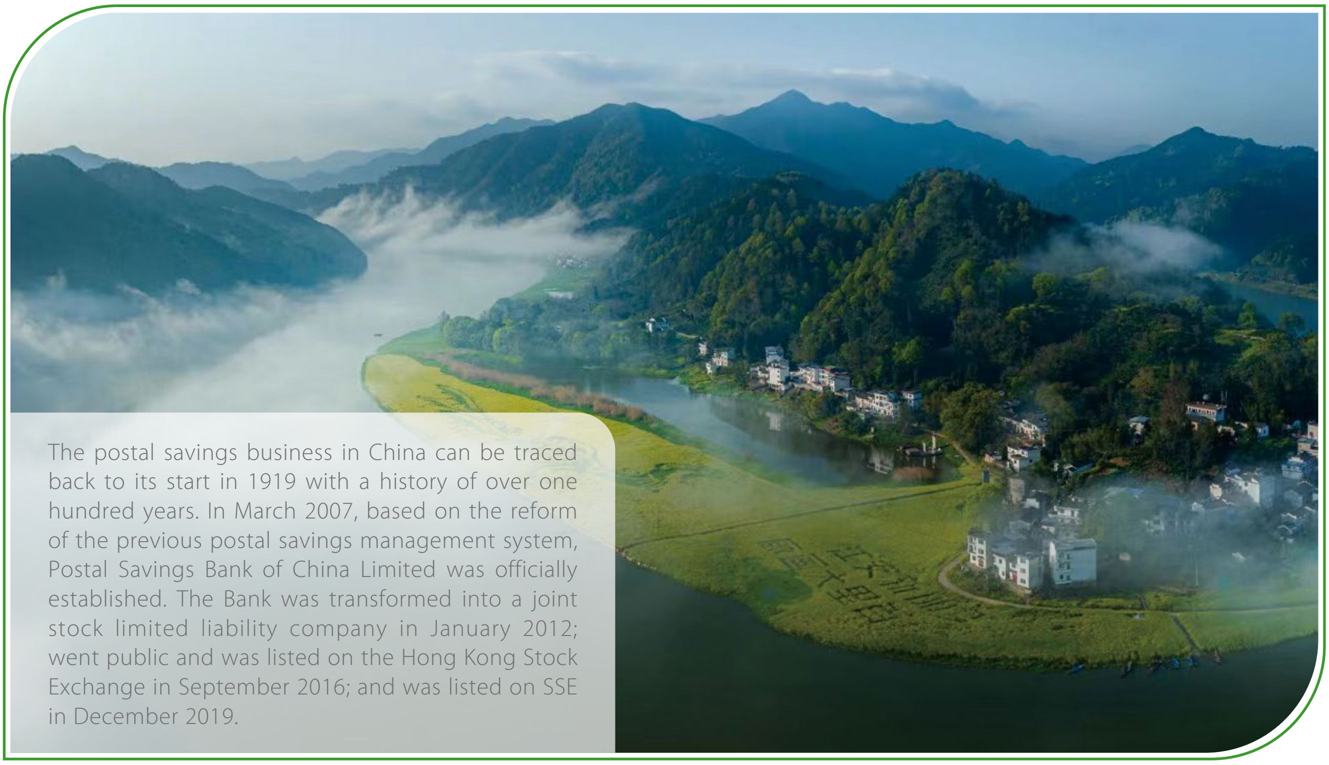
"Articles of Association"	The Articles of Association of Postal Savings Bank of China Co., Ltd., as amended, supplemented or otherwise modified from time to time
"Bank/PSBC/Postal Savings Bank of China"	Postal Savings Bank of China Co., Ltd., a joint stock limited liability company established in the PRC in accordance with PRC laws, including its predecessors, branches and sub-branches, directly-operated outlets and agency outlets (to the extent of agency outlets' operations, risk management and licenses in relation to agency banking businesses they conduct) and subsidiaries (where the context so requires)
"central bank/PBOC"	People's Bank of China
"China Post Group"	China Post Group Corporation Limited, 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
"CSRC"	China Securities Regulatory Commission
"direct bank/YOU$^+$ BANK"	YOU$^+$ BANK, a direct bank subsidiary set up by the Bank
"Group"	The Bank and its subsidiaries
"HKEx"	Hong Kong Exchanges and Clearing Limited
"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
"MOF"	Ministry of Finance of the PRC
"NAFR/former CBIRC/former CBRC"	National Administration of Financial Regulation or its predecessors, i.e., the former China Banking and Insurance Regulatory Commission, or the former China Banking Regulatory Commission (where the context so requires)
"new rules on asset management"	Guiding Opinions on Regulating Asset Management Business of Financial Institutions and other related regulations
"PRC GAAP"	The Accounting Standards for Business Enterprises issued by the MOF on February 15, 2006, and other related regulations issued thereafter
"PSBC Consumer Finance"	PSBC Consumer Finance Co., Ltd.
"PSBC Wealth Management"	PSBC Wealth Management Co., Ltd.

"Sannong"	Agriculture, rural areas and farmers
"SFO"	The Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"SMEs"	Enterprises classified as micro, small, and medium-sized enterprises under the Classification Standards of Small and Medium Enterprises
"SSE"	Shanghai Stock Exchange

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

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

Company Profile



The postal savings business in China can be traced back to its start in 1919 with a history of over one hundred years. In March 2007, based on the reform of the previous postal savings management system, Postal Savings Bank of China Limited was officially established. The Bank was transformed into a joint stock limited liability company in January 2012; went public and was listed on the Hong Kong Stock Exchange in September 2016; and was listed on SSE in December 2019.

With approximately 40,000 outlets and services covering over 650 million personal customers, the Bank focuses on providing financial services to Sannong customers, urban and rural residents as well as SMEs. Relying on its unique model and resource endowment featuring directly-operated outlets and agency outlets, it 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 banking as well as efficient operation. It has shown superior asset quality and significant development potential, and is a leading major retail bank in China.

The Bank is committed to serving the real economy, actively implementing national strategies, and fulfilling its social responsibilities. It 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 customers with quality, convenient and efficient integrated financial services. It adheres to the risk-based approach as well as a prudent and sound risk appetite, enhances its leading role of risk management on all fronts, and continuously improves the comprehensive risk management system featuring "all aspects, whole process and entire staff". It continues to follow the operation philosophy of "gaining a first-mover advantage with market insights", takes bold acts in innovation and reform, deepens capacity building, and strives for high-quality development.

Since its establishment 16 years ago, the Bank has been playing an increasingly important role in the market with marked influence. 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 ratings. It has been rated A, AAAspc and AAA with a stable outlook by S&P Global Ratings, S&P Global (China) Ratings and CCXI, respectively. In 2023, it ranked 12th in The Banker's list of "Top 1000 World Banks" in terms of tier 1 capital.

Faced with new strategic opportunities for China's development, the Bank thoroughly implements the new development philosophy, focuses on high-quality development, stays committed to the general principle of pursuing progress while ensuring stability, comprehensively deepen reform and innovation, and accelerates the transformation and development towards "uniqueness, comprehensiveness, lightness, digitalization and intensiveness". Committed to fulfilling its economic, political and social responsibilities as a major state-owned bank, the Bank will continue to improve the quality and efficiency of serving the real economy, enhance 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.

Strategic Positioning and Corporate Culture

Strategic Vision

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

Company Spirit

Be responsible, resilient and caring

Strategic Objectives

Empower high-quality development with financial technology, accelerate transformation of business models, build a smart risk control system and enhance value creation to be a leading digital ecology bank serving the rural revitalization and new urbanization

Mission

Deliver accessible financial services in both urban and rural areas

Brand Premise

Together we make it better

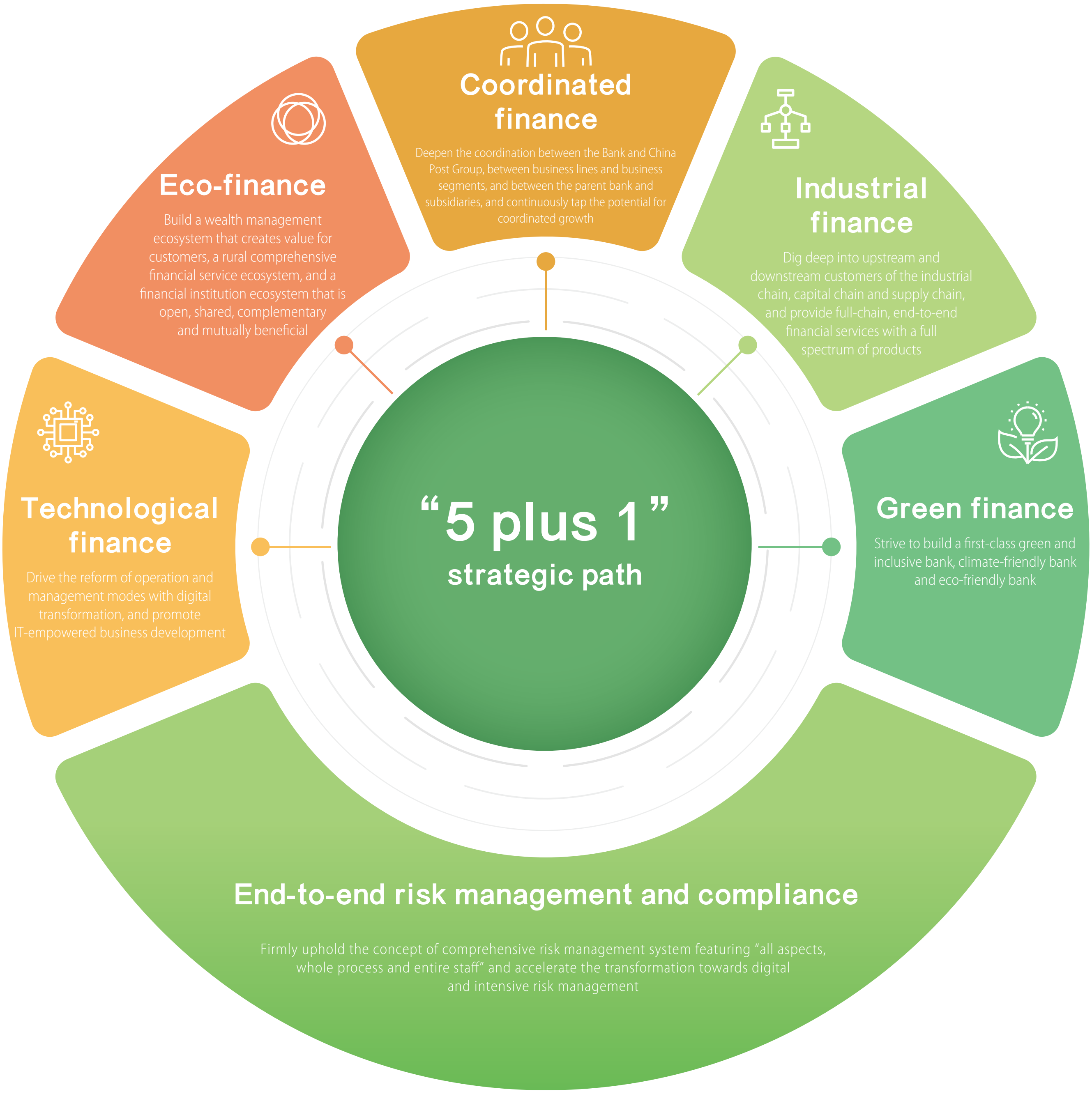
Company Philosophies

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

Values

Create value for customers.
Integrity is the cornerstone of our development.
Prudence leads to sustainability.
Employees are our greatest asset.
Excellence comes through professionalism.
Embrace change and keep innovating.

Strategic Positioning and Corporate Culture



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[1]	Liu Jianjun
Chairman[1]	Liu Jianjun
President	Liu Jianjun
Authorized representatives	Yao Hong, Du Chunye
Secretary to the Board of Directors	Du Chunye Address: No. 3 Financial Street, Xicheng District, Beijing Telephone: 86-10-68858158 Fax: 86-10-68858165 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
Contacts for investors	Postal code: 100808 Telephone: 86-10-68858158 Fax: 86-10-68858165 E-mail: psbc.ir@psbcoa.com.cn Websites: www.psbcltd.cn, www.psbc.com
Hotline for customer services and complaints	86-95580
Information disclosure media	China Securities Journal (www.cs.com.cn), Shanghai Securities News (www.cnstock.com), Securities Times (www.stcn.com), Securities Daily (www.zqrb.cn)
Interim report available at	Office of the Board of Directors of the Bank No. 3 Financial Street, Xicheng District, Beijing
Unified social credit code	9111000071093465XC
A share listing place, stock name, stock code and website for publication of interim report	Stock exchange on which shares are listed: Shanghai Stock Exchange Stock name: 郵儲銀行 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 interim report: www.sse.com.cn

1 Mr. Liu Jianjun, Executive Director and President of the Bank, has been performing the duties on behalf of Chairman and Legal Representative of the Bank since April 25, 2022.

Corporate Information

H share listing place, stock name, stock code and website for publication of interim report	Stock exchange on which shares are listed: The Stock Exchange of Hong Kong Limited Stock name: PSBC Stock code: 1658 Share Registrar: Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong Website of Hong Kong Stock Exchange for publication of interim report: www.hkexnews.hk
Legal advisor as to laws of the Chinese mainland	Haiwen & Partners
Legal advisor as to laws of Hong Kong, PRC	Clifford Chance LLP
Domestic auditor	Deloitte Touche Tohmatsu Certified Public Accountants LLP Place of business: 30/F, 222 Yan'an Road East, Huangpu District, Shanghai Signing accountants: Yang Bo, Hu Xiaojun, Shen Xiaohong
International auditor	Deloitte Touche Tohmatsu Place of business: 35/F, One Pacific Place, 88 Queensway, Admiralty Hong Kong Signing accountants: Ley Pui Chun, Rossana
Sponsors for continuous supervision and guidance	China International Capital Corporation Limited Place of business: 27th and 28th Floor, China World Office 2, No. 1 Jianguomenwai Avenue, Chaoyang District, Beijing Signing sponsors: Zhu Xiaofei, Chen Xue Period of continuous supervision and guidance: December 10, 2019 to December 31, 2024 China Post Securities Co., Ltd. Place of business: 2nd Floor, Tower C, Joiest Group Building, No. 14 Zhushikou East Street, Dongcheng District, Beijing Signing sponsors: Wang Huamin, Ma Qingrui Period of continuous supervision and guidance: November 11, 2022 to December 31, 2024

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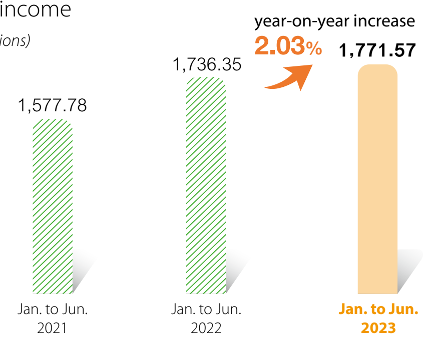
Financial Highlights

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.

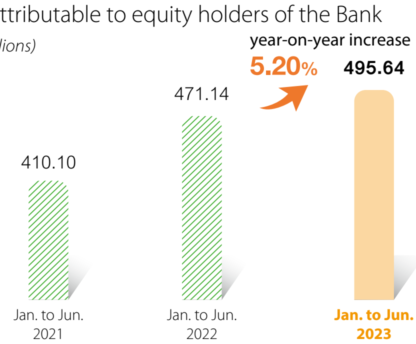
Operating income

(In RMB100 millions)



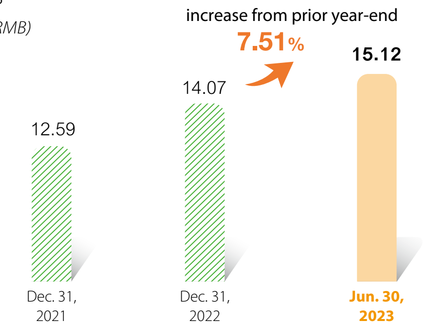
Net profit attributable to equity holders of the Bank

(In RMB100 millions)



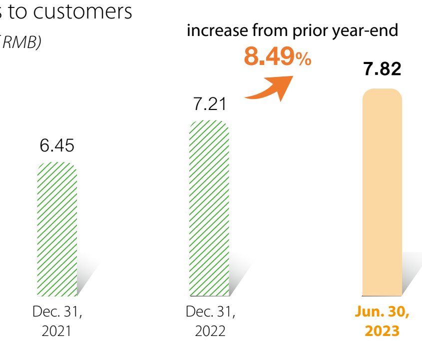
Total assets

(In trillions of RMB)



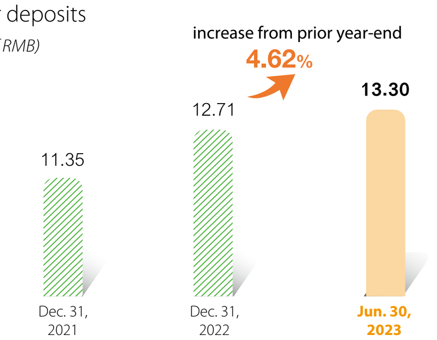
Total loans to customers

(In trillions of RMB)



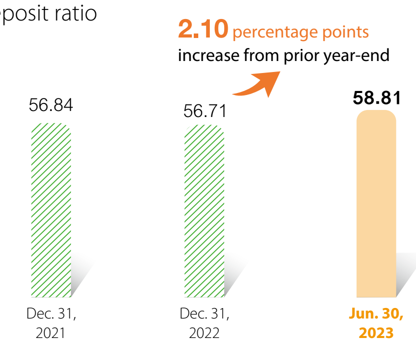
Customer deposits

(In trillions of RMB)



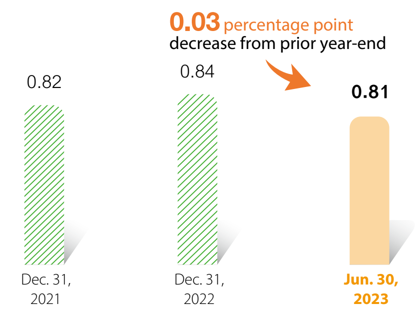
Loan-to-deposit ratio

(%)



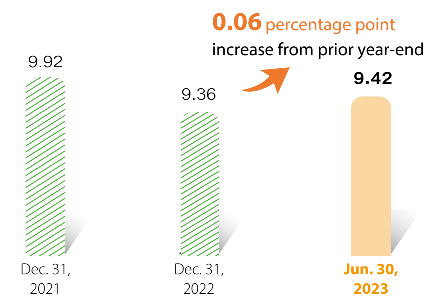
Non-performing loan ratio

(%)



Core tier 1 capital adequacy ratio

(%)



Financial Highlights

Key Financial Data

In millions of RMB, unless otherwise stated

Item	For the six months ended June 30, 2023	For the six months ended June 30, 2022	For the six months ended June 30, 2021
Operating results			
Operating income	177,157	173,635	157,778
Net interest income	140,305	137,117	132,096
Net fee and commission income	18,203	17,880	11,429
Operating expenses	103,109	93,834	82,565
Credit impairment losses	19,316	27,099	29,454
Impairment losses on other assets	1	9	8
Profit before income tax	54,731	52,693	45,751
Net profit	49,638	47,170	41,244
Net profit attributable to equity holders of the Bank	49,564	47,114	41,010
Net cash flows generated from operating activities	83,497	146,914	168,077
Per share data (in RMB Yuan)			
Basic and diluted earnings per share(1)	0.46	0.44	0.40

Note (1): Calculated in accordance with the Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No. 9 – Calculation and Disclosure of Return on Net Assets and Earnings per Share (Revision 2010) issued by the CSRC. There are no potential diluted ordinary shares of the Bank, so the diluted earnings per share is the same as the basic earnings per share. The calculation of relevant indicators excludes the impact of other equity instruments.

In millions of RMB, unless otherwise stated

Item(1)	June 30, 2023	December 31, 2022	December 31, 2021
Data as at the end of the reporting period			
Total assets(2)	15,123,107	14,067,282	12,587,873
Total loans to customers(3)	7,822,667	7,210,433	6,454,099
Allowance for impairment losses on loans to customers(4)	239,500	232,723	216,900
Loans to customers, net	7,583,167	6,977,710	6,237,199
Financial investments(5)	5,212,511	4,958,899	4,348,620
Cash and deposits with central bank	1,276,264	1,263,951	1,189,458
Total liabilities	14,232,416	13,241,468	11,792,324
Customer deposits(3)	13,301,591	12,714,485	11,354,073
Equity attributable to equity holders of the Bank	889,028	824,225	794,091
Net capital	1,096,748	1,003,987	945,992
Core tier 1 capital – net	744,708	679,887	635,024
Additional tier 1 capital – net	140,135	140,126	157,982
Risk-weighted assets	7,909,618	7,266,134	6,400,338
Per share data (in RMB Yuan)			
Net assets per share(6)	7.55	7.41	6.89

Note (1): 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 MOF, from 2018 onward, the interest on corresponding assets and liabilities is included in the balance of carrying amounts of the financial instruments accordingly, and should no longer be accounted for as separate items of "interest receivable" or "interest payable". The balance of "interest receivable" or "interest payable" listed under "other assets" or "other liabilities" is only interest receivable or interest payable on relevant matured financial instruments but not received nor paid on the date of the balance sheet.

Note (2): In accordance with the relevant regulations under the Interim Measures for the Administration of Gold Leasing Business (Yin Ban Fa [2022] No.88) issued by the General Administration Department of the PBOC, the gold leasing business conducted between the Bank and other financial institutions should be presented in "placements with banks and other financial institutions" instead of "other assets" from 2023 and the relevant data of the comparative period should be adjusted on the same basis.

Note (3): 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 (4): Allowance for impairment losses on loans to customers measured at amortized cost.

Note (5): Consists of financial assets measured at fair value through profit or loss, debt instruments measured at fair value through other comprehensive income, equity instruments measured at fair value through other comprehensive income and financial assets measured at amortized cost.

Note (6): Calculated by dividing equity attributable to ordinary shareholders of the Bank at the end of the period by the total number of ordinary shares at the end of the period.

Financial Indicators

Item	For the six months ended June 30, 2023	For the six months ended June 30, 2022	For the six months ended June 30, 2021
Profitability (%)			
Return on average total assets(1)(2)	0.69	0.73	0.71
Return on weighted average equity(1)(3)	12.86	13.35	13.30
Net interest margin(1)(4)	2.08	2.27	2.37
Net interest spread(1)(5)	2.06	2.24	2.31
Net fee and commission income to operating income ratio	10.28	10.30	7.24
Cost-to-income ratio(6)	57.36	53.24	51.53

Note (1): On an annualized basis.

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

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

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

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

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

Item	June 30, 2023	December 31, 2022	December 31, 2021
Asset quality (%)			
Non-performing loan ratio(1)	0.81	0.84	0.82
Allowance to NPLs ratio(2)	381.28	385.51	418.61
Allowance to loans ratio(3)	3.08	3.26	3.43
Capital adequacy ratio (%)			
Core tier 1 capital adequacy ratio(4)	9.42	9.36	9.92
Tier 1 capital adequacy ratio(5)	11.19	11.29	12.39
Capital adequacy ratio(6)	13.87	13.82	14.78
Risk-weighted assets to total assets ratio(7)	52.30	51.65	50.85
Total equity to total assets ratio	5.89	5.87	6.32

Note (1): Calculated by dividing the total NPLs by total loans to customers, and the total loans exclude the accrued interest.

Note (2): Calculated by dividing total allowance for impairment losses on loans to customers by total NPLs. Total allowance for impairment losses on loans to customers includes allowance for impairment losses on loans to customers measured at amortized cost and allowance for impairment losses on loans to customers measured at fair value through other comprehensive income.

Note (3): Calculated by dividing total allowance for impairment losses on loans to customers by total loans to customers. Starting from 2021, total loans no longer include the accrued interest when calculating the allowance to loans ratio.

Note (4): Calculated by dividing core tier 1 capital (net of core tier 1 capital deductions) by risk-weighted assets.

Note (5): Calculated by dividing tier 1 capital (net of tier 1 capital deductions) by risk-weighted assets.

Note (6): Calculated by dividing total capital (net of capital deductions) by risk-weighted assets.

Note (7): Calculated by dividing risk-weighted assets by total assets.

Financial Highlights

Other Major Indicators

Item		Regulatory criteria	June 30, 2023	December 31, 2022	December 31, 2021
Liquidity ratio (%)[1]	RMB and foreign currency	≥25	87.38	73.87	72.86
Percentage of loans to largest single borrower (%)[2]		≤10	14.66	16.50	18.72
Percentage of loans to the ten largest borrowers (%)			24.52	27.14	28.67
Loan migration ratio (%)	Normal		0.57	0.89	0.60
	Special mention		27.49	29.22	24.09
	Substandard		45.71	44.76	48.27
	Doubtful		58.04	53.41	56.81

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

Note (2): Percentage of loans to the largest single borrower = balance of loans to the largest borrower/net capital x 100%. The largest borrower refers to the borrower with the highest balance of loans at the period end. As at 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 RMB160,819 million, accounting for 14.66% 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 RMB240.0 billion which was approved by the relevant regulatory authorities. As at the end of the reporting period, the outstanding loan balance under such credit line for China State Railway Group Co., Ltd. was RMB144.5 billion. After deduction of this RMB144.5 billion, the Bank's balance of loans to China State Railway Group Co., Ltd. accounts for 1.49% of the Bank's net capital.

Credit Ratings

Rating Agency	June 30, 2023	2022	2021
S&P Global Ratings	A (stable)	A (stable)	A (stable)
Moody's Investors Service	A1 (stable)	A1 (stable)	A1 (stable)
Fitch Ratings	A+ (stable)	A+ (stable)	A+ (stable)
S&P Global (China) Ratings	AAAspc (stable)	AAAspc (stable)	AAAspc (stable)
CCXI	AAA (stable)	AAA (stable)	AAA (stable)

Overview of Operations

The Bank earnestly implemented the decisions and plans of the CPC Central Committee and the State Council, followed the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, and continued to uphold fundamental principles and break new ground. Pursuing the "5 plus 1" strategic path, it strengthened major capabilities in six aspects[1], blazed a trail of differentiated development around the five growth poles, relied on resource endowments to foster new competitive advantages, and kept accelerating the pace of innovative breakthroughs, transformation and upgrading. By doing so, the Bank fulfilled its responsibility as a major state-owned bank with solid efforts, in a bid to open up new horizons of high-quality development.

In the face of the complicated and severe economic situations at home and abroad, the Bank seized the opportunities brought by the steady economic recovery, overcame great difficulties with firm confidence, and maintained robust and stable development. First, the scale of business reached a new level. As at the end of the reporting period, the Bank's total assets crossed the RMB15 trillion mark to hit RMB15.12 trillion, an increase of 7.51% over the prior year-end, of which, total loans to customers amounted to RMB7.82 trillion, an increase of 8.49% over the prior year-end. Total liabilities exceeded RMB14 trillion to reach RMB14.23 trillion, an increase of 7.48% from the end of last year, of which customer deposits reached RMB13.30 trillion, an increase of 4.62% from the end of last year. Second, profitability remained stable. During the reporting period, the Bank's net profit attributable to equity holders stood at RMB49,564 million, a year-on-year increase of 5.20%; operating income was RMB177,157 million, up 2.03% year on year. Net interest margin reported 2.08% in the first half of 2023, which stabilized since the second quarter. Third, risk management was precise and effective. Always following the concept of putting risk control first, the Bank developed panoramic risk monitoring and screening tools, improved layered customer risk management, and realized more forward-looking and precise risk management. As at the end of the reporting period, the Bank's NPL ratio was 0.81%, a decrease of 0.03 percentage point from the prior year-end. Thanks to the adoption of a prudent provisioning policy, the Bank's provision coverage ratio stood at 381.28%, indicating adequate risk-offsetting capacity. Fourth, social influence continued to improve. PSBC ranked 12th in The Banker's list of 2023 "Top 1000 World Banks" in terms of tier 1 capital, reaching a new record high. Meanwhile, it continued to lead domestic commercial banks in terms of ratings by the three major international rating agencies.

To actively respond to profound changes in the industry, the Bank continuously improved the efficiency of resource allocation with "value creation" as the core, and made headway in realizing high-quality development with improvement in both quality and quantity. First, it realized more efficient asset allocation. Guided by the principle of risk-adjusted return on capital (RAROC) for resource allocation, the Bank continued to allocate more assets toward loans, granted more loans to real entities, and gave more support to the retail sector in the real economy. While channeling more financial resources into the real economy, it kept optimizing its asset structure. In the first half of 2023, the Bank's loans to customers increased by RMB612,234 million, RMB75,269 million more than the increment in the same period of the prior year, which set a record high for the same periods in history, and drove up the loan-to-deposit ratio and the percentage of credit assets by 2.10 percentage points and 0.47 percentage point compared with the prior year-end. Specifically, personal loans rose by RMB262,989 million, RMB66,913 million more than the growth for the first half of last year. As for non-credit business, the Bank strengthened forward-looking analysis and prediction of the market, actively sought and invested in high-quality assets with risks under control, made reasonable arrangements on the maturity structure, and stepped up the trading and circulation of assets, in a bid to enhance return on investment. Second, it achieved an optimized structure of liability growth. Following the development strategy of "putting quality over scale", the Bank took value deposits as the core of development, transformation of personal customers' AUM as an opportunity, and performance appraisal as the main measure to intensify structural optimization and maintain the advantage of low-cost liabilities. Average interest rate of interest-bearing liabilities in the first half of 2023 was 1.57%, a year-on-year decrease of 8 bps. Third, the Bank solidified its capital base. While continuing to promote capital-intensive development and accelerating the development of advanced capital management approaches, the Bank actively utilized internal and external channels to replenish capital in an orderly manner. It successfully completed the private placement worth RMB45.0 billion and the issuance of tier 2 capital bonds worth RMB20.0 billion to propel long-term high-quality development.

1 "Major capabilities in six aspects" refers to core business, system support, coordination and integration, technological facilitation, institutional drive and innovation leadership.

Overview of Operations

Adhering to its strategic positioning, the Bank made solid efforts to serve Sannong customers, SMEs and urban and rural residents, and accelerated the development of differentiated competitive advantages to better serve the real economy. Remarkable results were achieved in building the five differentiated growth poles and a first-tier large retail bank. First, tapping into the potential of Sannong finance to become the main force of rural revitalization. The Bank accelerated the transformation of Sannong finance toward digitalized, scenario-based and intensive operation, built a rural financial service system with its own characteristics, and formed four distinctive business modes to serve rural revitalization, that is, the proactive credit extension mode, whole-village credit extension mode, online and offline integrated mode, and coordinated service mode. The Bank made continuous progress in building a rural credit system, pushed forward the comprehensive development of creditworthy villages, steadily carried out universal credit extension to all farmers, and vigorously developed credit loan products. The balance of agro-related loans exceeded RMB2 trillion, representing an increase of RMB232,964 million from the prior year-end and setting an all-time high for increments in the same periods in history. The balance of such loans accounted for about one-fourth of total loans to customers, a figure ranking high among large state-owned banks. Approximately 380,000 creditworthy villages were built; and over 10 million creditworthy households were recognized. The balance of personal micro loans was RMB1.32 trillion, an increase of RMB186,691 million from the prior year-end, with the incremental amount hitting a record high over the same periods in history. Second, proactively practicing inclusive finance to support SMEs in an accurate way. Relying on the "5D (Digital)" microfinance system[1], the Bank continuously strengthened its core competence in micro financial services, and endeavored to accompany SMEs through their growth and expansion. It helped specialized and sophisticated enterprises that produce new and unique products as well as sci-tech enterprises grow larger and stronger, improved the professional service system for sci-tech enterprises, launched life cycle service solutions for sci-tech enterprises, and created the "U Prosper" brand of financial services for sci-tech enterprises, so as to support the innovation and development of these enterprises with a full range of financial services. The balance of inclusive loans to MSEs amounted to RMB1.35 trillion, representing an increase of RMB170,282 million from the prior year-end and setting a record high for the same periods in history. The balance of such loans accounted for more than 17% of total loans to customers, steadily leading the performance among large state-owned banks. The number of customers with loan balances was 2,084.5 thousand, a net increase of 150.1 thousand from the prior year-end. The Bank served 61.4 thousand specialized and sophisticated enterprises that produce new and unique products and sci-tech enterprises, a year-on-year increase of more than 30%; and the balance of loans to these enterprises amounted to RMB292,381 million, a year-on-year increase of more than 40%. Third, propelling value growth to turn proactive credit extension into a "golden touch" for customer outreach. The Bank deepened the application of intelligent risk control tools, built a proactive credit extension model for customers with assets in the Bank, completed the integration and analysis of multi-dimensional data on these customers such as basic information, asset data and transaction records, and pushed forward the building of a digital operation system for proactive credit extension, thus creating an industry-leading online lending operation capability. The number of customers on the list of proactive credit extension exceeded 120 million, with the outstanding loans surpassing RMB100 billion. Fourth, developing finance for the public good to help both urban and rural residents lead a better life. The Bank moved faster to upgrade its wealth management system, pushed forward the building of the customer chain operation system which supported stratified progress and continuous growth, and strengthened the capacity building of the wealth consultant team, in a bid to build a chain operation system covering long-tail customers to private banking customers, a specialized, dedicated and digitalized service system, a full-spectrum, high-quality and open-ended product lineup as well as a robust and smart risk control system. A service mode that centered on mobile banking, relied on remote banking, and integrated online and offline channels was created to make three-dimensional financial services accessible to a wider range of customers around the clock. The Bank served 656 million individual customers, of whom 50,505.9 thousand were VIP customers, an increase of 6.67% from the prior year-end; and 4,741.1 thousand were Fujia customers and above[2], an increase of 11.55% from the prior year-end. The AUM hit RMB14.52 trillion, an increase of RMB632,496 million from the prior year-end. Fifth, utilizing advantages in the financial market to build an ecosystem-based interbank financial system. Adhering to the concepts of open banking, ecology-based banking, digital banking and technology banking, the Bank developed its financial market business, refined its strategic management, properly allocated its assets, and promoted its transaction transformation. Relying on the interbank ecosystem platform "Together We Thrive", the Bank continued to deepen scenario building, enriched the ecosystem, and leveraged its fund strength by synchronizing its online and offline efforts. As a result, the interbank ecosystem became a more influential and popular brand. With over 2,100 registered institutions, the platform covered 85% of offline ecosystem clients. Nearly 800 interbank institutions carried out transactions on the platform, with a cumulative transaction volume of nearly RMB1 trillion.

1 "5D (Digital)" microfinance system refers to digital marketing system, digital product system, digital risk control system, digital operation model and digital service method.

2 The Bank regards customers with assets of RMB100,000 and above as VIP customers and customers with assets of RMB500,000 (inclusive) and above are Fujia customers and above.

The Bank accelerated innovation-driven development and focused on mechanism and institutional reforms to solidify the foundation of development and stimulate the development vitality. First, the new "1 plus N" operation and service system[1] was implemented and rolled out on all fronts. Centering around "six-sphere integration" in terms of customer management, product management, team building, management mechanism, digital transformation and risk management, the Bank focused on "layered and classified management at an escalated level, team-based services as the lead bank, and continuous innovation". It took the provision of lead bank services as its core, and pushed forward reforms in organizational mode, service mode, risk mode and incentive mode to achieve value co-creation with customers. Thanks to these efforts, corporate clients grew in both quantity and quality. Newly acquired customers numbered 170.8 thousand, of which 157.6 thousand were active customers. The number of customers for whom the Bank served as the lead bank increased by 48.98%. The finance product aggregate (FPA) of corporate clients amounted to RMB4.21 trillion, an increase of RMB523,519 million from the prior year-end. Second, solid efforts were made to build an intensive business mode featuring low cost and high efficiency. The Bank accelerated the implementation of a three-year work plan for transition to intensive operation and pressed ahead with the intensive operation project of the Head Office with coordinated efforts. Ten major intensive operation projects were launched to form a centralized and multi-level credit factory system. The Bank realized automated review and approval of retail credit applications, continued to upgrade and optimize the review and approval model, advanced the reform toward centralized operation of post-lending management, and made independent post-lending procedures accessible for customers. The custody operation center of the Head Office was formally set up and put into operation to comprehensively streamline business processing flows and improve operation and service efficiency. Third, the Bank transformed its organizations to empower service upgrading. The Bank accelerated the creation of a barbell-shaped organizational structure, strengthened the leadership of the headquarters, pushed forward the organizational reform of tier-2 branches, and organized a pilot program in six branches to optimize the staffing at tier-2 branches, so as to allocate resources more accurately and efficiently to key areas and critical links of business development. Fourth, the "future-oriented" concept was upheld to lead business development. The Bank continued to expand the application of "future-oriented" technology, comprehensively improved the "future-oriented" risk identification capabilities, and kept tapping high-quality customer groups with a long-term view to realize shared growth with customers. The Bank approved 3,514 customers using the "future-oriented" technology, and became the lead bank for more than 640 customers via the "future-oriented" technology. Fifth, new development momentum was gained at a faster pace through digital transformation. While reconstructing the digital infrastructure, the Bank explored new business forms such as intelligent customer services by digital humans and generative AI-enabled card face customization, and accelerated the innovation and commercialization of cutting-edge financial technology. Meanwhile, it explored digital operation and introduced the innovative intensive operation mode called "cloud counter". By upgrading digital channels, it reconstructed the new generation mobile banking, which integrated facial recognition, optical character recognition (OCR) and other technologies into core functions, and became capable of providing highly personalized marketing services.

In the face of the new mission presented by the Chinese modernization drive and the new opportunities arising from the development of the country, society and industry, the Bank will focus on the primary task of high-quality development as well as "Three Cores", i.e. core competitive elements, core competitive advantages and core competitive capabilities, to reshape the development momentum by digging into the resource endowments. It will strive to build future-oriented competitive advantages by focusing on sustainable development, strengthen the coordination between the Bank and China Post Group to gain unique advantages, give full play to the enabling role of cutting-edge technologies to build digital and intellectual advantages in which the future lies, and serve rural revitalization to get considerable advantages in the vast rural market. While implementing national strategies, supporting the real economy, and enhancing the people's well-being, the Bank will expand the potential for further development, blaze a trail to becoming a large retail commercial bank with distinctive features, and facilitate high-quality development with its distinctive financial services in all aspects.

1 The new "1 plus N" operation and service system refers to a system under which the Bank carried out reform and in-depth application of the operation mechanism, and developed a marketing support service system that integrates the front, middle and back offices by focusing on the six dimensions of customer, product, collaboration, service, risk and technology.

Discussion and Analysis

Make the good things happen

A bumper harvest of loquat was achieved in early spring with the support of PSBC Miyi Sub-branch in Panzhihua City, Sichuan Province.

Environment and Prospect

In the first half of 2023, global economy grew slower, inflation remained at a high level, and geopolitical conflicts persisted. The tightening of monetary policies in major developed economies started to take effect, and the international financial markets became more volatile. There were quite a few unstable, uncertain and unpredictable factors. The global banking industry operated under increased pressure, with assets contracting, profit growth slowing down and capital position weakening.

China's economy has staged a sustained recovery with an upward momentum in general, and made solid progress towards high-quality development, thus laying a good foundation for realizing the economic and social development goals for the whole year. The intensity and effectiveness of the positive fiscal policy was enhanced; the prudent monetary policy was implemented in a more targeted and impactful way; and counter-cyclical adjustments were increased. The loan prime rate (LPR) reform continued to unleash dividends; the market-oriented deposit interest rate adjustment mechanism played its due role; and the monetary policy was transmitted more efficiently, thus driving down the lending interest rate significantly. The RMB exchange rate floated in two ways, functioning as the stabilizer of macro economy. China's banking industry operated robustly as a whole, kept a fair growth rate of asset scale, continuously improved quality and efficiency of service to the real economy, constantly increased support to improve the people's well-being, and maintained sufficient risk resilience overall. Meanwhile, net profit grew slower; net interest margin narrowed further; and the operating environment was under pressure as a whole.

Looking ahead to the second half of the year, the global economy will still face considerable downward pressure, fall short of the recovery momentum, and have to deal with the potentially escalated geopolitical conflicts. There will be greater uncertainties in the monetary policies of major developed economies. Domestically, China's economy will be facing a number of new challenges such as insufficient domestic demand, operating difficulties of some enterprises, considerable risks in key areas, and a complex and severe external environment, etc. Despite that, the fundamentals of China's economy to sustain long-term growth remain unchanged. In this context, China will act on the general principle of pursuing progress while ensuring stability, deepen reform and opening up across the board, and strengthen counter-cyclical adjustments and policy reserves. Focusing on expanding domestic demand, boosting confidence and preventing risks, it will effectively pursue higher-quality growth and appropriately increase economic output. By adopting targeted and impactful prudent monetary policy, China will give play to the role of aggregate and structural monetary policy tools, and maintain RMB exchange rates basically stable at a reasonable and balanced level. The Chinese banking industry will continue to improve the quality and efficiency in serving the real economy, increase support to key areas and weak links of the economy such as SMEs, scientific and technological innovation, rural revitalization and green development, and effectively forestall and resolve risks in key areas to ensure no systemic financial risks arise.

In the second half of the year, the Bank will continue to follow the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, keep political consciousness in mind and put people first in the financial work, stay true to the path for financial development with Chinese characteristics, uphold fundamental principles and break new ground, and build up the counter-cyclical adjustment capabilities to develop into a first-tier large retail bank at a faster pace.

First, the Bank will resolutely implement major decisions and plans of the CPC Central Committee and fulfill its responsibilities as a major state-owned bank. In practice, it will continuously expand the credit supply to the real economy, increase support for high-end manufacturing, strategic emerging industries and modern infrastructure, among other aspects, go all out to serve the rural revitalization strategy, improve micro-financial services in both volume and coverage, and develop green banking, aiming to further improve the quality and efficiency in serving the real economy.

Second, the Bank will unswervingly shape differentiated capabilities and core competitive edges. Specifically, it will continuously strengthen capacity building in six major aspects, i.e. core business, system support, coordination and integration, technological facilitation, institutional drive and innovation leadership, invest more in areas concerning long-term development such as technology, human resources and innovation capacity building, move faster to put key projects into operation, and keep making new progress in capacity building.

Third, the Bank will persistently build five differentiated growth poles to cultivate distinctive business advantages. Taking roots in the Sannong sector, it will continue to develop the rural credit system, and make full use of the power of financial technology to locate potential customers accurately, and promote proactive credit extension and online payment. It will practice the integrated operation of corporate business segments, cultivate "future-oriented" professional capabilities, accelerate the digital transformation, and reshape the development model of corporate business targeting SMEs. It will create advantageous products for proactive credit extension and establish a direct operation mechanism for the headquarters to turn proactive credit extension into a "golden touch" for customer outreach. It will expand and strengthen wealth management business, and build a professional, dedicated and digitalized service system and a full-spectrum, high-quality and open-ended product lineup. Leveraging on the advantages of stable capital and abundant resources, it will build an inter-bank financial ecosystem to achieve scenario-based and ecosystem-based financing.

Fourth, the Bank will strike a balance between development and security and ensure no major risks arise. It will comprehensively improve risk management with intelligent risk control, make risk prevention and control more forward-looking, and focus on key areas to manage asset quality with solid steps. It will continue to strengthen internal control and case prevention management, and utilize intelligent models and data analysis tools to intensify supervisory inspections of key violations. Besides, it will optimize the "future-oriented" credit review technology, and establish a "future-oriented" full-process mechanism to continuously empower business development.

Analysis of Financial Statements

In the first half of 2023, the Bank proactively responded to the complex and fluid operating environment, adhered to strategic guidance, accelerated innovation and reform and endeavored to develop five differentiated growth poles, namely, Sannong finance, microfinance, proactive credit extension, wealth management and financial market business to nurture featured businesses and build differentiated competitive advantages, thus achieving steady growth in operating results.

The Bank achieved stable growth in business scale. As at the end of the reporting period, the Bank's total assets exceeded RMB15 trillion to reach RMB15.12 trillion, an increase of 7.51% over the prior year-end. The Bank continued to increase credit extension to market entities, realizing RMB7.82 trillion in total loans to customers, representing an increase of 8.49% compared with the end of the prior year and an increase of RMB75,269 million more than the growth in the same period of the prior year. Both increments of personal micro loans and corporate loans hit record highs for the same periods in previous years. The total liabilities exceeded RMB14 trillion to reach RMB14.23 trillion, an increase of 7.48% over the prior year-end; among which the customer deposits reached RMB13.30 trillion, up 4.62% over the prior year-end. Loan-to-deposit ratio was 58.81%, an increase of 2.10 percentage points compared with the prior year-end, which represented the continuous optimization of asset structure.

The Bank's profitability remained stable. During the reporting period, the Bank recorded a net profit attributable to equity holders of the Bank of RMB49,564 million, representing a year-on-year increase of 5.20%. The operating income amounted to RMB177,157 million, representing a year-on-year increase of 2.03%; among which the net interest income was RMB140,305 million, representing a year-on-year increase of 2.33% and a growth rate of 1.34 percentage points higher than that in the first quarter. Excluding the one-off factor of the transformation to net-value wealth management products in the same period of the prior year, the net fee and commission income increased by 24.17% year on year, which maintained a double-digit growth for five consecutive years. Net interest margin was 2.08%, down 1BP compared with the first quarter, which stood at a relatively good level. Earnings per share were RMB0.46, representing a year-on-year increase of RMB0.02.

Asset quality remained excellent. The Bank accelerated the digital transformation of risk management and comprehensively improved the level of risk management through intelligent risk control. As at the end of the reporting period, the Bank's non-performing loan ratio was 0.81%, a decrease of 0.03 percentage point compared with the prior year-end, which was at the leading level in the industry. Allowance to NPLs ratio was 381.28%, with adequate risk offset capabilities.

Analysis of Income Statement

During the reporting period, the Bank's operating income amounted to RMB177,157 million, representing a year-on-year increase of RMB3,522 million or 2.03%; it recorded a net profit of RMB49,638 million, representing a year-on-year increase of RMB2,468 million or 5.23%.

Changes of Principal Components in the Income Statement

In millions of RMB, except for percentages

Item	For the six months ended June 30, 2023	For the six months ended June 30, 2022	Increase/ (decrease)	Change (%)
Net interest income	140,305	137,117	3,188	2.33
Net fee and commission income	18,203	17,880	323	1.81
Net other non-interest income	18,649	18,638	11	0.06
Operating income	177,157	173,635	3,522	2.03
Less: Operating expenses	103,109	93,834	9,275	9.88
Credit impairment losses	19,316	27,099	(7,783)	(28.72)
Impairment losses on other assets	1	9	(8)	(88.89)
Profit before income tax	54,731	52,693	2,038	3.87
Less: Income tax expenses	5,093	5,523	(430)	(7.79)
Net profit	49,638	47,170	2,468	5.23
Attributable to equity holders of the Bank	49,564	47,114	2,450	5.20
Attributable to non-controlling interests	74	56	18	32.14
Other comprehensive income	1,149	(1,914)	3,063	–
Total comprehensive income	50,787	45,256	5,531	12.22

Net Interest Income

During the reporting period, the Bank, through building differentiated operating advantages and promoting scale growth and structural optimization, realized a net interest income of RMB140,305 million, representing an increase of RMB3,188 million, or 2.33% compared with the same period of the prior year, and a growth rate of 1.34 percentage points higher than that in the first quarter, of which an increase of RMB14,618 million in net interest income was driven by the scale expansion, and a decrease of RMB11,430 million in net interest income was brought by the changes in interest rates. Net interest margin and net interest spread were 2.08% and 2.06%, respectively, both of which decreased by 1BP compared with the first quarter, narrowing at a slower pace.

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

In millions of RMB, except for percentages

Item	For the six months ended June 30, 2023			For the six months ended June 30, 2022		
	Average balance	Interest income/ expense	Average yield/ cost (%)[1]	Average balance	Interest income/ expense	Average yield/ cost (%)[1]
Assets						
Total loans to customers	7,520,403	158,110	4.24	6,714,025	153,499	4.61
Investments[2]	4,188,246	67,762	3.26	3,684,981	63,450	3.47
Deposits with central bank[3]	1,229,824	9,910	1.62	1,164,828	9,405	1.62
Deposits and placements with banks and other financial institutions[4]	694,472	9,528	2.77	641,017	9,093	2.86
Total interest-earning assets	13,632,945	245,310	3.63	12,204,851	235,447	3.89
Allowance for impairment losses on assets	(268,333)	–	–	(257,807)	–	–
Non-interest-earning assets[5]	1,238,921	–	–	1,182,632	–	–
Total assets	14,603,533	–	–	13,129,676	–	–
Liabilities						
Customer deposits	13,002,817	99,612	1.54	11,678,768	94,343	1.63
Deposits and placements from banks and other financial institutions[6]	280,061	2,728	1.96	225,243	2,124	1.90
Debt securities issued[7]	159,465	2,414	3.05	95,127	1,701	3.61
Borrowings from central bank	27,579	251	1.84	18,451	162	1.77
Total interest-bearing liabilities	13,469,922	105,005	1.57	12,017,589	98,330	1.65
Non-interest-bearing liabilities[8]	231,103	–	–	240,302	–	–
Total liabilities	13,701,025	–	–	12,257,891	–	–
Net Interest Income	–	140,305	–	–	137,117	–
Net interest spread[9]	–	–	2.06	–	–	2.24
Net interest margin[10]	–	–	2.08	–	–	2.27

Note (1): On an annualized basis.

Note (2): Consists of interest-earning assets in financial assets measured at fair value through other comprehensive income and financial assets measured 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 measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income – equity instruments, 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 derivative financial liabilities, employee benefits payable, liabilities for agency services, corporate income tax payable and other liabilities.

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

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

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

In millions of RMB

Item	For the six months ended June 30, 2023 vs 2022 Increase/(decrease)		
	Volume(1)	Interest rate(2)	Total(3)
Assets			
Total loans to customers	16,953	(12,342)	4,611
Investments	8,142	(3,830)	4,312
Deposits with central bank	524	(19)	505
Deposits and placements with banks and other financial institutions	733	(298)	435
Total changes in interest income	26,352	(16,489)	9,863
Liabilities			
Customer deposits	10,143	(4,874)	5,269
Deposits and placements from banks and other financial institutions	534	70	604
Debt securities issued	974	(261)	713
Borrowings from central bank	83	6	89
Total changes in interest expense	11,734	(5,059)	6,675
Changes in net interest income	14,618	(11,430)	3,188

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

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

Note (3): Represents the difference between the interest income/expense for the period and the interest income/expense for the previous period.

Interest Income

During the reporting period, the Bank's interest income amounted to RMB245,310 million, representing an increase of RMB9,863 million, or 4.19% compared with the same period of the prior year, primarily due to the steady growth in the scale of interest-earning assets and continuous optimization of asset structure as the Bank continuously increased its support to the real economy while improving the efficiency of asset allocation.

Interest Income from Loans to Customers

During the reporting period, the Bank continued to increase loans to market entities, realizing RMB158,110 million in interest income from loans to customers, representing an increase of RMB4,611 million, or 3.00% compared with the same period of the prior year.

Among them, interest income from personal loans amounted to RMB101,917 million, representing an increase of RMB132 million, or 0.13% compared with the same period of the prior year. It was mainly because of a year-on-year increase in average balance of personal micro loans and other loans as the Bank innovated its business model to promote rural revitalization, accelerated expansion of the construction of creditworthy villages and proactive credit extension, and further advanced digital transformation.

Interest income from corporate loans amounted to RMB52,523 million, representing an increase of RMB5,463 million, or 11.61% compared with the same period of the prior year, primarily due to a 20.32% year-on-year increase in the average balance of corporate loans because the Bank actively supported the development strategies of national key regions, comprehensively promoted a new "1 plus N" operation and service system for corporate finance and continued to increase financial services to MSEs and expand service coverage.

Analysis on Average Yield of Loans to Customers by Business Line

In millions of RMB, except for percentages

Item	For the six months ended June 30, 2023			For the six months ended June 30, 2022		
	Average balance	Interest income	Average yield (%)[1]	Average balance	Interest income	Average yield (%)[1]
Personal loans	4,155,935	101,917	4.95	3,846,269	101,785	5.34
Corporate loans	2,902,557	52,523	3.65	2,412,331	47,060	3.93
Discounted bills	461,911	3,670	1.60	455,425	4,654	2.06
Total loans to customers	7,520,403	158,110	4.24	6,714,025	153,499	4.61

Note (1): On an annualized basis.

Analysis on Average Yield of Loans to Customers by Maturity Structure

In millions of RMB, except for percentages

Item	For the six months ended June 30, 2023			For the six months ended June 30, 2022		
	Average balance	Interest income	Average yield (%)[1]	Average balance	Interest income	Average yield (%)[1]
Short-term loans	2,689,718	53,305	4.00	2,504,406	54,489	4.39
Medium- and long-term loans	4,830,685	104,805	4.38	4,209,619	99,010	4.74
Total loans to customers	7,520,403	158,110	4.24	6,714,025	153,499	4.61

Note (1): On an annualized basis.

Interest Income from Investments

During the reporting period, the Bank's interest income from investments amounted to RMB67,762 million, representing an increase of RMB4,312 million, or 6.80% compared with the same period of the prior year. It was mainly because the Bank actively seized market opportunities and dynamically optimized asset allocation, leading to the increase in the average balance of financial investments such as bonds and interbank certificates of deposit.

Interest Income from Deposits with Central Bank

During the reporting period, the Bank's interest income from deposits with central bank amounted to RMB9,910 million, representing an increase of RMB505 million, or 5.37% compared with the same period of the prior year, primarily driven by the increase of the scale of statutory deposit reserves with central bank.

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

During the reporting period, the Bank's interest income from deposits and placements with banks and other financial institutions amounted to RMB9,528 million, representing an increase of RMB435 million, or 4.78% compared with the same period of the prior year. It was primarily due to the increase in the average balance of time deposits with banks.

Interest Expense

During the reporting period, the Bank's interest expense amounted to RMB105,005 million, representing an increase of RMB6,675 million, or 6.79% year on year, primarily due to the increased interest expense on customer deposits.

Interest Expense on Customer Deposits

During the reporting period, the Bank's interest expense on customer deposits amounted to RMB99,612 million, representing an increase of RMB5,269 million, or 5.58% year on year, primarily driven by the growth in the scale of deposits.

The Bank continued to strengthen proactive management of liabilities. During the reporting period, the average cost of deposits decreased by 9BPS year-on-year to 1.54%, among which the average cost of personal deposits decreased by 10BPS year-on-year, primarily because the Bank took the development of value deposits as the core, stabilized the percentage of demand deposits, reduced high-cost deposits and implemented differential pricing, significantly lowering the average cost of deposits.

Analysis on Average Cost of Customer Deposits by Product Type

In millions of RMB, except for percentages

	For the six months ended June 30, 2023			For the six months ended June 30, 2022		
Item	Average balance	Interest Expense	Average cost (%)(1)	Average balance	Interest Expense	Average cost (%)(1)
Personal deposits						
Demand deposits	2,994,920	3,414	0.23	2,880,456	4,402	0.31
Time deposits	8,561,253	86,655	2.04	7,467,617	81,383	2.20
Subtotal	11,556,173	90,069	1.57	10,348,073	85,785	1.67
Corporate deposits						
Demand deposits	937,842	3,974	0.85	902,003	3,616	0.81
Time deposits	508,802	5,569	2.21	428,692	4,942	2.32
Subtotal	1,446,644	9,543	1.33	1,330,695	8,558	1.30
Total customer deposits	13,002,817	99,612	1.54	11,678,768	94,343	1.63

Note (1): On an annualized basis.

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

During the reporting period, the Bank's interest expense on deposits and placements from banks and other financial institutions amounted to RMB2,728 million, representing an increase of RMB604 million, or 28.44% compared with the same period of the prior year, primarily driven by the growth in the scale of repurchased bonds and the increase in the costs of USD placements.

Interest Expense on Debt Securities Issued

During the reporting period, the Bank's interest expense on debt securities issued amounted to RMB2,414 million, representing an increase of RMB713 million, or 41.92% compared with the same period of the prior year, primarily driven by the growth in the scale of interbank certificates of deposit and tier 2 capital bonds issued.

Net Fee and Commission Income

During the reporting period, the Bank adhered to capacity enhancement as the driving force and resource allocation as the guarantee to accelerate the development of intermediary business, realizing a net fee and commission income of RMB18,203 million, representing a year-on-year increase of RMB323 million, or 1.81%. Excluding the one-off factor of the transformation to net-value wealth management products in the same period of the prior year, the net fee and commission income increased by 24.17% year-on-year, which continued to maintain a double-digit growth.

Fee and commission income amounted to RMB34,006 million, representing a year-on-year increase of RMB3,932 million, or 13.07%. Specifically, agency business fee income amounted to RMB17,790 million, representing a year-on-year increase of RMB6,057 million, or 51.62%. It was mainly because the Bank actively developed differentiated growth poles for wealth management, further promoted the layered and classified customer management model, continued to enrich its products, and achieved rapid growth in income from bancassurance and other businesses. Fee and commission income from settlement and clearing amounted to RMB5,257 million, representing a year-on-year increase of RMB570 million, or 12.16%, which was mainly attributable to the Bank's comprehensive promotion of the new "1 plus N" operation and service system for corporate banking, and the promotion of scenario-based and digitalized transformation of settlement products, resulting in a faster growth in income from settlement business for all corporations. Investment banking fee income amounted to RMB1,633 million, representing a year-on-year increase of RMB461 million, or 39.33%, mainly because the Bank actively expanded bond underwriting, syndicated loans, asset securitization and other businesses and developed the integration of investment banking and commercial banking to meet customers' financing and credit needs, thus realizing rapid growth in the investment banking income. Wealth management fee income amounted to RMB1,525 million, representing a year-on-year decrease of RMB3,891 million, or 71.84%, primarily due to the one-off factor for the transformation to net-value products in the same period of the prior year. Fee and commission expense amounted to RMB15,803 million, representing a year-on-year increase of RMB3,609 million, or 29.60%, primarily due to an increase in commission expenses as a result of the growth in the scale of sales of financial products at agency outlets.

Components of Net Fee and Commission Income

In millions of RMB, except for percentages

Item	For the six months ended June 30, 2023	For the six months ended June 30, 2022	Increase/ (decrease)	Change (%)
Agency business	17,790	11,733	6,057	51.62
Bank cards business	6,154	5,973	181	3.03
Settlement and clearing	5,257	4,687	570	12.16
Investment banking	1,633	1,172	461	39.33
Wealth management	1,525	5,416	(3,891)	(71.84)
Custody business	564	593	(29)	(4.89)
Others	1,083	500	583	116.60
Fee and commission income	34,006	30,074	3,932	13.07
Less: Fee and commission expense	15,803	12,194	3,609	29.60
Net fee and commission income	18,203	17,880	323	1.81

Net Other Non-Interest Income

During the reporting period, the Bank's net other non-interest income amounted to RMB18,649 million, representing an increase of RMB11 million, or 0.06% compared with the same period of the prior year. In particular, net trading gains and net gains on investment securities totaled RMB15,930 million, representing an increase of RMB2,829 million, or 21.59% compared with the same period of the prior year, primarily because the Bank took active steps to respond to the falling market rates, fully leveraged its differentiated advantages in the financial market, tapped deep into the inter-financial institution ecosphere and optimized the allocation of non-interest assets. It was also driven by the increase in valuation of assets like bonds and securities investment funds.

Net gains on derecognition of financial assets measured at amortized cost amounted to RMB1,325 million, representing an increase of RMB1,130 million, or 579.49% compared with the same period of the prior year, primarily due to the gains from the issuance of NPA securitization as the Bank accelerated the NPA disposal.

Net other operating gains amounted to RMB1,387 million, representing a decrease of RMB3,955 million, or 74.04% compared with the same period of the prior year, primarily due to smaller change in the exchange rate of the U.S. dollar against the RMB compared with the same period of the prior year and the Bank's redemption of USD preference shares worth RMB7,250 million in September last year, which led to a decrease in USD monetary assets and a decrease in exchange gains during the reporting period.

Components of Net Other Non-Interest Income

In millions of RMB, except for percentages

Item	For the six months ended June 30, 2023	For the six months ended June 30, 2022	Increase/ (decrease)	Change (%)
Net trading gains	2,253	2,188	65	2.97
Net gains on investment securities	13,677	10,913	2,764	25.33
Net gains on derecognition of financial assets at amortized cost	1,325	195	1,130	579.49
Net other operating gains	1,387	5,342	(3,955)	(74.04)
Share of results of associates	7	–	7	–
Total	18,649	18,638	11	0.06

Operating Expenses

During the reporting period, the Bank continued to highlight the concept of return on resources, strengthened the refined management of costs, and allocated resources to expenses in a scientific manner to effectively support business development. Operating expenses amounted to RMB103,109 million, representing an increase of RMB9,275 million, or 9.88% compared with the same period of the prior year.

In particular, deposit agency fee and others amounted to RMB56,076 million, representing an increase of RMB6,409 million, or 12.90% compared with the same period of the prior year, primarily due to a 13.26% year-on-year increase in daily average balance of personal deposits taken by agency outlets. Composite rate for deposit agency fee was 1.25%, representing a year-on-year decrease of 3BPS. Staff costs amounted to RMB28,519 million, representing an increase of RMB1,396 million, or 5.15% compared with the same period of the prior year. It was mainly because the Bank continued to develop and cultivate talents at greater depth, create competitive advantages of core talents and increase human resources investment. Depreciation and amortization stood at RMB5,447 million, representing an increase of RMB460 million, or 9.22% compared with the same period of the prior year, mainly because the Bank further implemented technology empowerment strategies and increased investment in information technology construction in recent years, driving increase in depreciation of property and equipment as well as amortization of intangible assets.

Major Components of Operating Expenses

In millions of RMB, except for percentages

Item	For the six months ended June 30, 2023	For the six months ended June 30, 2022	Increase/ (decrease)	Change (%)
Deposit agency fee and others	56,076	49,667	6,409	12.90
Staff costs	28,519	27,123	1,396	5.15
Depreciation and amortization	5,447	4,987	460	9.22
Taxes and surcharges	1,495	1,396	99	7.09
Other expenses	11,572	10,661	911	8.55
Total operating expenses	103,109	93,834	9,275	9.88

Credit Impairment Losses

During the reporting period, the Bank continued to adhere to a prudent risk management policy and made a provision for impairment in an objective and reasonable manner. Credit impairment losses amounted to RMB19,316 million, representing a decrease of RMB7,783 million, or 28.72% compared with the same period of the prior year, among which, the impairment losses on loans to customers amounted to RMB16,729 million, representing a decrease of RMB9,369 million compared with the same period of the prior year. It was mainly because with China's economy returning to normal trajectory, the Bank's credit asset quality remained stable on the whole, its NPL ratio dropped steadily, and impairment losses on loans provided for the first half of the year decreased. Impairment losses on financial investments amounted to RMB1,737 million, representing an increase of RMB2,040 million compared with the same period of the prior year, which was mainly attributable to the growth in the scale of financial investments and further increase in the forward-looking provision for non-credit assets for prudence sake.

Income Tax Expenses

During the reporting period, the Bank's income tax expenses amounted to RMB5,093 million, representing a decrease of RMB430 million, or 7.79% compared with the same period of the prior year, mainly due to the tax saving effect as the Bank actively optimized the business structure to grow tax-reduced and tax-free income.

Segment Information

Operating Income by Operating Segment

In millions of RMB, except for percentages

Item	For the six months ended June 30, 2023		For the six months ended June 30, 2022	
	Amount	Percentage (%)	Amount	Percentage (%)
Personal banking	127,826	72.15	124,598	71.76
Corporate banking	28,469	16.07	27,326	15.74
Treasury business	20,620	11.64	21,485	12.37
Others	242	0.14	226	0.13
Total operating income	177,157	100.00	173,635	100.00

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

Operating Income by Geographical Segment

In millions of RMB, except for percentages

Item	For the six months ended June 30, 2023		For the six months ended June 30, 2022	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	(4,963)	(2.80)	11,430	6.58
Yangtze River Delta	29,779	16.81	26,603	15.32
Pearl River Delta	24,166	13.64	21,498	12.38
Bohai Rim	28,270	15.96	25,291	14.57
Central China	51,792	29.23	45,994	26.49
Western China	36,222	20.45	32,396	18.66
Northeastern China	11,891	6.71	10,423	6.00
Total operating income	177,157	100.00	173,635	100.00

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

Balance Sheet Analysis

Assets

As at the end of the reporting period, the Bank's total assets amounted to RMB15,123,107 million, representing an increase of RMB1,055,825 million, or 7.51% compared with the prior year-end, of which total loans to customers amounted to RMB7,822,667 million, representing an increase of RMB612,234 million, or 8.49% compared with the prior year-end; financial investments amounted to RMB5,212,511 million, representing an increase of RMB253,612 million, or 5.11% compared with the prior year-end; cash and deposits with central bank amounted to RMB1,276,264 million, representing an increase of RMB12,313 million, or 0.97% compared with the prior year-end. In terms of the structure, net loans to customers accounted for 50.14% of total assets, representing an increase of 0.54 percentage point compared with the prior year-end; financial investments accounted for 34.47% of total assets, representing a decrease of 0.78 percentage point compared with the prior year-end; cash and deposits with central bank accounted for 8.44% of total assets, representing a decrease of 0.55 percentage point compared with the prior year-end; deposits and placements with banks and other financial institutions and financial assets held under resale agreements collectively accounted for 5.70% of total assets, representing an increase of 0.76 percentage point compared with the prior year-end; loan-to-deposit ratio was 58.81%, representing an increase of 2.10 percentage points compared with the prior year-end; the asset structure was optimized with a positive trend overall.

Analysis of Financial Statements

Key Items of Assets

In millions of RMB, except for percentages

Item	As at June 30, 2023 Amount	As at June 30, 2023 Percentage (%)	As at December 31, 2022 Amount	As at December 31, 2022 Percentage (%)
Total loans to customers	7,822,667	–	7,210,433	–
Less: Allowance for impairment losses on loans[(1)]	239,500	–	232,723	–
Loans to customers, net	7,583,167	50.14	6,977,710	49.60
Financial investments	5,212,511	34.47	4,958,899	35.25
Cash and deposits with central bank	1,276,264	8.44	1,263,951	8.99
Deposits with banks and other financial institutions	175,650	1.16	161,422	1.15
Placements with banks and other financial institutions	309,456	2.05	303,836	2.16
Financial assets held under resale agreements	376,924	2.49	229,870	1.63
Other assets[(2)]	189,135	1.25	171,594	1.22
Total assets	15,123,107	100.00	14,067,282	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, amounts pending for settlement and clearing, other receivables and derivative financial assets, etc.

Loans to Customers

As at the end of the reporting period, total loans to customers amounted to RMB7,822,667 million, representing an increase of RMB612,234 million, or 8.49% compared with the prior year-end.

Loans to Customers by Business Line

In millions of RMB, except for percentages

Item	As at June 30, 2023 Amount	As at June 30, 2023 Percentage (%)	As at December 31, 2022 Amount	As at December 31, 2022 Percentage (%)
Personal loans	4,309,094	55.08	4,046,105	56.11
Corporate loans	3,072,815	39.28	2,669,362	37.02
Discounted bills	440,758	5.64	494,966	6.87
Total loans to customers	7,822,667	100.00	7,210,433	100.00

Loans to Customers by Maturity

In millions of RMB, except for percentages

Item	As at June 30, 2023 Amount	As at June 30, 2023 Percentage (%)	As at December 31, 2022 Amount	As at December 31, 2022 Percentage (%)
Short-term loans	2,799,644	35.79	2,607,204	36.16
Medium- and long-term loans	5,023,023	64.21	4,603,229	63.84
Total loans to customers	7,822,667	100.00	7,210,433	100.00

Loans to Customers by Geographical Region

In millions of RMB, except for percentages

Item	As at June 30, 2023		As at December 31, 2022	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	341,488	4.37	351,522	4.88
Yangtze River Delta	1,605,897	20.53	1,464,429	20.31
Pearl River Delta	1,014,947	12.97	946,038	13.12
Bohai Rim	1,177,686	15.05	1,079,811	14.98
Central China	1,939,032	24.79	1,772,273	24.57
Western China	1,329,655	17.00	1,217,601	16.89
Northeastern China	413,962	5.29	378,759	5.25
Total loans to customers	7,822,667	100.00	7,210,433	100.00

Personal Loans

As at the end of the reporting period, the Bank's total personal loans amounted to RMB4,309,094 million, representing an increase of RMB262,989 million, or 6.50% compared with the prior year-end.

In particular, personal consumer loans amounted to RMB2,793,821 million, representing an increase of RMB65,176 million, or 2.39% compared with the prior year-end. This was primarily because the Bank offered full support to meet the needs of first-time home buyers and improvement needs, and grasped the opportunities brought by the development of consumer credit market, innovated the marketing development model and optimized product and service procedures, thus resulting in steady growth in personal consumer loans.

Personal micro loans amounted to RMB1,321,885 million, representing an increase of RMB186,691 million, or 16.45% compared with the prior year-end, RMB23,546 million more than the increment in the same period of the prior year, mainly because the Bank made every effort to serve the rural revitalization strategy, continued to increase credit support for key agricultural and rural areas such as universal credit extension for farmers and development of featured industries, continued to deepen the development of rural credit system, optimized credit loan products, setting a record high for increments in the same periods in history.

Credit card overdrafts and others amounted to RMB193,388 million, representing an increase of RMB11,122 million, or 6.10% compared with the prior year-end. This was mainly because the Bank accelerated the expansion of credit card customers and integrated marketing, focused on key customer groups, accelerated product innovation and benefits upgrade, resulting in steady growth in the scale of credit card business.

Personal Loans by Product Type

In millions of RMB, except for percentages

Item	As at June 30, 2023		As at December 31, 2022	
	Amount	Percentage (%)	Amount	Percentage (%)
Consumer loans	2,793,821	64.83	2,728,645	67.44
Residential mortgage loans	2,324,062	53.93	2,261,763	55.90
Other consumer loans	469,759	10.90	466,882	11.54
Personal micro loans(1)	1,321,885	30.68	1,135,194	28.06
Credit card overdrafts and others	193,388	4.49	182,266	4.50
Total personal loans	4,309,094	100.00	4,046,105	100.00

Note (1): Personal micro loans mainly include loans granted for personal businesses.

Corporate Loans

As at the end of the reporting period, the Bank's total corporate loans amounted to RMB3,072,815 million, representing an increase of RMB403,453 million, or 15.11% compared with the prior year-end, RMB138,408 million more than the increment in the same period of the prior year. This was mainly due to the Bank's implementation of the major national strategic plans, increased support for high-end manufacturing industries, the modern infrastructure system, strategic emerging industries, and specialized and sophisticated SMEs that produce new and unique products, as well as the continued increase of financial services to MSEs and expansion of service coverage. At the same time, the Bank comprehensively promoted the "1 plus N" new operation and service system to provide customers with distinctive, integrated and professional corporate financial services, setting a record high for increments compared to the same periods in history.

As at the end of the reporting period, the top five industries to which the Bank granted corporate loans were transportation, storage and postal services; manufacturing; financial services; production and supply of electricity, heating, gas and water; and real estate industry. The balance of loans extended to the top five industries in aggregate accounted for 69.18% of total corporate loans, representing a decrease of 2.39 percentage points compared with the prior year-end.

Corporate Loans by Industry

In millions of RMB, except for percentages

	As at June 30, 2023		As at December 31, 2022	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Transportation, storage and postal services	835,823	27.19	780,283	29.24
Manufacturing	495,732	16.13	409,673	15.35
Financial services	283,028	9.21	254,629	9.54
Production and supply of electricity, heating, gas and water	267,490	8.71	254,075	9.52
Real estate	243,966	7.94	211,525	7.92
Wholesale and retail	224,259	7.30	179,418	6.72
Construction	195,398	6.36	154,868	5.80
Leasing and commercial services	185,598	6.04	148,482	5.56
Management of water conservancy, environmental and public facilities	157,056	5.11	128,776	4.82
Mining	83,737	2.73	70,036	2.62
Other industries(1)	100,728	3.28	77,597	2.91
Total corporate loans	3,072,815	100.00	2,669,362	100.00

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

Discounted Bills

As at the end of the reporting period, the Bank's discounted bills amounted to RMB440,758 million, representing a decrease of RMB54,208 million, or 10.95% compared with the prior year-end.

Financial Investments

During the reporting period, the Bank fully utilized its advantages of stable fund and abundant resources, seized market opportunities, dynamically optimized its asset allocation, and made in-depth efforts to build an inter-financial institution ecosphere to create differentiated growth poles in the financial market, resulting in a steady growth in the scale of financial investments. As at the end of the reporting period, the Bank's financial investments amounted to RMB5,212,511 million, representing an increase of RMB253,612 million, or 5.11% compared with the prior year-end.

In terms of product, the increase was primarily in the scale of investment in debt securities and interbank certificates of deposit. Among them, investment in debt securities amounted to RMB3,894,689 million, representing an increase of RMB210,380 million or 5.71% compared with the prior year-end, while that in interbank certificates of deposit amounted to RMB468,924 million, representing an increase of RMB64,914 million or 16.07% compared with the prior year-end.

In terms of measurement approach, the increase was primarily in the scale of financial investments measured at amortized cost. Among them, the financial assets measured at amortized cost amounted to RMB3,889,153 million, representing an increase of RMB219,555 million or 5.98% compared with the prior year-end, which was primarily attributable to the increase in the scale of investment in bonds issued by financial institutions, government bonds and interbank certificates of deposit.

Investments by Product

In millions of RMB, except for percentages

	As at June 30, 2023		As at December 31, 2022	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Debt securities	3,894,689	74.72	3,684,309	74.30
Securities investment funds	505,933	9.71	523,774	10.56
Interbank certificates of deposit	468,924	9.00	404,010	8.15
Trust investment plans	196,087	3.76	200,179	4.04
Asset management plans	125,494	2.41	122,943	2.48
Others	21,384	0.40	23,684	0.47
Total financial investments	5,212,511	100.00	4,958,899	100.00

Financial Investments by Measurement Approach

In millions of RMB, except for percentages

	As at June 30, 2023		As at December 31, 2022	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Financial assets measured at fair value through profit or loss	854,130	16.39	863,783	17.42
Financial assets measured at fair value through other comprehensive income	469,228	9.00	425,518	8.58
Financial assets measured at amortized cost	3,889,153	74.61	3,669,598	74.00
Total financial investments	5,212,511	100.00	4,958,899	100.00

Investment Structure by Type of Investment Instruments

In millions of RMB, except for percentages

Item	As at June 30, 2023		As at December 31, 2022	
	Amount	Percentage (%)	Amount	Percentage (%)
Debt instruments	5,202,207	99.80	4,947,575	99.77
Equity instruments	10,304	0.20	11,324	0.23
Total financial investments	5,212,511	100.00	4,958,899	100.00

Investments in Debt Securities

As at the end of the reporting period, the Bank's investments in debt securities amounted to RMB3,894,689 million, representing an increase of RMB210,380 million, or 5.71% compared with the prior year-end, mainly due to the Bank's active efforts in analyzing and predicting interest rate trend in the market, dynamic optimization of pace of bond investment, and increased investment in bonds issued by financial institutions and government bonds.

Investments in Debt Securities by Issuing Institution

In millions of RMB, except for percentages

Item	As at June 30, 2023		As at December 31, 2022	
	Amount	Percentage (%)	Amount	Percentage (%)
Government bonds	1,621,118	41.62	1,538,424	41.76
Bonds issued by financial institutions	2,035,667	52.27	1,937,743	52.59
Corporate bonds	237,904	6.11	208,142	5.65
Total investments in debt securities	3,894,689	100.00	3,684,309	100.00

Investments in Debt Securities by Remaining Maturity

In millions of RMB, except for percentages

Item	As at June 30, 2023		As at December 31, 2022	
	Amount	Percentage (%)	Amount	Percentage (%)
Overdue	10	0.00	10	0.00
Within 3 months	203,160	5.22	141,658	3.84
3-12 months	274,806	7.06	318,637	8.65
1-5 years	1,622,943	41.67	1,524,403	41.38
Over 5 years	1,793,770	46.05	1,699,601	46.13
Total investments in debt securities	3,894,689	100.00	3,684,309	100.00

Investments in Debt Securities by Currency

In millions of RMB, except for percentages

Item	As at June 30, 2023		As at December 31, 2022	
	Amount	Percentage (%)	Amount	Percentage (%)
RMB	3,832,929	98.41	3,629,861	98.52
Foreign currencies	61,760	1.59	54,448	1.48
Total investments in debt securities	3,894,689	100.00	3,684,309	100.00

Financial Bonds

As at the end of the reporting period, the Bank held RMB2,035,667 million of financial bonds issued by financial institutions, of which, bonds issued by policy banks amounted to RMB1,808,121 million, accounting for 88.82% of the total.

Top Ten Financial Bonds in Terms of Par Value

In millions of RMB, except for percentages

Debt Securities	Par value	Annual interest rates (%)	Maturity date	Allowance for impairment losses(1)
2015 Policy Financial Bonds	66,962.04	3.71	2025/8/31	–
2021 Policy Financial Bonds	47,495.00	3.41	2031/6/7	–
2015 Policy Financial Bonds	38,052.53	3.08	2035/9/28	–
2019 Policy Financial Bonds	34,660.00	3.48	2029/1/8	–
2021 Policy Financial Bonds	34,320.00	3.12	2031/9/13	–
2021 Policy Financial Bonds	34,060.00	3.66	2031/3/1	–
2017 Policy Financial Bonds	33,520.00	4.04	2027/4/10	–
2016 Policy Financial Bonds	33,420.00	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	–

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

Liabilities

The Bank prioritized the development of value deposits, developed interbank liabilities with low capital costs at the optimal time and continued to optimize the structure of its liability business. As at the end of the reporting period, the Bank's total liabilities amounted to RMB14,232,416 million, representing an increase of RMB990,948 million, or 7.48% compared with the prior year-end. Among that, customer deposits amounted to RMB13,301,591 million, representing an increase of RMB587,106 million, or 4.62% compared with the prior year-end; deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements amounted to a total of RMB481,933 million, representing an increase of RMB176,818 million, or 57.95% compared with the prior year-end.

Key Items of Liabilities

In millions of RMB, except for percentages

Item	As at June 30, 2023 Amount	As at June 30, 2023 Percentage (%)	As at December 31, 2022 Amount	As at December 31, 2022 Percentage (%)
Customer deposits	13,301,591	93.46	12,714,485	96.02
Deposits from banks and other financial institutions	83,754	0.59	78,770	0.59
Placements from banks and other financial institutions	67,365	0.47	42,699	0.32
Financial assets sold under repurchase agreements	330,814	2.32	183,646	1.39
Debt securities issued	298,259	2.10	101,910	0.77
Borrowings from central bank	33,963	0.24	24,815	0.19
Other liabilities(1)	116,670	0.82	95,143	0.72
Total liabilities	14,232,416	100.00	13,241,468	100.00

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

Customer Deposits

As at the end of the reporting period, the Bank's total customer deposits amounted to RMB13,301,591 million, representing an increase of RMB587,106 million, or 4.62% compared with the prior year-end. The scale of core liabilities continued to grow steadily.

In particular, personal deposits amounted to RMB11,834,134 million, representing an increase of RMB551,937 million, or 4.89% compared with the prior year-end. It was mainly because the Bank reinforced the development philosophy with value deposits as the core and kept optimizing the structure of deposits, and realized growth in deposits with maturities of one year or less. Corporate deposits amounted to RMB1,464,507 million, representing an increase of RMB34,941 million, or 2.44% compared with the prior year-end. It was mainly because the Bank strengthened comprehensive marketing around key customer groups and maintained steady growth in the scale of corporate deposits. The proportion of demand deposits increased by 1.65 percentage points compared with the prior year-end, representing the further optimization of deposit structure.

Customer Deposits by Product and Customer

In millions of RMB, except for percentages

Item	As at June 30, 2023 Amount	As at June 30, 2023 Percentage (%)	As at December 31, 2022 Amount	As at December 31, 2022 Percentage (%)
Personal deposits	11,834,134	88.97	11,282,197	88.73
Demand deposits	2,979,065	22.40	3,185,218	25.05
Time deposits	8,855,069	66.57	8,096,979	63.68
Corporate deposits	1,464,507	11.01	1,429,566	11.24
Demand deposits	970,965	7.30	924,174	7.27
Time deposits	493,542	3.71	505,392	3.97
Other deposits(1)	2,950	0.02	2,722	0.03
Customer deposits	13,301,591	100.00	12,714,485	100.00

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

Customer Deposits by Geographical Region

In millions of RMB, except for percentages

Item	As at June 30, 2023		As at December 31, 2022	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	2,581	0.02	2,441	0.02
Yangtze River Delta	2,128,032	16.00	2,000,354	15.73
Pearl River Delta	1,205,766	9.06	1,166,980	9.18
Bohai Rim	2,007,522	15.09	1,944,364	15.29
Central China	4,177,504	31.41	3,960,154	31.15
Western China	2,813,427	21.15	2,707,062	21.29
Northeastern China	966,759	7.27	933,130	7.34
Customer deposits	13,301,591	100.00	12,714,485	100.00

Customer Deposits by Remaining Maturity

In millions of RMB, except for percentages

Item	As at June 30, 2023		As at December 31, 2022	
	Amount	Percentage (%)	Amount	Percentage (%)
Repayable on demand	4,007,350	30.13	4,200,104	33.04
Within 3 months	1,597,304	12.01	3,134,230	24.65
3-12 months	6,309,404	47.43	3,983,662	31.33
1-5 years	1,387,533	10.43	1,396,489	10.98
Over 5 years	–	–	–	–
Customer deposits	13,301,591	100.00	12,714,485	100.00

Equity

As at the end of the reporting period, the Bank's total equity amounted to RMB890,691 million, representing an increase of RMB64,877 million, or 7.86% compared with the prior year-end, among which: net proceeds raised by non-public issuance of A shares of ordinary shares were RMB44,980 million; net profit was RMB49,638 million; and distributed dividends on ordinary shares and perpetual bonds were RMB30,890 million.

Composition of Equity

In millions of RMB, except for percentages

Item	As at June 30, 2023 Amount	As at June 30, 2023 Percentage (%)	As at December 31, 2022 Amount	As at December 31, 2022 Percentage (%)
Share capital	99,161	11.13	92,384	11.19
Other equity instruments – perpetual bonds	139,986	15.72	139,986	16.95
Capital reserve	162,682	18.26	124,479	15.07
Other comprehensive income	6,059	0.68	4,918	0.60
Surplus reserve	58,478	6.57	58,478	7.08
General reserve	178,864	20.08	178,784	21.65
Retained earnings	243,798	27.37	225,196	27.27
Equity attributable to equity holders of the Bank	889,028	99.81	824,225	99.81
Non-controlling interests	1,663	0.19	1,589	0.19
Total equity	890,691	100.00	825,814	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 mainly include interest rate contracts, exchange rate contracts and others. For details of notional amount and fair value of derivative financial instruments, please refer to "Notes to the Condensed Consolidated Financial Statements – 15 Derivative financial assets and liabilities".

Contingent liabilities and commitments mainly consist of lawsuits and claims, capital commitments, credit commitments, collateralized and pledged assets, and commitments on redemption of government bonds. For details of contingent liabilities and commitments, please refer to "Notes to the Condensed Consolidated Financial Statements – 38 Contingent liabilities and commitments". Credit commitments consist of loan commitments, bank acceptances, guarantees and letters of guarantee, letters of credit and unused credit card commitments.

Components of Credit Commitments

In millions of RMB, except for percentages

Item	As at June 30, 2023 Amount	As at June 30, 2023 Percentage (%)	As at December 31, 2022 Amount	As at December 31, 2022 Percentage (%)
Loan commitments	73,586	9.52	91,593	13.11
Bank acceptances	98,199	12.71	95,218	13.62
Guarantees and letters of guarantee	68,123	8.82	56,229	8.05
Letters of credit	91,662	11.86	65,535	9.38
Unused credit card commitments	441,042	57.09	390,287	55.84
Total credit commitments	772,612	100.00	698,862	100.00

Analysis of Cash Flow Statement

During the reporting period, net cash generated from operating activities of the Bank was RMB83,497 million, a year-on-year decrease of RMB63,417 million, mainly due to the decrease in cash received from customer deposits and the increase in cash paid for granted loans during the current period.

During the reporting period, net cash used in investing activities of the Bank amounted to RMB145,086 million, representing a year-on-year decrease of RMB12,171 million, primarily due to the increase in cash recovered from maturity and redemption of the bonds investment, which led to the decrease in net cash outflow during the current period.

During the reporting period, net cash generated from financing activities of the Bank was RMB231,708 million, a year-on-year increase of RMB188,754 million, mainly due to the increase in cash received from the issuance of interbank certificates of deposit during the current period.

Other Financial Information

Explanation of Changes in Accounting Policies

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

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

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

Information on Debt Securities

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

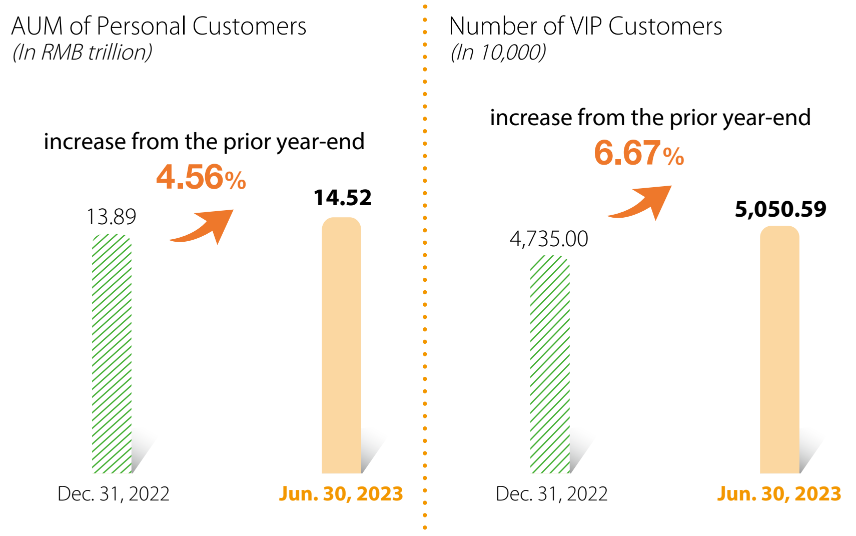
Business Overview

Retail Banking Business

The Bank served **656** million personal customers.

Its assets under management (AUM) of personal customers exceeded RMB **14.5** trillion, an increase of more than RMB **600.0** billion over the prior year-end.

Income of personal banking business grew by **2.59**% year on year, accounting for **72.15**% of the operating income, up **0.39** percentage point year on year.



The Bank accelerated the development of a first-tier large retail bank, and focused on improving its capabilities in six aspects to create differentiated growth poles. It remained committed to delivering value to its customers, actively integrated into the new development pattern and helped to deliver the benefits of China's economic growth to both urban and rural residents, thus contributing to the progress toward common prosperity. During the reporting period, the income from personal banking business rose by 2.59% year on year, accounting for 72.15% of the operating income, up 0.39 percentage point year on year. The Bank served 656 million personal customers, with its AUM of personal customers reaching RMB14.52 trillion, an increase of RMB632,496 million over the prior year-end. Personal deposits stood at RMB11.83 trillion and personal loans amounted to RMB4.31 trillion.

1 The Bank regards customers with assets of RMB100,000 and above as VIP customers. Among them, customers with assets between RMB100,000 (inclusive) and RMB500,000 are Jingui customers, customers with assets between RMB500,000 (inclusive) and RMB6 million are Fujia customers, and customers with assets of RMB6 million and above are Dingfu customers.

The Bank focused on building professional core competencies as a "protective moat", and enhanced its tiered and progressive chain-style customer management system to improve the experience of wealth management service. It strengthened innovation in credit products, and improved regular marketing and refined management of credit card business. It developed a service model centering around mobile banking, supported by remote banking and encompassing online and offline channels, so as to serve a wider customer base with multi-dimensional financial services around the clock.

The Bank fully activated technological innovation capabilities as the "main engine", built an integrated "C plus" service platform[1] and achieved digitalized customer management and automated asset review, to offer more precise and efficient customer services. It continuously upgraded and optimized mobile banking functions, expanded online financial service scenarios and improved customer experience. Additionally, it expedited promotion at business districts around outlets and the building of smart scenarios, provided scenario-specific financial services, and promoted service coverage in all channels. It enhanced intensive operation with a centralized post-lending model for consumer credit taking shape, and further improved the quality and efficiency of operations management.

Debit cards of "Ignorance Is Bliss" series

Retail Banking

The Bank centered on addressing customers' needs for comprehensive financial services, optimized service processes through digitalization, and enhanced service convenience. It elevated omni-channel experience, unlocked greater potential for customer services, and leveraged its financial strength to create happiness and spread goodness.

Personal Deposit Business

The Bank pursued high-quality development of personal deposit business. It actively expanded payroll services, express services, merchant acquiring, key debit card initiatives, etc. to attract new customers and expand sources for deposits. It offered differentiated follow-up solutions for customers with maturing deposits, and enhanced their overall income through specialized asset allocation services. Additionally, the Bank seized opportunities during the Spring Festival and summer grain procurement period to ensure the provision of financial services in county-level rural areas. Personal deposits in areas at and below the county level accounted for nearly 70% of the Bank's total personal deposits. As at the end of the reporting period, the Bank's balance of personal deposits stood at RMB11.83 trillion.

Debit Card Business

The Bank continuously innovated debit card products. Targeting young customers, the Bank enriched the thematic content of the "Alexander the Fat Tiger" IP co-branded debit card and launched the "Ignorance Is Bliss" series, alongside upgraded benefits for cards like Meituan Card and Flash Card. For new urban residents, the Bank offered preferential fees through the "U+ Card" program, and enhanced the accessibility and convenience of financial services. Additionally, the Bank continued to enhance the service systems of "Happy Weekend" and "Colorful YOUNG Life Illustrated Handbook" to increase customer loyalty and account activity. During the reporting period, the spending via debit cards posted RMB4.61 trillion.

1 The "C plus" integrated service platform is based on the CRM platform. It adopts a multisystem operation modes by integrating the CRM platform, wealth management system, performance management system, etc. to enable integrated functions of customer relationship management, asset allocation services and performance inquiry.

Retail Banking Business

Personal Settlement Business

The Bank provides agency collection and payment services and various settlement services to personal customers. With a focus on the "Salary Payment Plan" agency payroll service solution, the Bank optimized the service experience for corporate customers. It fully advanced the digital, mobile and convenient operation of business processes, thereby enhancing its capability to serve agency payroll customers. The Bank enriched its personal service system and offered a dedicated "Salary Payment Zone" on mobile banking app, exclusive wealth management products and benefit reward activities, which helped enhance customer stickiness and contribution. During the reporting period, the Bank's agency collection and agency payment amounted to RMB313,469 million and RMB914,478 million, respectively. Specifically, social security pension collected on an agency basis amounted to RMB24,317 million, and pension payment on an agency basis amounted to RMB482,518 million.

The Bank provides personal customers with various international settlement services such as cross-border telegraphic transfer (T/T). During the reporting period, the number of transactions for personal international settlement was 122.6 thousand, with a transaction volume of USD223 million. It made steady progress in Cross-border Wealth Management Connect and provided customers in the Greater Bay Area with more convenient and reliable cross-border services.

Personal Pension Finance

The Bank upheld its mission as a major state-owned bank, and worked diligently to improve the people's well-being. It actively participated in the pilot promotion of personal pension business in 36 cities or regions, and made proactive efforts to establish and expand this initiative on all fronts. The Bank introduced new personal pension wealth management and insurance services, enhanced the full-spectrum product offerings for personal pension, including savings deposits, wealth management, funds and insurance. It made greater efforts to disseminate knowledge about personal pension business as the third pillar, and strengthened the brand building of "U Enjoy Future" of its personal pension business to convey the concept of "Plan Now, U Enjoy Future". The Bank launched initiatives such as the "Elderly Happiness Tree" to establish a comprehensive benefits system throughout the account opening and contribution process, thereby contributing to complement the national pension pillar system.

Wealth Management

The Bank consistently adhered to the customer-centric philosophy, committed itself to creating value for customers, and comprehensively enhanced wealth management capabilities. The Bank devised the Three-Year Action Plan for Wealth Management to improve the top-level design of wealth management. It advanced chain-style customer management and organized distinctive activities for customers. It reinforced the middle office's capability to empower asset allocation. It carefully selected premium products across the market to further enrich its product strategies. It expedited the development of the private banking system and elevated its capability of serving high-net-worth customers. Additionally, the Bank continuously promoted investor education, helping customers embrace rational concepts of asset allocation and long-term investments. As at the end of the reporting period, the Bank had 50,505.9 thousand VIP customers, an increase of 6.67% over the prior year-end; the number of Fujia customers and above reached 4,741.1 thousand, an increase of 11.55% over the prior year-end.

Wealth Management Product Line

Putting customer interests first, the Bank carefully selected high-quality financial products and services from across the market, and created a wealth management product and service platform covering all categories of assets, all strategies and complete functions. During the reporting period, the Bank optimized its data-driven smart marketing model which encompasses customer research, acquisition and activation, and provided insurance services that cover the customer life cycle. The new long-term regular premiums amounted to RMB81,009 million, accounting for 40.60% of premiums from new policies, up by 17.59 percentage points year on year. The Bank maintained a prudent, low-volatility strategy for personal wealth management, and launched tailored wealth management products like All-Season Red, New Customer Section and Salary Boost, aiming to help customers take the first step towards investment upgrading. The Bank pressed ahead with the transition to equity funds, established a specialized product selection mechanism, continually improved the customer companion and service system, and enhanced the customer investment experience. The agency sales of funds amounted to RMB66,752 million, among which RMB58,945 million was non-monetary funds. The Bank enriched its categories and strategies of asset management and trust products with a focus on absolute return strategies, actively introduced various innovative products, and increased existing assets under asset management plans (including trust plans) to RMB67,083 million, an increase of 9.01% over the prior year-end. It continued with the campaign "Making Government Bonds Available in the Countryside", and the agency sales of savings government bonds amounted to RMB17,856 million. Additionally, the Bank enriched its own-label gold product system, and launched activities like "Convenient Purchase of Gold" and "Panda Gold Coins Delivered to Thousands of Households".

Column

Adhering to the Concept of Customer Centricity and Creating Differentiated Growth Poles for Wealth Management

Wholeheartedly embracing a customer-centric value. The Bank developed the Three-Year Action Plan for Wealth Management, continuously enhanced the top-level design of wealth management, focused on elevating professional capabilities, and aimed to deliver leading wealth management services. It established regular sharing and training mechanisms such as "Wealth Management Series Talks" for the management, and reinforced emphasis on assets under management (AUM) and asset allocation in performance appraisal, cultivating a culture characterized by foresight, customer centricity and the ability to do the hard but right thing in the Bank.

Continuously advancing in-depth customer management. With customer needs at the core, the Bank actively promoted chain-style customer management, and offered differentiated products, activities and benefits tailored to customers at different stages of asset allocation, and promoted the continuous growth of their assets. It conducted wealth check-ups and asset allocation diagnosis activities, and provided recommendations on personalized portfolio optimization to customers. During the reporting period, the Bank conducted wealth check-ups for over 1.5 million customers. Besides, the Bank organized activities on college entrance examinations with the theme of "Facilitating Aspirations, Winning the Future" by inviting education planning experts to conduct a series of lectures, with an aim to support the growth of customers' children. It hosted nearly 300 such events, covering more than 20 provinces including Henan and Shandong.

Further enhancing the professional competence of the team. The Bank developed close coordination between customer relationship managers, product managers and wealth advisors in the middle office, and implemented a standardized work pattern to empower frontline wealth managers to deliver professional and efficient customer services. It further deepened its layered talent training system by organizing the "Competence for Excellence" training camp for all wealth managers of the Bank, adopted a "training – practice – assessment" model to focus on overcoming challenges and addressing pain points, and cultivated a highly skilled and proficient wealth management team. The event is expected to cover 11,000 individuals throughout the year. The Bank also made progress in applying standardized customer service process, and ensured high standards and minimal deviations in customer services.

The "Competence for Excellence" wealth manager training camp launched in 2023

Group photo of participants of one batch of the "Competence for Excellence" wealth manager training camp

Accelerating the building of the private banking system. The Bank introduced exclusive and tailored privileges for Dingfu customers to meet their non-financial service needs such as health management and business travel. It also launched the Dingfu customer service hotline and optimized their online service experience. In addition, the Bank developed construction standards for private banking centers, expedited the construction process in urban areas, and enhanced direct support and empowerment for these centers.

Empowering wealth management with technology. The Bank built the capability for fine-grained analysis of customer investment portfolios and enabled accurate calculation of account yields, so that wealth managers and customers could have a clear understanding of investment returns. It developed a product middle office management system, facilitated penetrating and digital management of investment and wealth management products, and empowered product managers to enhance daily operation and management efficiency. It promoted the application of process management tools, standardized the service processes for Fujia and Dingfu customers, and implemented the "Five-Step Work Method of Setting goals, Identifying needs, Formulating plans, Selling and Maintaining" for wealth managers. During the reporting period, the Bank developed asset allocation plans for 469.0 thousand Fujia customers and above, an increase of more than 300% year on year.

Continuing to deepen investor education. Leveraging the advantage of extensive network, the Bank consistently organized the investor education salon "Wealth Management Weekly Lecture" in nearly 40,000 outlets nationwide. These events assisted customers in understanding and mastering asset allocation, gaining a clear perspective on their risk appetite, and fostering the rational mindset of aligning risk and return as well as long-term investment. The Bank aimed to accompany customers on their journey of continuous growth. During the reporting period, the Bank carried out more than 430,000 activities, covering nearly 3.17 million person-times of customers.

Retail Credit

Consumer Credit Business

The Bank fully implemented the requirements of high-quality development, steadily improved its service and management capabilities driven by innovation, and registered sustainable business growth. As at the end of the reporting period, the balance of personal consumer loans stood at RMB2.79 trillion.

The Bank strictly followed the government's guiding policies for housing credit, adopted differentiated measures based on local conditions, and fully supported the needs of first-time home buyers and upgraders in different regions. It continuously enhanced the quality of financial services for residential mortgage loans. The balance of residential mortgage loans amounted to RMB2.32 trillion, an increase of RMB62,299 million from the previous year-end.

In terms of consumer credit business, the Bank focused on innovation and reform to empower business development and enhance its quality. The Bank innovated marketing and expansion models to fully leverage its existing customer resources. With the support of intelligent risk control technology and smart electronic channels, the Bank proactively expanded credit offerings to existing customers, and provided them with a seamless "instant approval and lending" experience. It also adopted innovative service models, and seized development opportunities arising from green and low-carbon consumption and rural revitalization. It explored the business mode of direct sales of new energy vehicles, embedded the loan process into the online car sales scenario of manufacturers, and thereby enhanced its scenario-based service capabilities. The Bank continued to organize marketing activities such as the "PSBC-sponsored Car Purchase Season For Rural Areas" to meet residents' demand for cars in lower-tier markets. In the first half of 2023, it conducted over 1,000 marketing events, and granted over RMB10 billion of auto loans at county-level areas. Furthermore, the Bank continuously deepened innovation in its operation and risk management models. Based on the centralized operation model of retail credit factory, it accelerated the centralization of operations, with a centralized post-lending model initially taking shape. The Bank continuously enhanced its risk control system featuring "big data + scorecard + new technology", and further unleashed the productivity of front-end customer managers with service efficiency improved.

Micro Loan Business

The Bank continued to strengthen technological empowerment, urban-rural integrated development, and internal and external collaboration, sped up product innovation, risk control and team building, reinforced the core competitiveness of online-and-offline integration, and further boosted the high-quality and efficient development of micro loan business. It consistently pushed forward the development of a rural credit system, made great efforts to promote loan products for creditworthy households, and actively promoted the project of universal credit lines for rural households. With micro credit for rural households as the breakthrough point, it issued cards for rural households in batches, provided comprehensive financial services including credit, insurance and wealth management, and improved the quality of creditworthy village development. The Bank energetically promoted proactive credit extension and direct customer management by the Head Office. It integrated internal data resources, built a multi-source, verifiable rural household data system, created a whitelist of customers for proactive credit extension, and provided guidance to branches and sub-branches on precision marketing. It pushed forward the reform of intensive operation of micro loans, and deepened the centralized review, approval and post-lending management. It advanced the application of mobile business terminals and rolled out full-process digital operation. As at the end of the reporting period, personal micro loans amounted to RMB1.32 trillion, an increase of RMB186,691 million over the prior year-end.

Retail Banking Business

Credit Card Business

More than **43** million credit cards in circulation

More than **36** million credit card customers

9.21% year-on-year increase in credit card income

The Bank continued to leverage the crucial role of credit card services in comprehensive retail customer service, deepened institutional and mechanism reforms of the credit card business, focused on building distinctive and differentiated development advantages, and enhanced the overall quality and efficiency of its operations, so as to better support the expansion of domestic demand and the recovery of consumption growth. During the reporting period, 4,128.8 thousand credit cards were newly issued, and the number of credit cards in circulation reached 43,699.8 thousand, an increase of 2.05% over the prior year-end. Consumption via credit card amounted to RMB566,946 million. The income from credit card business recorded a year-on-year increase of 9.21%. The NPL ratio of credit cards was 1.83%, a decrease of 0.12 percentage point over the prior year-end.

Accelerating the Enhancement of Customer Expansion and Integrated Marketing Capability

The Bank focused on building its capabilities for regular credit card marketing. With cross-selling within the Bank as the core, it comprehensively utilized its own outlets, sales teams, coordination between the Bank and China Post Group and other marketing channels. It enhanced the professionalism of the marketing team at a faster pace, enhanced its comprehensive marketing capability, and promoted continuous growth in its credit card customer base. Leveraging proactive credit extension, the Bank continued optimizing its whitelist and established a multi-channel marketing system. Through proactive credit extension, the Bank newly acquired over 460,000 customers, and an intensive business model with low operating costs and high efficiency was taking shape. Focusing on key customer groups, the Bank accelerated product innovation and benefits upgrades. It launched the Fang Fei (flowers and grass) credit card for female customers along with tailored benefits. Through Car Owner card, Rural Revitalization credit card and other products, the Bank enhanced its capacity to serve car owners and rural customer groups, and continuously optimized its comprehensive customer services.

Fang Fei (flowers and grass) Credit Card Issued by PSBC

Advancing the Building of Business District Scenarios and Customer Management System

With a focus on promoting consumption and elevating customer engagement, the Bank strengthened its efforts to build business districts and facilitate customer activation, enhanced customer lifecycle management, and enhanced refined management. It accelerated the establishment and layout of preferential merchant systems, and built a multi-level system of preferential merchants around diverse customer demands and high-quality consumption scenarios, thereby continuously boosting the use of credit cards. It optimized targeted marketing campaign schemes, and enhanced customer outreach capabilities through multiple channels. With a focus on large-amount purchase scenarios, the Bank expedited the expansion and marketing of installment business, strengthened digital operation capabilities, and drove continuous growth in installment. Furthermore, the Bank enhanced its credit card APP operation capabilities, launched version 5.0 of the PSBC Credit Card APP, and effectively leveraged the APP's core role in serving customers.

Launch of PSBC Credit Card APP5.0

Scan to download PSBC Credit Card APP

Scan to follow WeChat official account of PSBC Credit Card

Empowering High-Quality Development with Data Technology

The Bank fully leveraged its strengths in data resources to empower business development. It completed the mining and optimization of the proactive credit extension customer list, developed multiple marketing models, and constructed a multi-channel and three-dimensional collaborative marketing system. It continued to track the performance of white-list marketing and iteratively optimized the list. The Bank expedited the research and development of risk pricing models and strategies, and established the risk-optimized pricing models for bill installment and Joyous installment plans. It completed the offline deployment and launched the system to support the development of precise and differentiated risk pricing capabilities.

Strengthening Credit Card Risk Prevention and Control

The Bank adopted various measures to strengthen the control of credit card asset quality. First, the Bank continuously optimized quantitative risk models and strategies, enhanced the effectiveness of risk strategies, and improved the accuracy of risk identification, thus further reducing the risk associated with customer onboarding. Second, the Bank promoted the iterative switching of warning strategies, enhanced the application of information and data of creditworthiness, reinforced forward-looking risk control, and adopted differentiated control measures for risk customers. Third, the Bank strengthened fund usage control, closely monitored and issued warnings for fund flows, and optimized identification and control methods to prevent credit card funds from flowing into non-consumption areas. Fourth, the Bank continued the collection and disposal of non-performing assets. It effectively improved collection results by combining technological methods with manual collection efforts. It also utilized write-off and asset securitization to dispose of non-performing assets, thereby ensuring overall stability in asset quality.

Corporate Banking Business

The number of corporate customers reached **1,496.9** thousand, an increase of **170.8** thousand for the first half of the year, and the aggregate number rose by **8.57**% over the prior year-end. Active customers accounted for **92.27**% of newly acquired customers, and the number of customers with the Bank acting as the lead bank increased by **48.98**% over the prior year-end.

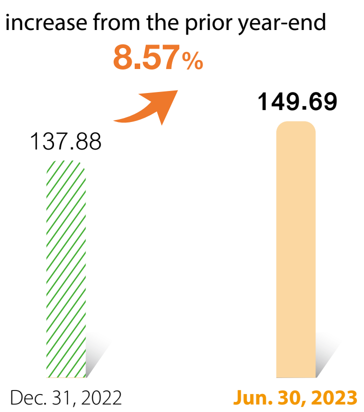
The Bank served **61.4** thousand specialized and sophisticated enterprises that produce new and unique products as well as sci-tech enterprises, a year-on-year increase of more than **30**%.

The finance product aggregate (FPA) of corporate customers reached RMB**4.21** trillion, an increase of RMB**523,519** million over the prior year-end.

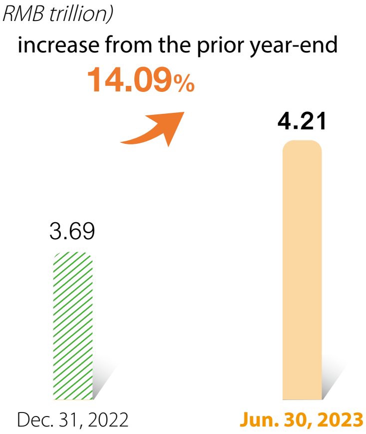
The proportion of demand deposits was **66.30**%, an increase of **1.65** percentage points over the prior year-end.

Operating income of corporate banking was RMB**28,469** million, a year-on-year increase of **4.18**%.

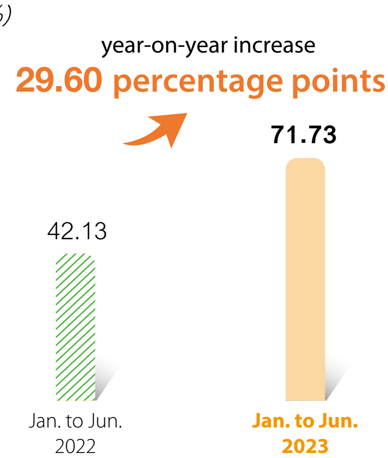
Number of Corporate customers
(In 10,000)



Finance product aggregate (FPA) of corporate customers
(In RMB trillion)



Growth rate of intermediary business income of corporate banking
(%)



The Bank was committed to supporting the high-quality development of the real economy with its corporate banking business. It deepened institutional and mechanism reforms with an integrated approach, drove product and service innovation with a customer-centric focus, and further expanded development opportunities in different regions, industries and customer segments. By utilizing its collaborative strengths, the Bank improved the efficiency and quality of financial services, built momentum and forged a new phase of differentiated development. As at the end of the reporting period, the number of corporate customers reached 1,496.9 thousand, an increase of 170.8 thousand for the first half of the year; and the aggregate number increased by 8.57% over the prior year-end. The Bank continued to refine its professional financial service system for sci-tech innovation, provided full life-cycle services to specialized and sophisticated enterprises that produce new and unique products as well as sci-tech enterprises, with the number of serviced customers growing by over 30% year on year. The finance product aggregate (FPA) of corporate customers reached RMB4.21 trillion, up by RMB523,519 million or 14.09% over the prior year-end. Corporate loans amounted to RMB3,072,815 million, up by RMB403,453 million or 15.11% over the prior year-end. The Bank strengthened industrial chain-based financial services, with the balance of supply chain finance business reaching RMB144,907 million, an increase of RMB32,373 million over the prior year-end. Corporate deposits amounted to RMB1,464,507 million, up by RMB34,941 million or 2.44% over the prior year-end; of which 66.30% were demand deposits, and the average interest rate of corporate deposits was 1.33%. The income of corporate banking reached RMB28,469 million, a year-on-year growth of 4.18%; intermediary business saw a year-on-year income increase of 71.73%.

Cultivating Customer Groups by Acting as Lead Bank

Adhering to a customer-centric philosophy and centering around "six-sphere integration" in terms of customer management, product management, team building, management mechanisms, digital transformation and risk management, the Bank focused on "layered and classified management at an escalated level, team-based services as the lead bank, and continuous innovation". It took the provision of lead bank services as its core, promoted institutional building and mechanism reform to meet customers' demand for diverse and sophisticated financial service, realizing the comprehensive roll-out and implementation of the new "1 plus N" operation and service system.

Improving the layered and classified customer management system, and establishing and perfecting the customer service mechanism as the lead bank. Based on the categorization of strategic, key, medium and large-sized, small and medium-sized, and long-tail customer groups, the Bank established a comprehensive and distinctive three-dimensional customer segmentation service system. It focused on medium-sized customers, concentrated its advantageous resources, and engaged in in-depth cultivation, chain-style operations and ecosystem-based development. The Bank developed a distinctive, competitive lead bank service model with risks under control, provided a comprehensive package of financial services that integrates settlement, financing and non-financial value-added services, accompanied enterprises in their growth, and promoted win-win cooperation with its customers. As at the end of the reporting period, the number of corporate customers with the Bank acting as the lead bank increased by 48.98% over the prior year-end.

Building an expert service team with customer managers as its core and supported by product managers, risk managers and IT personnel to swiftly respond to customer needs with professional service. The Bank gradually established a two-level remote support team system that comprises the Head Office and branches, as well as an industry research-driven leadership system, and enhanced professional capabilities to create higher service value. Leveraging its strengths in parallel operations, the Bank actively applied the "future-oriented" model, analyzed the growth potential of corporate customers, improved research capabilities, and enhanced the quality and effectiveness of credit extension services. It established a working mechanism that integrates business and technology to serve corporate customers. It formed a team of customer service engineers with coordination between the Head Office and branches, coordinated management and flexible dispatch. By enhancing technological output at the front office and empowering branches with technology, the Bank efficiently addressed corporate customers' demand for dedicated fin-tech service, and enhanced its strength to provide IT-based integrated financial services.

Building a corporate wealth management system and tapping the blue ocean of wealth management for corporate customers. The Bank creatively developed a wealth management report service for corporate customers, built corporate wealth models, and recommended financial product portfolios to offer one-stop solutions. For medium and large-sized customers, the Bank established a transaction matching platform, and created a commercial banking service model that integrates investment and financing services. For small and medium-sized customers, it provided differentiated wealth management services based on their development stages, optimized corporate financial operations, and helped them enhance management quality and efficiency. During the reporting period, the intermediary business income from corporate banking achieved a year-on-year growth of 71.73%.

Reforming branches to upgrade service model through the optimization of organizational structure. The Bank promoted tier-1 and tier-2 branches to set up institutions and teams to directly manage customers, and carried out list-based management with a focus on key institutions and corporate customers. It worked to create a "barbell-shaped" organizational structure to strengthen guidance from the Head Office and extend the service radius, and ensured that resources were allocated to areas most conducive to business development.

Building Strengths through Innovation

Innovating Products and Services to Create Differentiated Competitive Strengths

Enriching wealth and asset management tools and channels to empower customer operations management. The Bank integrated service, products and channels into specific scenarios, and promoted compound and customized service solutions driven by "settlement plus financing".

Corporate Banking Business

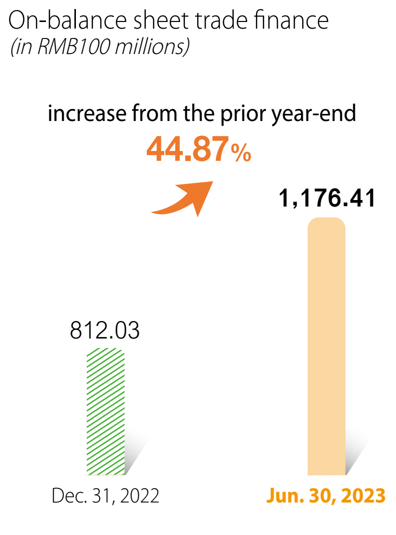
In terms of settlement and cash management, the Bank kept on innovating its corporate settlement card service mode, upgraded features of cash management products, expanded service coverage, and enhanced customer experience. During the reporting period, the Bank newly issued 14.9 thousand corporate settlement cards. The accumulated number of transactions exceeded 391.3 thousand during the year, with a transaction amount of RMB5,890 million. As at the end of the reporting period, the number of cash management customers reached 738.8 thousand, an increase of 76.6 thousand over the prior year-end.

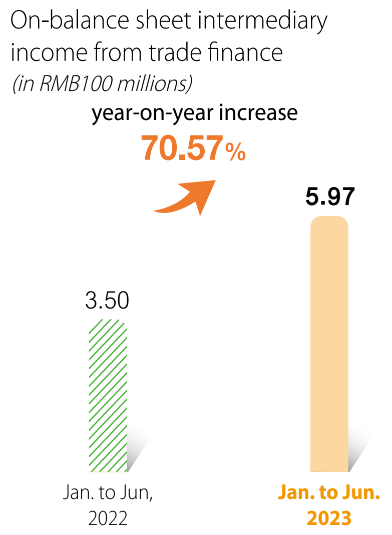
In terms of direct bank-enterprise connection, in response to the micro financial needs of small and medium-sized enterprises, the Bank launched an open banking cloud direct connection service to output financial functions such as inquiry, transfer and receipt to third-party SaaS (Software as a Service) providers. This service facilitated the interconnection of business flows, information flows and data flows for enterprises, and empowered them in their digital transformation. During the reporting period, the Bank connected with multiple mainstream SaaS providers, and served nearly 1,000 small and medium-sized enterprises.

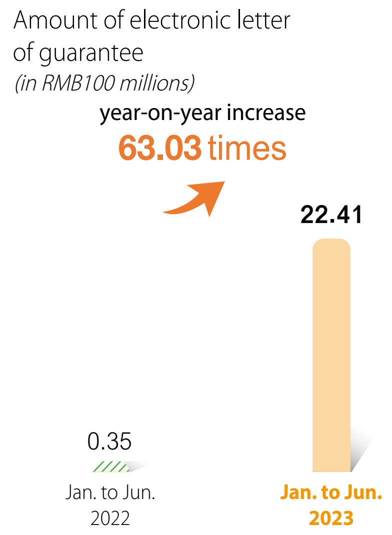
In terms of supply chain finance, the Bank iterated its core supply chain finance system, and optimized functions such as big data-based risk control and automated verification of transaction background. It also launched an intelligent payroll payment and settlement product to improve scenario-based integrated services. Moreover, the Bank opened up standardized interfaces to provide account settlement services. During the reporting period, the Bank realized direct system connection with Xiongxin Digital Payment Service Platform (xx.xionganbc.com), CCCC Digital Financial Service Platform (cccc-scf.cn), etc.

In terms of domestic trade finance, the Bank continuously promoted digital development. It completed the launch of Internet banking version of domestic letter of credit (L/C) products and the reform of the bill acceptance process, which enabled online operation and management of all bills and documents, and thus accelerated the development of mobile banking and WeChat banking channels. It introduced a convenient, efficient and fully online version 2.0 of electronic letter of guarantee (L/G). By integrating government-enterprise platforms, portal websites and guarantee companies, the Bank applied an intelligent credit approval model, and earnestly acted on the national requirement of relieving the funding pressure on SMEs through bank guarantee services. It accelerated the exploration of new business scenarios, launched L/C services for electricity bill scenarios, and sped up expansion into gas and other related scenarios. It also made steady progress in providing L/G and customer services for small-scale scenarios such as tariffs, litigation, mergers and acquisitions, etc.

In terms of cross-border finance, the Bank expanded its channels for cross-border RMB settlement. As an innovative move, it adopted the Internet to access the enterprise-side CIPS (Cross-Border Interbank Payment System) standard receiver and sender, cooperated with purchasers in the







market of new business forms of trade, promoted the digital transformation of banking services for regional procurement platforms, and significantly enhanced the efficiency of transactions. To support the internationalization of RMB, the Bank intensified its efforts in providing cross-border RMB services to the real economy. During the reporting period, the volume of cross-border RMB settlement saw a year-on-year increase of 119.30%.

Integrated investment banking and commercial banking to meet customers' needs for financing and credit facility, as well as intellectual-incorporated business. With the bond underwriting business as a key driver to meet the customers' needs for financing and increase the finance product aggregate of clients, the Bank increased the underwriting scale of debt financing instruments of non-financial enterprises by 111.40% year on year, and the underwriting scale of securitized products by 148.26% year on year through the combination of investment with underwriting as well as market-oriented sales. The Bank actively promoted product innovation and underwrote the first green asset-backed commercial paper featuring "carbon neutrality + rural revitalization + old revolutionary base area" in the market, the first asset-backed commercial paper featuring "sci-tech innovation + supply chain stability" in the market, and its first-ever green panda bond. It leveraged the advantages of syndicated loans in supporting major national strategies, serving the real economy and providing large amount of financing, vigorously developed and led syndicated business to meet the customers' needs for financing to the maximum extent and played a leading role as a major bank. During the reporting period, the amount of newly issued syndicated loans and the number of projects in which it acted as the lead bank increased by 51.63% and 77.11% respectively year on year, which focused on supporting regional strategies such as Beijing-Tianjin-Hebei, the Yangtze Economic Belt and the Greater Bay Area, and served a number of advanced manufacturing transformation and upgrading projects such as high-end equipment manufacturing, environmental protection and new energy industrial chain. It took the lead in organizing green innovation projects such as the fruit forest carbon sink syndicate and the bamboo forest carbon sink syndicate, providing leading syndicate services for urban renewal projects of urban space optimization and quality improvement. The Bank was dedicated to developing the M&A financial business as a key driver in serving the country's industrial upgrading, putting idle assets to good use and supporting the reform of state-owned enterprises. As at the end of the reporting period, M&A loans increased by 52.34% over the prior year-end, which supported a number of demonstration projects such as blue mergers and acquisitions in the integration of the offshore wind power equipment manufacturing industry, green mergers and acquisitions in the integration of environmental governance and clean energy, diversified mergers and acquisitions related to high-quality private enterprises and relief mergers and acquisitions in the real estate industry. In the non-credit asset synergy business, the Bank took an innovative move in introducing various transaction structure modes, including public REITs, private equity supply chain and forward-funded funds, and effectively linked funds to assets to achieve coordinated development.

Expanding coverage to promote the rapid development of wealth preservation and growth business. The Bank focused on scenario-based marketing in three key industries, i.e. real estate, transportation and infrastructure construction, and offered full life-cycle insurance products. As at the end of the reporting period, the Bank's corporate premiums from agency business increased by 525.66% year on year. The Bank carried out agency distribution of asset management plans to meet the diversified wealth management and investment needs of customers with different risk appetites. It leveraged intelligent wealth management products to facilitate customers in balancing the need for capital growth and liquidity in a more convenient and automated way. As at the end of the reporting period, the number of customers who signed up for intelligent wealth management reached 107.8 thousand.

Innovating the Application of Technology and Improving Technological Empowerment

The Bank adhered to technology innovation as the guiding force, using digital transformation to drive changes in business operations. It leveraged the integration of fintech and business to acquire, activate and retain customers, resulting in a significant improvement in digital management and service capabilities.

Promoting scenario-based financial services. The Bank deepened the development of intelligent health care, medical insurance and pharmaceutical scenarios as well as solution offerings. It collaborated with local healthcare security administrations on a "15-minute healthcare security service circle" project and developed a multi-channel automated reconciliation platform for hospitals to help improve operational efficiency. The Bank actively ventured into the smart transportation sector, explored and expanded the application of "ETC plus" across various scenarios. It concentrated on intelligent parking, refueling, charging and services for car owners, and built a smart mobility ecosphere leveraging big data analytics of consumer scenarios. The Bank facilitated digitalized education by forming an integrated "finance + scenario + non-finance" service model. In collaboration with education authorities at all levels and schools, the Bank provided comprehensive services including smart campus, consumption in business districts, supervision of private school funds and supervision of funds for after-school services. It launched the fund supervision platform for infrastructure projects such as Zhengzhou-Jinan high-speed railway and Xi'an-Chengdu railway, and established a fund supervision system for high-standard cropland projects, which provided full-process financial support for project operation. The Bank optimized the construction fund management blockchain system, and offered digital application scenarios for the development of Xiongan New Area. It made breakthroughs in the scenario of direct linkage for service trade on the cross-border financial blockchain system, and provided real-time on-chain verification to support enterprises in handling cross-border business. Adhering to the service philosophy of ecosystem-based finance and open banking, the Bank accelerated the development of PSBC's "Easy Business Operation" to build an integrated cloud platform of "scenario + finance" for the digital transformation of enterprises. In response to the needs of SMEs for digital management of human, financial and material resources, as well as of production, supply and sales, the Bank created six digital, intelligent scenarios, i.e. Easy Finance and Tax, Easy Payroll, Easy Operations, Easy Invoicing, Easy Expense Control, Easy Office, to provide one-stop application experience, seamless switch across multiple scenarios, online and offline guarantee as well as financial-grade data security, etc.

Empowering the digitization of financial products. The Bank advanced the development of the new generation core system for corporate banking business and offered intelligent E-messenger service covering multiple channels, all users and various types of notifications as well as smart fund pool products which support flexible investment and automatic withdrawal, continuously overcoming technical challenges in push notifications and automated processing, and swiftly responding to market and customer demands. The Bank implemented the "smart investment banking" project in stages, commenced the development of the comprehensive operation system and the bond underwriting and distribution system, and elevated its digital operational capabilities in investment banking business.

Improving availability of self-served financial services. The Bank further enhanced the development of open banking interfaces and a unified digital portal, and provided customers with online financial services such as payment settlement, cash management, financial management, investment and financing, cross-border finance, etc. It also promoted the transformation of the U-chain supply chain system, allowing customers to handle the entire process of vehicle financing and cargo management through online self-service options. The Bank launched the "directory of corporate products (Yi Qi Dian)", a one-stop online platform for introducing corporate finance products and service solutions, which meets customers' demand for categorization and combination of corporate finance products and offers industry-specific and scenario-based solutions, making it easy for customers to understand at a glance.

Serving the Real Economy

The Bank was committed to improving the coverage, balance and availability of financial services, while focusing on key areas and weak links of economic development, following the guidance of national policies and providing precise support.

Promoting coordinated regional development. The Bank proactively directed funds towards strategic regions, key industries and major projects, and supported national strategies of key regional development. It facilitated the coordinated development of the Beijing-Tianjin-Hebei region, the Yangtze Economic Belt and the Yangtze River Delta, supported the development of the Greater Bay Area and the ecological protection of the Yellow River basin, and promoted the establishment of the Xiongan New Area and the Chengdu-Chongqing economic circle. As at the end of the reporting period, corporate loans granted to key regions increased by 16.51% over the prior year-end.

Driving the high-quality development of the manufacturing industry. Remaining committed to traditional manufacturing, the Bank expanded into advanced manufacturing enterprises with strong innovation and growth potential, and drove the high-end, intelligent and green development of the manufacturing industry. It actively explored development opportunities in high-end equipment manufacturing, new energy vehicle supply chain, energy conservation, environmental protection, new energy industries, strategic emerging industries, and green transformation of traditional industries. The Bank's medium and long-term loans granted to the manufacturing industry increased by 23.64% over the prior year-end.

Assisting the growth of specialized and sophisticated enterprises that produce new and unique products. The Bank focused on key customer groups, particularly specialized and sophisticated enterprises that produce new and unique products as well as sci-tech enterprises. It deepened the building of specialized institutions and teams, improved the specialized financial services for sci-tech innovation, launched lifecycle service solutions for sci-tech enterprises, and set up a "future-oriented" evaluation model. The Bank issued the market's first bond with a sci-tech innovation theme for micro and small-sized enterprises, with the funds raised exclusively for lending to sci-tech micro and small-sized enterprises. It built the innovation finance service brand "U Prosper" to provide comprehensive financial services such as financing, capital operation, payment settlement, wealth management, and consulting for specialized and sophisticated enterprises that produce new and unique products as well as sci-tech enterprises. As at the end of the reporting period, the Bank served 61.4 thousand specialized and sophisticated enterprises that produce new and unique products as well as sci-tech enterprises, representing a year-on-year growth of over 30%. The outstanding loans to specialized and sophisticated enterprises that produce new and unique products as well as sci-tech enterprises reached RMB292,381 million, with a year-on-year growth of over 40%.

Making sustained efforts to promote green finance. The Bank proactively implemented the national "carbon peaking and carbon neutrality" strategy, significantly boosted credit extensions in key fields like clean energy, low-carbon transportation, green buildings, energy conservation and environmental protection, and provided stronger support to local state-owned energy enterprises and leading companies in clean energy equipment manufacturing. It successfully launched the nation's first innovative business featuring "carbon reduction support instrument + sustainability linkage + e-CNY loan", and created a new paradigm for green financial services. As at the end of the reporting period, wholesale loans related to green development increased by 14.65% over the prior year-end.

Deepening financial services for rural revitalization. The Bank continuously advanced the core projects of rural revitalization, and supported the modernization of the agricultural sector and rural areas. As at the end of the reporting period, agro-related corporate loans increased by 22.64% over the prior year-end. The Bank increased its support for key fields such as grain planting and storage, hogs, feed, and facility agriculture, and created a service model for the agricultural industry chain. Corporate loans to agriculture, forestry, animal husbandry and fishery industries increased by 72.67% over the prior year-end. With a focus on ensuring stability in grain production and supply, the Bank introduced an exclusive product "U-Grain Easy Loan", provided financing support to SMEs in 13 major grain-producing regions, and assisted in the summer grain procurement. It focused on infrastructure construction for agriculture and rural areas and increased credit supply in key fields such as basic living facilities, improvement of living environment, the rural circulation system and public livelihood services. As at the end of the reporting period, loans for rural infrastructure construction increased by 32.98% over the prior year-end.

Deeply cultivating scenarios for supply chain finance. Aiming at industrial digital finance, the Bank deeply cultivated key industries, provided full-chain, full-process and full-product supply chain financial services, and strove to improve the resilience and safety of the industrial chain and supply chain. It launched a three-year action plan called "U-Chain Win-Win," which includes initiatives like "A Thousand Enterprises on Chain", "Innovation for a Strong Chain" and "Ecosystem Helping Strengthen the Chain". During the reporting period, the Bank granted loans of RMB69,633 million in the supply chain business, with the balance increasing by RMB32,373 million over the prior year-end. The number of effective supply chain customers grew by 174.42% over the prior year-end.

Column

Driving Rural Revitalization and Development with Creative Modes and Facilitating Region-wide Development of High-quality Cropland

The Bank fully implemented the strategic decisions of the CPC Central Committee and the State Council, with a focus on building a strong agricultural nation, ensuring food security, and providing full support to the construction of high-standard cropland. It formulated the Comprehensive Development Plan of Postal Savings Bank of China for High-Standard Cropland and Farmland, integrated cropland and farmland development with rural infrastructure construction, and combined cropland and farmland operation with the development of intensive agricultural industries. Through these actions, the Bank gave full play to its unique advantages in rural areas.

Promoting region-wide projects and extending industrial chains. By establishing collaboration with the government, the Bank planned and advanced cooperation on projects across entire regions. It integrated cropland projects with agricultural land lease transactions, crop production and agricultural product sales, creating a comprehensive agricultural industry chain service model.

Collaboration between segments to provide integrated services. The Bank established a "1 plus N" comprehensive service team, focused on project loan cooperations, leveraged the synergy between the Bank and China Post Group in terms of "integrated flows of business, goods, funds and information", and provided one-stop specialized financial and postal services to city construction investment companies, upstream and downstream agricultural enterprises, new agricultural operating entities and farmers along the industrial chain.

Closed-loop operation and technology-enabled management. The Bank leveraged technology to empower risk management and enhanced its ability to predict future trends in rural revitalization. It advanced the development of a high-standard cropland and farmland fund supervision system, and ensured closed-loop management of project loan disbursement and account settlement to ensure fund security.

Introducing innovative patterns to create a model of industrial integration. The Bank integrated the ecosystem scenarios of high-standard cropland and farmland with other industries, extended the agricultural industrial chain, and created a diverse array of "high-standard cropland and farmland plus" scenarios. It successfully implemented the "high-standard cropland plus liquor industry" model in Guizhou and Sichuan, the "high-standard cropland plus livestock industry" model in Jiangsu and Anhui, the "high-standard cropland plus land reclamation and improvement" model in Zhejiang, the "high-standard cropland plus cropland rental" model in Hunan, and the "high-standard cropland plus facility agriculture" model in Anhui. In Jiangsu, the Bank actively explored the ecological co-construction model between grain crops and specialty agricultural products. Through the collaborative approach of "project + enterprise + farmer", it facilitated the construction of "shrimp-rice symbiosis" high-standard cropland. In Hunan, the Bank collaborated with local government and agricultural investment companies to promote the construction of a high-efficiency agricultural demonstration area, aiming to implement the strategy for food security and enhance the scale efficiency of agriculture.

A comprehensive improvement project of green agriculture around Chaohu Lake in Lujiang County, Hefei City funded by the Bank

In the next step, the Bank will continue to explore industrial cooperation models, identify opportunities for developing high-standard cropland and farmland scenarios, and support the development of rural revitalization initiatives.

Column

Launching the Brand "U Prosper" for Sci-tech Finance and Assisting the High-Quality Development of Specialized and Sophisticated Enterprises That Produce New and Unique Products as well as Sci-Tech Enterprises

On May 16, 2023, the Bank officially launched the brand "U Prosper" for sci-tech finance and signed framework cooperation agreements with multiple partners to actively support the high-quality development of specialized and sophisticated enterprises that produce new and unique products as well as sci-tech enterprises. The Bank focused precisely on the needs of specialized and innovative small and medium-sized enterprises, high-tech enterprises, and technology-oriented small and medium-sized enterprises in various stages of growth and development as well as in different aspects of their operations and production. With dedication, it built the brand "U Prosper" for sci-tech finance, which encompasses five major product and service lines of "U Finance", "U Investment", "U Connect", "U Wealth" and "U Intelligence" to provide customers with lifecycle services.

"U Finance" is designed to meet the lifecycle funding needs of the sci-tech customer group, and creates full-chain, full-process and around-the-clock product lines for enterprises in various stages of growth.

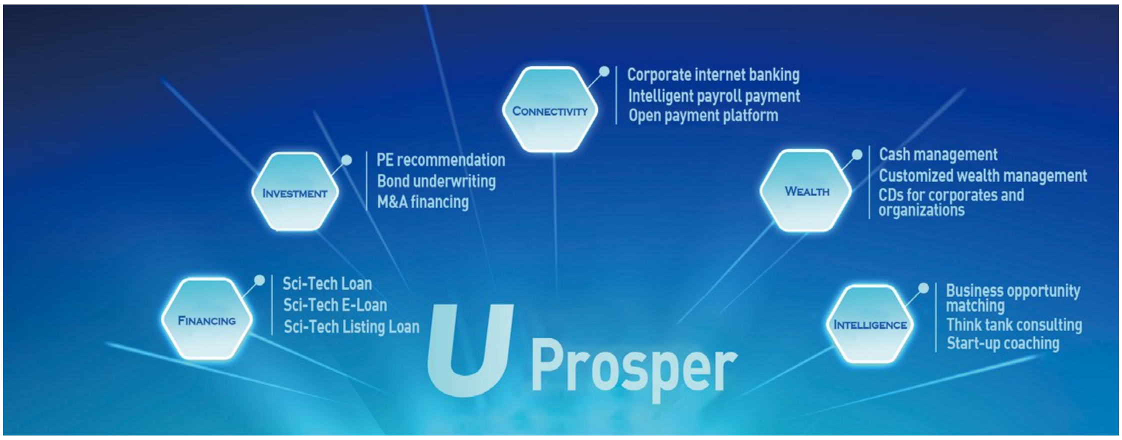
"U Investment" provides the sci-tech customer group with equity financing, bond underwriting, listing and other financial services leveraging on resources of the Bank's partners, in a bid to help enterprises blaze a new trail toward direct financing.

"U Connect" focuses on the increasingly complex payment and settlement scenarios as well as the digital transformation needs of the sci-tech customer group, with an aim to facilitate the normal flow of funds as well as the smooth production and operation activities of enterprises.

"U Wealth" focuses on wealth management, which provides wealth management services to enterprises and entrepreneurs with a human touch through nearly 40,000 outlets and professional wealth management systems.

"U Intelligence" is dedicated to helping the sci-tech customer group achieve self-improvement by integrating resources of the industry and external cooperative institutions, so as to provide "intellectual-incorporated" services to customers.

The Bank continued to refine its professional financial service system for sci-tech innovation to empower sci-tech enterprises to set sail with full force. PSBC Anhui Branch actively provided tailored service solutions for innovation enterprises and accompanied the startups on their growth journey. In 2015, PSBC Tongling Branch in Anhui provided credit support to an innovation-oriented enterprise engaged in the production of enameled aluminum wire and enameled copper-clad aluminum wire. Over the past eight years, the collaboration between the two parties has been deepened continuously. Leveraging its diverse range of products and specialized services, the Bank tailored efficient and diversified financial solutions to meet the varying needs of the enterprise at different stages of development, and supported its journey towards the capital market. In 2021, the enterprise was enrolled in the list of "little giant" firms recognized as specialized and sophisticated enterprises that produce new and unique products. In June 2023, it was successfully listed on the National Equities Exchange and Quotations (NEEQ) system.



Treasury and Asset Management Business

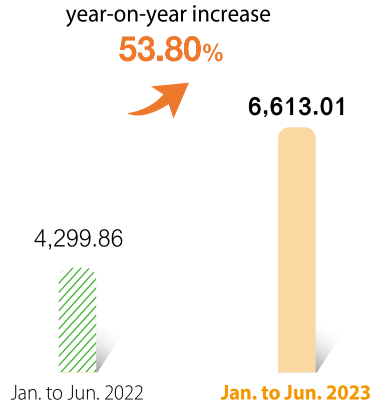
2,120 institutions registered on the "Together We Thrive" interbank ecosystem platform with a cumulative trading volume of nearly RMB1 trillion.

The underwriting scale of book-entry treasury bonds amounted to RMB**330,310** million, ranking **third** among the underwriting syndicates of treasury bonds.

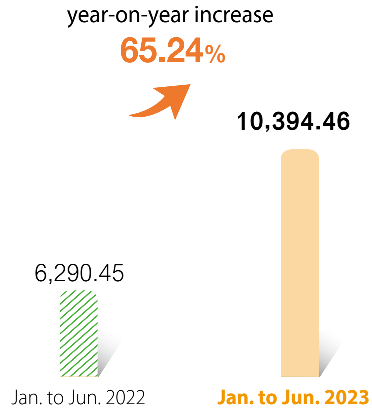
The Bank launched **3** personal pension wealth management products.

The balance of wealth management products benefiting farmers exceeded RMB**20.4** billion.

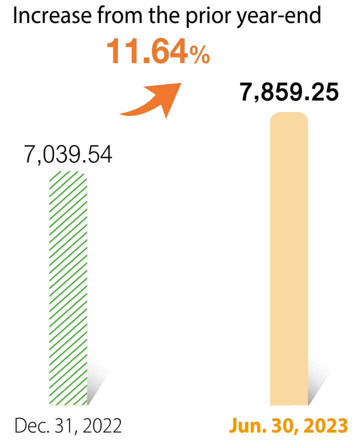
Trading Volume of Bond Market-Making
(In RMB100 million)



Volume of Bill Trading with Other Financial Institutions
(In RMB100 million)



Scale of Insurance Funds under Custody
(In RMB100 million)



For the treasury and asset management business, the Bank followed the principle of "led by investment analysis, empowered by innovation, guaranteed by risk control", deepened the development of the inter-bank ecosystem, improved its business landscape, and further enhanced the business operation and comprehensive service capabilities. From the perspective of assets and liabilities, the Bank has a high proportion of assets in the interbank business and financial market business, which made it an important fund provider in the financial market with active trading activities in the monetary market, bond market and bill market. It has played a significant role in transmitting the PBOC's monetary policy, providing liquidity support to other financial institutions and maintaining the stability of China's financial market. The main achievements during the reporting period were as follows: First, the Bank deepened business innovation and served national strategies. It took the lead in launching 3 personal pension wealth management products to boost pension finance, released "Green G Discount", an innovative discount product featuring "green bills plus e-CNY" to promote green finance, and developed the business scenario of "e-CNY – securities" third-party depository service to facilitate the development of e-CNY. Second, the Bank accelerated digital transformation and developed a comprehensive financial ecosystem. The "Together We Thrive" interbank ecosystem platform was officially launched. As at the end of the reporting period, the number of institutions registered on the platform exceeded 2,100, with a cumulative trading volume of nearly RMB1 trillion, further increasing the Bank's influence and brand awareness in the interbank ecosystem. Third, the Bank promoted trading transformation and improved core capabilities. Relying on the electronic trading system, the Bank intensified efforts to expand trading business and boosted the market activity, with the trading volume of proprietary bonds and market-making transactions increasing by 140.99% year on year, and the trading volume of derivatives increasing by 75.33% year on year. Thanks to the "Together We Thrive" interbank ecosystem platform, the trading volume of bill rediscounting increased by 65.24% year on year.

Interbank Business

Interbank Investment and Financing Business

During the reporting period, the market rates exhibited an inverted V-shaped trend. As for interbank financing, the Bank increased allocation to interbank borrowings and online interbank deposits when interest rates were at a relatively high point, resulting in a year-on-year increase of 17.31% in business scale. It mitigated risks by introducing high-quality collateral, and constantly expanded the coverage of interbank customers. In terms of interbank investment, the Bank improved its capabilities in managing fund investments. It explored investment opportunities in asset securitization, promoted the coordinated development of underwriting, custody and deposit businesses, and steadily increased comprehensive returns.

Billing Business

The Bank adopted the business concept of integrated operation, pushed for the trading transformation of the billing business, and effectively improved the quality and efficiency of services for the real economy. During the reporting period, the discounting business amounted to RMB520,412 million, representing a year-on-year increase of 52.59%. The Bank served a total of 10,805 enterprise customers, a year-on-year increase of 23.74%. Relying on the "Together We Thrive" interbank ecosystem platform, the Bank has achieved steady improvement of trading capability, and fostered stronger customer stickiness. During the reporting period, the volume of rediscounting transactions with other financial institutions stood at RMB1,039,446 million, representing a year-on-year increase of 65.24%.

Treasury Depository Business

Having been approved as a depository bank for futures margin by the Shanghai Futures Exchange (SHFE), the Bank continued to provide diversified depository and settlement services for securities, futures, insurance and gold. As at the end of the reporting period, the Bank carried out in-depth cooperation with 9 exchanges/settlement firms, as well as 125 financial institutions including securities, futures and insurance companies. During the reporting period, the cumulative transaction volume of treasury depository business reached RMB1.19 trillion, representing a year-on-year increase of 4.39%. It had over 300,000 new depository accounts, and more than 8.10 million depository accounts in total.

Column

Developing "Together We Thrive" Interbank Ecosystem Platform with Initial Success in Providing One-stop Comprehensive Financial Services

On February 8, the "Together We Thrive" interbank ecosystem platform was launched in Shenzhen. The open and sharing concept as well as the unique and innovative feature designs garnered widespread attention and unanimous praise from industry peers. As at the end of the reporting period, over 2,100 financial institutions had registered on the "Together We Thrive" interbank ecosystem platform, including various interbank customers such as banking, insurance, securities, other non-banking and other institutions, with a cumulative trading volume of nearly RMB1 trillion.

Since its launch, the platform has embraced the concept of "shared journey, common progress and win-win results", and adhered to the customer-centric philosophy. Based on thorough research of customer needs, the Bank continued to improve customer experience via agile iteration and independent R&D, and created continuous value for customer. Relying on its advantage of customer base in the interbank ecosystem and based on its previous bill, financing and fund trading hall, the Bank continued to expand into other sectors of interbank business such as bond investment and ABS transactions, with a total of 329 optimized functions launched.

In future, PSBC will develop more featured customer acquisition scenarios on the "Together We Thrive" interbank ecosystem platform, including financial product supermarket, bill market, wealth management and investment research information, and providing one-stop comprehensive financial services with more dynamic scenarios, stronger value creation capability and better customer experience.

Treasury and Asset Management Business

Financial Market Business

In terms of the financial market business, the Bank fully implemented strategic plans and decisions, and unswervingly served the real economy. It actively seized market opportunities, dynamically optimized asset allocation, carried out in-depth exploration in FinTech, and continuously strengthened risk management. As a result, its core competitiveness was steadily improved.

Trading Business

In terms of the money market, the Bank continued to fulfill its responsibility as a major bank and proactively facilitated the transmission of monetary policies. It grasped the patterns of market fluctuations, leveraged various monetary market instruments and conducted rational operation of both domestic and foreign currency funds, steadily improving the efficiency of fund use and liquidity management while ensuring sound liquidity, and contributing to the smooth operation of the interbank market.

In terms of trading and market-making, the Bank constantly advanced its digitalized operation capabilities, and promoted the in-depth integration of technology and business. Relying on its electronic trading system for financial market business, the Bank realized automated, programmed and intelligent business operations, increased the frequency and scale of trading, stepped up efforts to carry out quantitative real trading, boosted the pricing efficiency of proprietary trading and the market activity of market-making transactions in all aspects, and effectively improved its overall trading competitiveness and market influence. During the reporting period, the Bank's trading volume of proprietary bonds and market-making transactions recorded a year-on-year increase of 140.99%, and the trading volume of derivatives increased by 75.33% year on year.

In terms of precious metals trading, the Bank vigorously promoted precious metal swaps and interbank lending, fully tapped market opportunities, boosted Head Office-branch collaboration, and expanded trading counterparties. It broke barriers in terms of products, explored diversified trading strategies, and improved market activity and influence. During the reporting period, the trading volume of precious metals in the domestic market increased by 13.40% year on year.

Bond Investments

The Bank thoroughly served major national decisions and plans, supported the transformation and upgrade of the real economy, and facilitated overall rural revitalization and common prosperity. It increased investment in key products such as financial bonds of policy banks and local government bonds, and strengthened the investment in unsecured bonds in advanced manufacturing and industries that meet people's basic needs. The Bank embraced the green development concept, proactively participated in green bond investment, and contributed to the carbon peaking and carbon neutrality goals. It had won the title of "Excellent Institutional Investor of ChinaBond Green Bond Index" for four consecutive years, and maintained a market-leading position in terms of investment scale and market participation.

The Bank adhered to an investment research-based approach, tracked interest rate trends on a continuous basis, and made rational business strategies. It dynamically adjusted the pace of bond investment, made reasonable arrangements in terms of the categories of investment and portfolio duration, firmly guarded against credit risk, and managed to achieve steady return in a market environment of overall downward interest rates. As at the end of the reporting period, the balance of the Bank's bond investment business stood at RMB3,894,689 million, representing an increase of RMB210,380 million or 5.71% compared with the prior year-end.

Asset Management Business

The Bank seized development opportunities in asset management business, pursued high-quality development, and adhered to the business policy of "ensuring stable growth, promoting reform, controlling risks, improving capability, and pursuing high-quality development driven by higher capabilities". It benchmarked and aligned itself with best practices, and achieved a new development pattern of standardized, specialized and market-oriented wealth management business. As at the end of the reporting period, the scale of the Bank's wealth management products amounted to RMB752,447 million. The scale of NAV-based products amounted to RMB705,797 million, accounting for 93.80% of the total.

Custody Business

In terms of custody business, the Bank proactively responded to market changes, and continuously accelerated the development of custody business for insurance funds and mutual funds. During the reporting period, the insurance funds under custody increased by 11.64% compared with the prior year-end. Meanwhile, the Bank's custody business increased its capability to serve innovative products such as the mutual funds themed on regional strategies, green-themed index mutual funds and asset management plans for QDII. During the reporting period, the Bank set up its custody operation center at the Head Office, optimized the custody operation process and improved customer experience in all aspects as well as built an integrated operation center for "operation, service and research", marking a solid step toward more intensive operations. As at the end of the reporting period, the funds under custody amounted to RMB4.40 trillion.

Inclusive Finance

The balance of agro-related loans exceeded RMB**2** trillion, an increase of RMB**232,964** million over the prior year-end.

The balance of inclusive loans to MSEs stood at RMB **1.35** trillion, accounting for over **17**% of the total loans to customers, readily ranking in the forefront of major state-owned banks.

It launched industrial loans and developed more than **300** customized industrial programs.

The balance of proactive credit loans for Sannong customers was RMB**71,942** million, with a net increase of RMB**54,636** million this year.

Under the strategic guidance and with reform and innovation as the driving force, and risk prevention and safe development as the bottom line, the Bank built a distinctive service model, established a new digitalized system, and created an all-inclusive financial ecosystem. It facilitated the advancement of rural revitalization across the board, supported MSEs in accelerating their transformation and innovation, and drove the sustainable development of inclusive financial services. As at the end of the reporting period, the balance of the Bank's inclusive loans to MSEs was RMB1.35 trillion; the number of accounts with loan balance stood at 2,084.5 thousand; and the balance of agro-related loans amounted to RMB2.04 trillion, with the proportion in total loan balance readily ranking in the forefront of major state-owned banks.

Rural Revitalization

The Bank always adhered to its mission of serving Sannong customers, urban and rural residents, and small and medium-sized enterprises. It faithfully carried out the decisions and plans of the CPC Central Committee and the State Council concerning rural revitalization, and strengthened technological empowerment, coordinated development between urban and rural areas as well as internal and external coordination. Centering around the digital transformation of Sannong finance, the Bank continued to build a digital ecosystem-based bank serving rural revitalization, further promoted the high-quality development of the Sannong financial business, and facilitated the advancement of rural revitalization across the board. As at the end of the reporting period, the balance of agro-related loans stood at RMB2.04 trillion, an increase of RMB232,964 million over the prior year-end, accounting for about a quarter of total loans to customers, ranking in the forefront of large state-owned banks. The balance of personal micro loans was RMB1.32 trillion, up by RMB186,691 million over the prior year-end.

Stepping up Top-Level Design

The Bank formulated the Opinions of Postal Savings Bank of China on Implementing Key Tasks of Advancing Rural Revitalization Across the Board in 2023, steadily pushed forward the "Ten Core Programs"[1] serving rural revitalization, accelerated the digital transformation of Sannong finance through technological empowerment, and formed four types of characteristic business models for serving rural revitalization, i.e. the proactive credit extension model, the whole-village credit extension model, the online and offline integrated model and the coordinated service model. In the meantime, the Bank consistently strengthened research on key industries for rural revitalization and established a monitoring system for these industries. It made progress in enhancing financial services for key industries of rural revitalization such as grain, seed, hogs, beef cattle, dairy and rural tourism. Furthermore, it bolstered credit policy support by designating specific credit policies for industries like seed, agriculture, forestry, animal husbandry, fishery and grain processing, and allocated more resources to key fields and vulnerable segments in agricultural and rural development to better meet the financial service needs in rural regions.

1 "Ten Core Programs" refer to the development of a digital rural credit system, "PSBC E Chain" industrial chain platform, marketing to the customers to which credit lines are proactively granted and that are on the white list, collaboration with China Post Group that benefits farmers, intensive operation and digital risk control, scenario building at county level, ecosystem layout of corporate business for rural revitalization, Sannong ecosystem building featuring collaboration with direct bank, Sannong finance data middle office, Brand building for Sannong finance.

Inclusive Finance

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

The Bank maintained the overall stability of existing assistance policies. It made sure that though poverty had been eliminated, all of the related responsibilities, policies, support, and oversight remained in place, ensured that its financial support policies remained unchanged and unreduced in intensity, and continued to offer preferential policies in resource allocation, approval management, pricing authorization and due diligence and liability exemption. The Bank increased financial support for areas that were lifted out of poverty. It strengthened communication and collaboration with local governments, diligently conducted businesses such as microcredits, guaranteed entrepreneurship loans for those who exited poverty, and assisted them in production and increasing income. It prioritized meeting the credit growth demands of key counties receiving government assistance for rural revitalization and made it a priority to establish new sub-branches in these key counties. The Bank's loan balance in areas that exited poverty (832 counties which exited poverty) totaled RMB468,674 million, an increase of RMB55,299 million over the prior year-end. The total loan balance in 160 key counties receiving government assistance for rural revitalization amounted to RMB53,637 million, an increase of RMB5,739 million from the prior year-end, with an annual growth rate of 11.98%, higher than the average growth rate of all loans of the Bank.

Actively Working to Ensure Stable Production and Supply of Gain and Other Major Agricultural Products

The Bank introduced innovative service models in light of local conditions. It collaborated with the Ministry of Agriculture and Rural Affairs to implement the special initiative "Crop Loan", and set up a "fast track" for spring farming and preparation, prioritizing credit allocation for these activities. Additionally, it actively provided loan renewal without principal repayment to qualified customers. The Bank issued the Financial Marketing Guidelines for High-standard Cropland Development and the Integrated Development Program for High-standard Cropland and Farmland, aiming to enhance the quality of cropland and overall grain production capacity. As at the end of the reporting period, the balance of loans to key grain sectors stood at RMB135,274 million, an increase of RMB39,856 million or 41.77% over the prior year-end.

Vigorously Supporting the Revitalization of Rural Industries

On the one hand, the Bank leveraged China Post Group's resources of integrated flows of business, goods, funds and information and focused on characteristic industries following the guidelines of "One Industry in One County and One Product from One Village". It actively adopted the "online plus digital" approach, promoted the "Industrial Loan", developed exclusive service plans for distinctive industries, and offered tailored loan products in terms of credit limit, interest rate, repayment method and collateral based on industry features. Customers could easily apply online by scanning industry-specific QR codes, which ensured a high level of adaptability, convenience and quick process. The Bank has developed exclusive business plans for over 300 distinctive industries and over 400 business districts, and established industrial chain cooperation with nearly 80 core enterprises. On the other hand, the Bank supported the integrated development of rural industries, capitalized on its differentiated advantages, provided comprehensive financial services for state-level modern agricultural industrial parks, industry clusters with advantageous characteristics and towns with strong agriculture or other industries.

Continuously Deepening the Development of the Rural Credit System

First, giving play to its network resources across urban and rural areas, the Bank actively developed creditworthy villages, rated creditworthy households, and made great efforts to develop loan products for creditworthy households. Second, the Bank actively conducted universal credit extension to rural households. It pressed ahead with the comprehensive development of creditworthy villages and visited creditworthy villages nationwide for universal credit extension. Focusing on small-sum credit extension for farmers, the Bank issued cards for villagers in batches, opened mobile banking accounts and provided comprehensive financial services including credit, wealth management, insurance, credit card, etc. Third, the Bank optimized and iterated the visual management platform for administrative villages. By introducing map services, the Bank kept abreast of the development of and service effectiveness for creditworthy villages, and promoted the further development of creditworthy villages with high quality. Fourth, the Bank further improved the customer manager team designated to villages. It formed an "iron triangle" management team consisting of customer relations managers, village-based customer managers and risk specialists, and ensured financial services within the villages and credit risk warning. As at the end of the reporting period, the Bank completed the development of approximately 380,000 creditworthy villages and rated over 10 million creditworthy households.

Continuously Promoting FinTech to Empower Rural Revitalization

The Bank strengthened technological empowerment and leveraged the leading role of FinTech in empowering rural revitalization demonstration projects. It continuously promoted the "Ten Core Programs" serving rural revitalization, accelerated the digital transformation of Sannong finance, and provided high-quality and efficient services for rural revitalization.

First, the Bank promoted proactive credit extension to "Sannong" customers. It utilized big data technologies to tap the existing rural customer base and generated a whitelist for proactive credit extension in batch. It built a direct customer management system at the Head Office, reached customers by short messages, pop-up windows, intelligent outbound calls, manual outbound calls and other means, and provided loan services to rural customers. As at the end of the reporting period, the balance of proactive credit loans for "Sannong" customers was RMB71,942 million, with a net increase of RMB54,636 million this year. Second, the Bank relied on technology to improve the quality and efficiency of online and offline services. Through mobile devices, the Bank realized the full digitalization of small loan operations where our staff can provide services at doorstep and process loan application, signing of agreements and loan disbursement onsite. As at the end of the reporting period, the number of small loans disbursed online accounted for more than 95% of the total. Third, the Bank gave full play to the leading role of technological empowerment demonstration projects. It actively promoted the realization of FinTech-empowered rural revitalization demonstration project organized by seven ministry-level organizations including the PBOC, and drove the implementation and roll-out of 25 demonstration projects.

Inclusive Finance

Reform Toward Intensive Operation System of "Sannong" Finance

The Bank advanced the reform of review and approval toward intensive operation, launched centralization of review and approval, continuously iterated and optimized the review and approval model, increased the automatic review and approval rate, and advanced the formation of a centralized, multi-layered factory-style review and approval system. In addition, the Bank accelerated the reform of the post-lending management system, optimized post-lending management rules and strategies, deepened the reform of centralized post-lending management, and expanded intelligent outbound calls and the use of mobile devices. It launched post-lending self-service by customers, further improved the quality and efficiency of post-lending management, and drove the development of a differentiated and centralized post-lending management system with coordination between the Head Office, branches and sub-branches.

Strengthening Risk Prevention and Control

The Bank strengthened proactive risk exposure and carried out analysis of risk profiles of non-performing customers and liabilities from other financial institutions. It extracted data from the risk early warning model, screened high-risk business, and pressed ahead with off-site risk investigation and on-site business inspection. The Bank strengthened the analysis of key institutions and products, and provided reminders of business authority and control over key institutions and products which newly incurred non-performing loans. It carried out special investigations, focusing on rectifying issues related to involvement of intermediaries and employees' ethical risks. It consistently implemented the "blacklist" management mechanism for its employees, transferred severe violators out of the micro loan business line, and purged the workforce. The Bank revised the rules for loan extension and reduced-amount refinancing and properly carried out risk resolution and disposal. As at the end of the reporting period, the NPL ratio of micro loans was 1.62%.

Vigorously Creating a Collaborative Service Ecosystem

First, the Bank strengthened collaboration with China Post Group. It integrated resources from various segments of China Post Group, and advanced cooperative projects that benefit farmers based on villages, cooperatives, farmers, agricultural enterprises and rural supermarkets[1]. It built models of collaboration between PSBC and China Post Group to serve rural revitalization, created a service ecosystem that benefits farmers, and provided rural customers with a comprehensive package of services including parcel delivery, e-commerce and financial support. Second, the Bank pressed ahead with its collaboration with the direct bank. It gave play to the role of YOU^{+} BANK and, by collaborating with its direct banking subsidiary and drawing upon each other's advantages, explored new models to support Sannong business with digital service. Third, the Bank deepened collaboration with external partners. It strengthened information sharing with and product offerings to governments, enterprises, associations, guarantee companies, insurance companies and other institutions, participated in the development of smart government service platforms in rural areas, and incorporated financial services into more agricultural and rural scenarios. The Bank took an active part in the "credit through train campaign for agribusiness" launched by the Ministry of Agriculture and Rural Affairs, and ramped up support for ordinary farmers, family farms and specialized large-scale farmers.

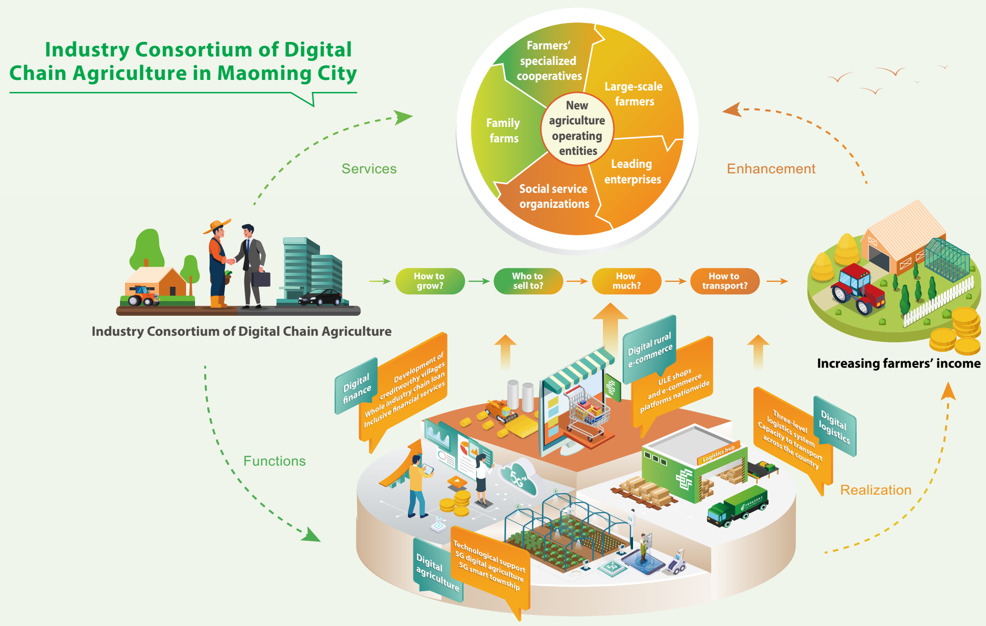
1 "Villages, cooperatives, farmers, agricultural enterprises and rural supermarkets" refer to administrative villages, farmers' cooperatives, family farms and large farming households, agro-related enterprises and rural supermarkets.

Column

PSBC-China Post Group Farmer-Benefiting Ecosystem Helps Solve "Difficulties in Three Aspects"

In China's litchi town Gaozhou City, Guangdong Province, litchi cultivation has a rich historical heritage and cultural background, characterized by distinct features and evident advantages. Leveraging the unique resources of integrated flows of business, goods, funds and information of China Post Group, PSBC Maoming Branch actively promoted the full litchi industry chain projects. It integrated the Maoming Digital Chain Agricultural Industry Consortium, conducted a series of financial services activities to facilitate litchi production and sales, and continuously increased financial supply. It focused on addressing challenges faced by the litchi industry chain in financing, sales and logistics, contributing to the nationwide popularity of Maoming litchi. First, PSBC Maoming Branch collaborated with the local branch of China Post Group to foster multi-party cooperation. It formed the Maoming Digital Chain Agricultural Industry Consortium in conjunction with eight core enterprises and research institutions such as the Maoming Branch of China Post Group and China Mobile Maoming Branch to accelerate the construction of agricultural and rural big data platforms. Through technological empowerment and product innovation, focusing on the needs of customers in the pre-production, production and post-production stages, the Consortium developed a litchi industry chain financing solution. This solution effectively met the market entities' loan demands in litchi breeding, cultivation, acquisition, processing and sales, providing robust financial support for litchi growers to increase production, expand output, and improve income and quality. Second, the Consortium integrated e-commerce resources to expand the reach of agricultural products. Relying on the ecosystem of China Post Group, Maoming Branch of China Post Group leveraged its e-commerce advantages, integrated live-streaming sales, enhanced the capacity for parcel collection, and expanded the reach of agricultural products. Third, the Consortium optimized the three-level logistics system. It reduced fees and accelerated cold chain logistics for litchi, driving the standardization and branding of Maoming's industry chain and enhancing the efficiency and level of circulation for litchi and other agricultural products. Fourth, the Consortium collaborated with multiple parties to improve communication infrastructure. It built and delivered the lychee big data platform, provided overall 5G smart township solutions, and assisted Maoming in taking the lead in Guangdong Province in building the province's first whole industrial chain big data platform for single agricultural products. This innovated and upgraded a series of lychee marketing and other industrial services.

The Digital Chain Agricultural Industry Consortium empowered the agricultural industry through digitalization, integrated inclusive finance, digital platforms, supply chains, technology and industry stakeholders. By seamlessly connecting the key links of production and sales, it addressed the crucial four questions faced by farmers: "how to grow, who to sell to, how much, and how to transport", providing a comprehensive "digital agriculture + digital e-commerce + digital logistics + digital finance" service model for the litchi industry. This model achieved a seamless agricultural solution from breeding to e-commerce sales, and created a demonstration example for the digital transformation of the litchi industry. It explored the development of a replicable and scalable cooperative development model, aiming to drive comprehensive income growth for farmers and promote the revitalization of rural industries. As at the end of the reporting period, the sales of litchi achieved with the assistance of China Post Group exceeded RMB100 million. The Bank cumulatively granted loans amounting to RMB594 million to the litchi industry in Maoming City, with a balance of RMB104 million.



Inclusive Finance

Microfinance

MSEs are source of vitality for China's economic development and an important force for improving people's livelihood and promoting innovation and entrepreneurship. Leveraging "5D (Digital)" systems of microfinance, the Bank continued to enhance the quantity, coverage and quality of micro financial services. It consistently strengthened its core professional capability of providing microfinance services, striving to be a supportive partner in the growth and expansion of MSEs. As at the end of the reporting period, its balance of inclusive loans to MSEs stood at RMB1.35 trillion, accounting for more than 17% of total loans to customers, readily ranking in the forefront of major state-owned banks. The number of customers with outstanding loans was 2,084.5 thousand, a net increase of 150.1 thousand over the prior year-end.

Expanding Channels to Broaden Outreach

Aiming to address MSEs' diversified needs regarding the use of systems, the Bank launched simplified H5 services. Leveraging corporate internet banking, corporate mobile banking and partner platforms, it established an integrated service system that combines online, remote and offline channels. The Bank maintained ongoing connections with external platforms to achieve bulk customer acquisition, established collaborative scenarios with core enterprises on industrial chains and explored data-driven approaches to proactive credit extension. Additionally, it incorporated intelligent services such as the Marketing Map and realized a digital customer acquisition model that features "outreach by systems + attraction by platforms + proactive credit extension".

Speeding Up by Innovation

The Bank continued to improve the new "5D (Digital)" system in terms of digital marketing, digital product, digital risk control, digital operation and digital service. It built application models represented by "A-B-C-D-I-X" digital technologies, utilized digital technology to enhance core competitiveness, and provided personalized, differentiated and customized products and services for MSEs.

"A" refers to artificial intelligence. The Bank utilized artificial intelligence technology to fully train massive data and business samples, launched automatic review and approval models and early warning models and made iterations, which promoted the rapid upgrade of Easy Small and Micro Loan. "B" refers to blockchain. By applying the underlying blockchain technology and developing four major subsystems, i.e. the WEB front-end, management platform, data integration and monitoring platform, the Bank built the blockchain architecture of basic systems, which realized projects across eight business scenarios, including bills, supply chain finance, digital government service and digital currency. "C" refers to cloud computing. By integrating external scenarios and migrating applications to the cloud, the Bank achieved robust and agile development of external scenarios; and by using technologies like cloud computing, it achieved efficient data processing. "D" refers to big data. The Bank accessed data from various sources including taxation, government procurement, customs and technology from across the country, established data interfaces with core enterprises and industrial internet platforms, shared credit information with nearly a hundred municipal government platforms, and continually introduced various innovative data products and services. "I" refers to for "IoT plus 5G". The Bank delved into utilizing IoT technology to facilitate real-time monitoring of the status, location and other information of collaterals, thereby enabling prompt risk alerts. "X" refers to cutting-edge technologies. The Bank applied technologies such as privacy computing and federated learning, collaborated with external partners to jointly build systems for marketing evaluation and risk tracking, and conducted customer data assessment.

Focusing on Cultivating Key Areas in Depth

The Bank promoted the deep integration of industry and finance. Focusing on the financing needs of upstream and downstream MSEs of core enterprises, the Bank utilized data from information flow, logistics flow and fund flow in industrial chain scenarios to conduct thorough analyses of the operational status of these MSEs. On this basis, it introduced products such as "Industrial E Loan" and "Platform E Loan", providing convenient online financing solutions for both upstream and downstream customers of core enterprises as well as customers in industrial clusters. The Bank realized interconnection with the system of Shanghai Commercial Paper Exchange for the pledging of commercial papers. It creatively introduced a fully online credit product of commercial paper pledge known as "Platform E Loan (a bill pledge project)", which encompasses a series of automated features such as "one-click pledging" of bills, online signing of contracts, automated payment reminder and automatic settlement and repayment upon maturity.

The Bank focused on fostering the technological innovation and development of MSEs, and rolled out technology industrial chain projects. Leveraging enterprises' patent data, it formulated industrial technology graphs. Aligned with the country's direction to encourage national strategic emerging sectors and sci-tech development, the Bank introduced ten technology industrial chains, including artificial intelligence, pharmaceuticals, 5G, intelligent manufacturing, etc. It offered an exclusive product "Sci-Tech Innovation E Loan" to enterprises on those chains. Moreover, it tailored rating models, developed precise customer portraits, and enhanced the full lifecycle product framework aimed at serving sci-tech enterprises.

Offering Specialized Services with a Human Touch

The Bank persisted in conducting relevant research on MSEs and continuously enhanced the professionalism of its financial services for MSEs. It provided insights and recommendations to facilitate the high-quality development of MSEs, serving both as a promoter for economic policies and a message-bearer to convey voices from MSEs. The Bank continued to publish the PSBC Small and Micro-sized Enterprise Operating Index, and tracked the performance and development of MSEs and self-employed individuals. In May 2023, the Bank, in collaboration with Renmin University of China and the China Center for Promotion of SME Development, successfully hosted the 4th Forum of MSE Development. With the theme "Enhancing Financial Services to Support High-Quality SME Development", the forum brought together experts from the government, banking, business and academia sectors, who engaged in discussions and exchanged ideas on popular topics, contributing their insights and solutions to bolster the development of SMEs through financial services.

Enhancing Precision by Intelligent Risk Control

The Bank continuously optimized its intelligent risk management system which integrates customer digital profiling, model-based rules, risk control strategies and automated early warning. It extensively introduced judicial, credit reporting and tax data to construct risk control models and strategies including automated approval model policies, post-lending early warning system and full-process intelligent risk monitoring, and maintained continual upgrade and iteration to improve the effectiveness of the intelligent risk control strategies. The Bank developed digital risk profiles for customers, integrated data of SMEs from both inside and outside the Bank, and displayed customer information through a standardized visual approach, assisting post-lending personnel in risk-related decision making.

Column

Fifteen Years of Dedication to Inclusive Finance, Forging Ahead with Innovation to Shape a New Future

The Bank actively carried out the mission of "delivering accessible financial services in both urban and rural areas". Through digital empowerment, intensive reform and collaboration with China Post Group, the Bank accelerated the improvement and upgrade of the construction of the rural credit system, and facilitated the comprehensive promotion of rural revitalization. It endeavored to accompany MSEs through their growth and expansion, served both as a promoter for economic policies and a message-bearer to convey voices from MSEs. After fifteen years of dedicated efforts, the Bank formed a working pattern led by the Strategy Planning Committee under the Board of Directors, coordinated with the Rural Revitalization and Inclusive Finance Management Committee, with the Inclusive Finance Department (SME Finance Department) and Sannong Finance Department (Rural Revitalization Finance Department) as the leading departments, and interconnected efforts across multiple departments. Having built a unique "Four-Three-Two-One" service model[1] and empowered by the "5D" digital service system, the Bank endeavored to create a new model of digital inclusive finance and continuously enhanced its core capabilities in inclusive financial services. It continuously deepened its expertise in the field of inclusive finance. In collaboration with the Economic Daily, the Bank has published the "Economic Daily – PSBC Small and Micro-sized Enterprise Operating Index" for over 8 consecutive years. It also organized four MSE Development Forums, contributing insights and recommendations to support the high-quality development of MSEs.

2008

"Forerunner" of Inclusive Finance

The Bank comprehensively promoted micro loans, deepened the inclusive finance field, and actively carried out exploration and practice.

2009

A Financial "Companion" for Enterprises

In 2009, the Bank initiated a pilot small enterprise loan program in Baoding, Hebei Province. PSBC Baoding Branch proactively organized customer managers to conduct market research and visit each enterprise within its jurisdiction. During the visits, the branch discovered that a cable manufacturing and sales company in Baoding needed financing. It immediately set up a task force, and based on the actual needs of the enterprise, devised a customized financing solution. In February 2010, the branch granted a credit line of RMB5 million to the enterprise. Over the past decade, the Bank has maintained a strong and cooperative relationship with the customer, and the products and services offered by the Bank were well-received by the enterprise. With the financial support offered by the Bank, the enterprise experienced significant growth, including the construction of new facilities and the upgrade of production equipment. In 2010, the enterprise realized sales revenue of around RMB47 million, which by now has surpassed RMB600 million. Its employee count also grew from over 50 to 180. The Bank has grown and progressed alongside the customer.

The old factory (on top) and new factory (on bottom) of a cable manufacturing and sales company in Baoding

1 Encompassing four systems of marketing, product, operation and risk control, three-pronged guarantee in terms of institution, mechanism and team, two key pillars of technology and culture, and the development of an ecosystem.

A Financial "Guardian" for Development of Distinctive Industries

In Qianshan, Anqing, Anhui Province, a distinctive brand in the snakegourd fruit industry was established. Mr. Cheng, the head of Anhui Snakegourd Fruit Food Development Co., Ltd., had been deeply involved in the industry for over 30 years. Focusing on snakegourd fruit, he took the lead in applying hybrid breeding to cultivate five high-yielding and high-quality seed varieties. Driving rural revitalization through technological innovation, he established a model of "leading enterprise + base + farmers", and created jobs for nearby farmers. The company has now become the largest producer and seller of snakegourd fruit in Qianshan. "From the initial few mu of land to the current over 5,000 mu, it couldn't have been possible without the support of PSBC," Mr. Cheng exclaimed. In 2013, when the company was in a period of rapid expansion, the Bank provided a small joint-guarantee loan, kicking off a close collaboration between the two sides. To date, the Bank has granted over RMB10 million in credit to the company. The Bank proactively supported the growth of local distinctive industries and directed financial resources precisely to various sectors and agricultural operations. Thus, the Bank forged a constructive synergy between distinctive industries and financial services, infusing dynamism into the rural rejuvenation efforts.

Customer managers visit a customer

2022

2013

2017

A Financial "Facilitator" for Innovative Development of Sci-tech Enterprises

A new material company in Dalian is a high-tech enterprise specializing in special molecular sieves, catalysts, non-molecular sieve catalysts, catalytic application processes and chemical technology services. PSBC Dalian Branch formulated a financial service plan for the company in 2017 and granted loans of over RMB8 million. During the company's rapid development, the Bank provided RMB and foreign currency loan support through "Listed Company Loan" and other products, successfully helping the company resolve financing difficulties and easing the pressure of project construction funding. Through "note butler", the Bank helped the company solve daily working capital turnover issues. In 2022, the company was listed on the SSE's Science and Technology Innovation Board. From the first contact with the company in 2017 to its listing, the Bank had always adhered to a customer-centric approach, assisted the customer in resolving concerns and difficulties at key points in its operations, and accompanied its growth.

An Innovative "Practitioner" of Green Inclusive Finance

In June 2022, China's first pilot program of carbon credit rating was launched in Ningbo. PSBC Ningbo Branch actively responded by applying the carbon credit rating standards formulated under the leadership of the Shanghai Environment and Energy Exchange, Fudan University, Tsinghua University and other institutions. It came up with the innovative concept of "green low-carbon plus inclusive finance", and leveraged the carbon credit rating system to provide targeted service tools for inclusive MSEs. An ecological environment technology company based in Zhejiang became the first company admitted into the Bank's carbon credit rating system. The Bank, in partnership with State Grid Ningbo Power Supply Company, conducted joint on-site inspections. Based on the carbon credit rating issued by the Shanghai Environment and Energy Exchange, the Bank provided efficient and convenient credit support to enterprises, and utilized financial resources to boost the low-carbon transformation of MSEs.

Customer managers visit a customer

Majority-Owned Subsidiaries

The Bank has three majority-owned subsidiaries, namely YOU+ BANK, PSBC Wealth Management and PSBC Consumer Finance. During the reporting period, in line with the overall strategy of PSBC, the majority-owned subsidiaries upheld the mission of serving the real economy, enhanced efficacy of corporate governance, advanced business transformation and upgrading, strengthened comprehensive risk control, and realized sound development momentum overall.

YOU+ BANK

YOU+ BANK was established on January 7, 2022, with a registered capital of RMB5.0 billion, in which the Bank holds a 100% stake. Its business scope is: absorbing deposits from the public, individuals and MSEs mainly; providing short, medium and long-term loans mainly to individuals and MSEs; domestic and foreign settlement through electronic channels; electronic bill acceptance and discount; issuing financial bonds; buying and selling government bonds and financial bonds; interbank lending; buying and selling foreign exchange by itself or as an agent; bank card business; agency collection and payment of funds and bancassurance; etc. As at the end of the reporting period, YOU+ BANK had total assets of RMB12,279 million and net assets of RMB4,663 million. During the reporting period, it realized operating income of RMB81 million and recorded a net loss of RMB175 million.

In the first half of 2023, YOU+ BANK proactively integrated into the national development strategy, focused on serving rural revitalization and the real economy, and continued to explore a new development pattern of digital inclusive finance. It strengthened Party leadership in improving its corporate governance, strengthened basic management capability, and continuously developed a professional workforce. By leveraging its shareholder's resource endowment and its own advantage of agility as a direct bank, YOU+ BANK deepened online and offline collaboration and promoted steady development of businesses. As at the end of the reporting period, YOU+ BANK had more than 12 million registered users accumulatively, and AUM of RMB18.8 billion and total loans of RMB7,113 million on a cumulative basis.

It followed the original aspiration of inclusive finance and improved the quality and efficiency of financial services. YOU+ BANK developed industrial finance, carried out digital supply chain finance business, supported consumer industries relating to clothing, food, housing and mobility, and explored services for green finance fields such as agriculture, green home appliances and new energy. As at the end of the reporting period, YOU+ BANK established business cooperation with 12 high-quality leading platforms. It enriched credit products and launched products like Loan for All Trades and Speedy Loan

for All Households to meet the financial demands of micro and small businesses (owners) and individual businesses as well as new urban residents such as farmers, flexibly employed personnel at county-level areas and self-employed individuals. YOU+ BANK served a total of 192.7 thousand micro and small customers by the Loan for All Trades, and 63.29% of customers with Speedy Loan for All Households were customers at county-level areas or in administrative regions below county level.

It focused on customer groups in lower-tier markets and built an open wealth management platform. YOU+ BANK included more than 100 selected wealth management products from 18 bank-owned wealth management subsidiaries, launched the flexible wealth management service "Change Purse", and developed a Wealth series of wealth management products including Daily Wealth, Weekly Wealth, Monthly Wealth and Quarterly Wealth to meet customers' differentiated needs for wealth management. It developed online operation capability and, centering around customers' full cycle of investment and wealth management, rolled out services such as product ranking and recommendation, wealth knowledge learning, wealth butler and membership level system, hence optimizing customer experience. As at the end of the reporting period, YOU+ BANK had deposits of more than RMB4.7 billion and AUM of RMB14.1 billion.

It explored scenario building and gradually put in place a customer acquisition and activation system. YOU+ BANK rolled out pilot scenario finance step by step, aiming to provide one-stop, standardized comprehensive services that integrate payment, smart marketing, digital scenarios, financing and wealth management to commerce and trade customer groups of China Post Group. It enriched digital rural services, and rolled out customized scenario-based financial services for procurement and trading of agricultural products and supervision of funds of poverty alleviation projects via the "YOU+ Villages" platform.

It strengthened IT support and explored management practices of risk compliance in digital finance. Adhering to IT empowerment, YOU+ BANK optimized input of IT resource and established the IT governance system and the "dual-line" agile R&D management system to empower business innovation. It launched a number of measures to optimize user experience on mobile banking and improved end-to-end product experience. It built middle-office capabilities with the intelligent routing taking shape. Meanwhile, it strictly controlled IT risk, ensured secure and stable operation of systems, and protected customers' financial information. It also refined the risk management mechanism, pushed for comprehensive risk management, improved the risk control strategy system, and enhanced management of credit extension. It connected to and used internal and external data in a prudent and compliant manner, realized fine-grained management of credit and anti-fraud strategies, and improved intelligent risk control capability. Moreover, YOU+ BANK strengthened internal control and compliance building, continued to improve the internal control system in line with the principles of check-and-balance and prudence, actively prevented compliance risk, kept enhancing money laundering risk control capability, and put in place regulatory requirements.

Majority-Owned Subsidiaries

PSBC Wealth Management

PSBC Wealth Management Co., Ltd. was established on December 18, 2019, with a registered capital of RMB8.0 billion, in which the Bank holds a 100% stake. Its business scope is: public issuance of wealth management products to the general public, investment and management of entrusted assets for investors; non-public issuance of wealth management products to eligible investors, investment and management of entrusted assets for investors; financial advisory and consulting services, etc. As at the end of the reporting period, PSBC Wealth Management had total assets of RMB12,565 million and net assets of RMB12,184 million. During the reporting period, it realized operating income of RMB739 million and recorded a net profit of RMB448 million.

The year 2023 is the second year of the all-round implementation of the new rules on asset management. As always, PSBC Wealth Management adhered to the business principles of "stabilizing growth, promoting reform, controlling risks, enhancing capability and pursuing high-quality development with high standards", continued to serve the people by creating wealth and value, and served the real economy by product upgrading. Achieving growth through transformation and leading development through reform and innovation, it opened new ground for standardized, specialized and market-oriented wealth management business.

PSBC Wealth Management closely followed the development trend of the industry and continuously enhanced its product competitiveness. First, its market ranking in terms of wealth management scale went up by one place. As at the end of the reporting period, its total scale of net-value products recorded RMB705,797 million and institutional wealth management products RMB77,038 million, both increments leading those of state-owned banks. The share of NAV-based products reached 93.80%. Second, the product mix was steadily improved. It accelerated the development of "Zhong You Hong" net-value products featuring "inclusion + wealth + pension", and further increased product diversity. It optimized the product structure, with "fixed income+" products accounting for 16.76%, products with a term of one year or above accounting for 24.94%, and ultra short-term cash alternatives with a term of less than one month accounting for 16.10%. The proportion of non-cash products also increased. Third, it provided more targeted services. It developed exclusive products for premium customer groups such as soldiers, payroll customers and teachers as well as regional exclusive products, created the effect of product brand, and supported pension finance. It was among the first institutions on the list of institutions to conduct personal pension business, and took the lead in launching three personal pension products. PSBC Wealth Management paid attention to green finance, with the balance of green bond investments accounting for 1.20%. It conducted the "April 22 World Earth Day" green finance-themed publicity,

which was reported as a feature story by the newspaper 21st Century. Fourth, it pursued stability with low volatility in terms of products. It set up a differentiated, competitive product track. Over 70% of its open-ended fixed-income products and more than 60% of its fixed income+ products ranked among top 50% of the industry in terms of yield. A number of pure fixed-income products, "fixed income+" products and cash management products were on lists of influential media including the list of 21st Century Business Herald and the list of Lianhe Zhiping. Fifth, the structure of personal customers became more balanced. The number of existing customers reached 6,343.6 thousand. More breakthroughs were made in third-party agency sales, as it cooperated with 12 third-party agents on different channels and the scale of agency sales exceeded RMB10 billion.

PSBC Wealth Management adhered to standardized operation and strengthened business capabilities. First, it deepened the comprehensive risk management system. It established the system of risk appetite and risk management policies that covers 14 types of risk and put in place an efficient mechanism of risk resolution. As a result, no non-performing assets were found in newly issued products. Second, its high-standard internal control system ranked at the forefront of the industry. It continued to optimize the compliance management framework and formed the operating mode of compliance management that covers the full process (ex ante, interim and ex post). It served as director of the Wealth Management Committee of the China Banking Association and was authorized by regulators to lead lawmaking and industry self-discipline research work in terms of wealth management business. Third, it conducted centralized trading across the board. Its scale of daily financing was RMB60-70 billion, and it ranked at the forefront among asset management institutions in terms of trading volume for the third straight year.

PSBC Wealth Management benchmarked and aligned itself with best practices, and achieved remarkable results in reform and innovation. With an industry-leading investment analysis system for mutual funds, it formed a specialized, standard investment analysis framework. Meanwhile, it continuously expanded the allocation capability circle of major asset categories and diversified its investment in different assets. As at the end of the reporting period, it had a total of more than 40,000 bonds, which involved more than 1,650 entities, and added 112 core stock pools. Second, the stable, efficient and intensive operation support system effectively empowered business development. In terms of operating model, it mainly invested in assets directly, while SPV investment in asset management products accounted for only 30%. It implemented transformation according to IFRS 9 Financial Instruments, the accounting rules of the Ministry of Finance for asset management products and specifications of regulatory data standardization. It was the first in the industry to realize penetrating management of SPV data, with its quality and efficiency of operation improved. Third, it advanced digital wealth management through IT empowerment. It developed the new business form of "digital wealth management" in all respects and accelerated the building of the "second curve of digitalization and intelligent development". It connected to 15 agency sales channels, realized grading capability of existing and continued products, and supported the development and launch of pension products. It also completed the development of a big data platform and a data portal, and actively realized empowerment through technology in expanding sales channels, stabilizing operating results and improving efficiency of investment analysis.

Majority-Owned Subsidiaries

PSBC Consumer Finance

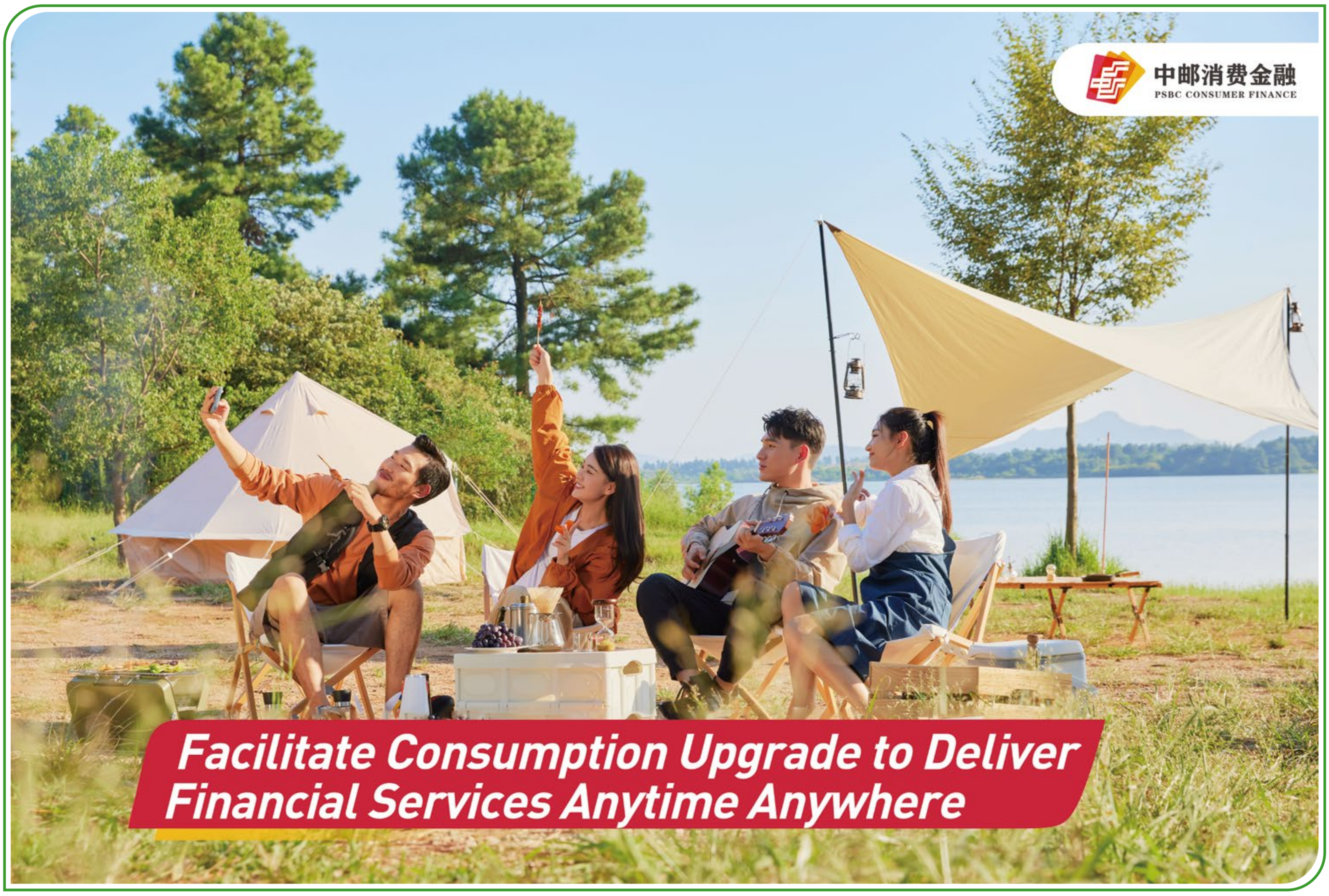
PSBC Consumer Finance Co., Ltd. was established on November 19, 2015, with a registered capital of RMB3.0 billion, in which the Bank holds a 70.50% stake. Its business scope is: granting personal consumer loans; accepting deposits from shareholders' domestic subsidiaries and domestic shareholders; borrowing from domestic financial institutions; issuing financial bonds upon approval; domestic interbank funding; advisory and agency services related to consumer finance; agency sales of insurance products related to consumer finance; investment in fixed income securities; asset securitization business; etc. As at the end of the reporting period, PSBC Consumer Finance had total assets of RMB53,316 million and net assets of RMB5,638 million. During the reporting period, it realized operating income of RMB3,294 million and recorded a net profit of RMB250 million.

Actively fulfilling its social responsibilities. PSBC Consumer Finance earnestly implemented the Administrative Measures for Consumer Protection of Banking and Insurance Institutions, continued to strengthen the development of the consumer protection mechanism, practiced in depth the customer-centric development philosophy, and kept refining consumer protection work. In the first half of 2023, PSBC Consumer Finance strengthened complaint review and risk warning and optimized 64 working procedures. It improved consumer protection review management capability and conducted 827 consumer protection reviews, which provided strong support to optimization of business process as well as marketing and promotion. It intensified efforts in training and education, and organized three centralized consumer protection education campaigns to enhance consumers' awareness of risk prevention and improve their financial literacy. The campaigns reached 1.10 million person-times. In cooperation with public security bureaus, procuratorates and courts such as Guangzhou Municipal Public Security Bureau, it posted the online promotional video titled "Anti-fraud Dictionary" to strengthen anti-fraud education among consumers. In cooperation with Guangzhou Urban Administration and Comprehensive Enforcement Bureau, it held a green, low-carbon offline secondhand goods fair with the theme of "Live More Sustainably" to spread the green development concept and build a responsible financial brand image. In cooperation with Guangzhou Anti-fraud Center, it carried out the offline telecom fraud prevention activity themed "Protect Your Wallet" to carry out anti-fraud campaigns and disseminate financial knowledge.

Continuously promoting business transformation. PSBC Consumer Finance adjusted its risk strategies and market strategies from time to time to cope with market changes. First, it further adjusted the structure of channels to expand directly-operated business. Through integration of online and offline channels, it forcefully advanced the implementation of the two-wheel-driven integrated development strategy, which became one of its core competitive edges. Second, it continued to expand high-value customer groups. PSBC Consumer Finance concentrated its resources to develop high-value customer groups, and adopted the model of "scenarios plus data" to expand business and ensure the efficiency and quality of business development. Third, it promoted steady reduction on interest rates. In the first half of 2023, comprehensive loan prices went down by 69 bps on a cumulative basis, which continued to benefit consumers and further promoted the inclusive finance concept.

Continuously improving the risk management system. PSBC Consumer Finance constantly optimized risk policies based on market changes, strengthened risk operation, solidified the three lines of defense, and empowered high-quality business development. First, it optimized risk policies. In the first half of 2023, it developed several application scoring models for ad traffic customer groups of the PSBC Wallet app to strengthen risk quantification management. It added the second-generation PBOC credit information variables to improve the effectiveness of risk models. Second, it strengthened anti-fraud management. It continued to strengthen the anti-fraud prevention and control system with technologies such as big data, AI and modeling algorithm, and improved the capability to identify fraud risk scenarios such as identity forgery, account takeover and telecom fraud. Third, it improved effectiveness of loan collection. It enriched dimensions of post-lending data, refined models and customer tags, and added collection models. It pushed for intelligent collection, enabled robots to decide on collection wording, action and outbound call strategy based on historical collection results, and applied robots in scenarios like complaint and judicial conciliation. In the first half of 2023, its asset quality further improved.

Promoting digital transformation in depth. In the course of comprehensive digital transformation, PSBC Consumer Finance, upholding the customer-centric philosophy, reshaped the end-to-end customer journey and business process with digital means to create first-rate user experience. First, it empowered front-end business. It upgraded channels and platforms to support standardized cooperation with traffic attraction channels and platforms, and provided fine-grained, personalized full-process consumer finance services of high quality. Second, it promoted data-driven development and gave full play to the value of data. It upgraded basic big data platforms, strengthened the foundation of data, achieved real-time data collection and update, and empowered marketing, customer acquisition, risk management, customer service and post-lending asset preservation. Third, it strengthened information security management to ensure the stable operation of the system. It obtained the ISO27001 certification of Information Security Management System (ISMS), improved information security control capability, and achieved the goal of "zero incident" of network security. It built a digital operation and maintenance system, continued to improve the automation of operation and maintenance, and ensured business continuity.

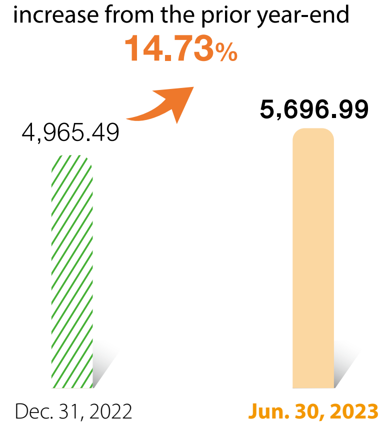


Environmental and Social Responsibilities

Green Finance

Balance of green loans

(in RMB100 million)



The Bank fully implemented Xi Jinping Thought on Ecological Civilization and the guiding principles of the 20th CPC National Congress, earnestly practiced the concept that "lucid waters and lush mountains are invaluable assets", strictly acted on national policies and regulatory requirements, and endorsed the United Nations' Sustainable Development Goals (SDGs) for 2030 and the Paris Climate Agreement, to vigorously develop sustainable finance, green finance and climate finance and support biodiversity preservation. As at the end of the reporting period, the balance of green loans amounted to RMB569,699 million, representing an increase of 14.73% from the end of the previous year. In March 2023, in order to align with major initiatives recognized internationally, the Bank adopted the Sustainable Blue Economy Finance principles of the UN, becoming the first large state-owned commercial bank in China to do so.

Strengthening top-level design. The Board of Directors, the Social Responsibility and Consumer Protection Committee under the Board of Directors, the Board of Supervisors, the green finance steering group for carbon peaking and carbon neutrality, and the green finance taskforce on carbon peaking and carbon neutrality held regular meetings to discuss and arrange work such as the building of a green bank, management of ESG risks, and environmental information disclosure (TCFD) report, in a bid to realize the goal of carbon peaking and carbon neutrality in an active and steady way. A total of 25 green finance institutions were set up, including carbon-neutral sub-branches, green sub-branches and green financial centers to help local economies in their green and low-carbon transformation. The heads of 36 tier-1 branches and majority-owned subsidiaries were organized to sign the Responsibility Statement on Ecological and Environmental Protection in 2023. With these steps, the Bank fulfilled the political and social responsibilities as a major state-owned bank.

Optimizing policies and rules. The Bank kept optimizing related policies and rules to put in place a sound green banking management mechanism. It refined the credit policies for the year 2023, and issued separate guidelines on credit policy for green finance and climate finance, which specified the key sectors of support for green finance and climate finance. It actively explored transition finance and supported low-carbon transition and just transition. The Bank implemented the strategy for green finance on all fronts and built a green bank with innovative measures. It distributed the Key Points of Green Finance Work Related to Achieving Carbon Peaking and Carbon Neutrality in 2023, specified the goals and key tasks of the year, and made great strides in building a green and inclusive bank, climate-friendly bank and eco-friendly bank.

Improving resource allocation. The Bank continued to improve the incentive and restraint mechanism, channeled more resources to key fields related to green finance such as low-carbon transportation, renewable energy, clean energy, green buildings, energy conservation and environmental protection with measured taken in performance appraisal, credit scale, fund transfer pricing, economic capital measurement, etc. The Bank provided preferential interest rates and cut of percentage points in FTP for projects with significant emissions reduction. It opened up a fast track for review and approval, increased the support for parallel operations, and supported the development of green finance business.

Rolling out innovative financial products and services. Adhering to its strategic positioning and giving play to its advantages in fund and network, the Bank launched green finance products in key fields of pollution prevention and control, energy conservation and environmental protection and eco-agriculture, which included micro loan for PV power generation equipment, small hydropower loan, pollutant discharge loan, garbage charging right-pledged loan, future income right-pledged loan for contracted energy management projects, Speedy Loan and Easy Small and Micro Loan. In practice, the Bank secured a number of sustainability-linked financial businesses, launched a new product Green G Discount, publicly issued a 3-year green financial bond (tranche 1) with a scale of RMB5.0 billion in the national interbank bond market, and provided carbon accounting services for corporate customers. As at the end of the reporting period, it completed carbon accounting for a total of 2,920 enterprises.

Strengthening the management of environmental and climate risks. The Bank utilized the "Jinjing" (Golden Eye) credit risk monitoring system to strengthen technology empowerment, accelerated its digital transformation, actively explored the integration of risk management and green finance, and achieved coordinated development between financial technology and green finance. The Bank formulated and issued the environmental, social and governance (ESG) risk management measures, and incorporated ESG management requirements into management processes and the comprehensive risk management system. It utilized artificial intelligence (AI), learned various statistical standards through machine technologies, and established intelligent identification engines for green development. Besides, the Bank leveraged technological means to achieve dynamic monitoring and precise calculation of environmental benefits. The "Digital Transformation Enabling the Development of Green Finance" project of the Bank was named one of the "Model Cases of Digital Transformation of Listed Companies in 2023".

Strengthening information disclosure. On May 31, 2023, the Bank released its first environmental information disclosure (TCFD) report, which comprehensively demonstrated its practices and results achieved in earnestly implementing the decisions and plans of the CPC Central Committee and the State Council as well as the requirements of the regulatory authorities, vigorously developing sustainability finance, green finance and climate finance, actively exploring transition finance and just transition, supporting biodiversity conservation, and endeavoring to build a first-tier green and inclusive bank, climate-friendly bank and eco-friendly bank.

Green Operation

Focusing on high-quality development and strengthening basic management. Taking into account its operation and development in recent years, the Bank gradually optimized its policies on system development, data collection, performance appraisal, green office, green procurement, etc., made progress in building an energy management system, and achieved the objectives concerning the building of a green bank. It upheld the concept of green development in daily operations, and made full use of videoconferencing, teleconferencing, paperless office system and other electronic means to minimize paper consumption in office. Additionally, the Bank implemented the administrative requirements for green office to further save electricity and water, and guided employees to regulate their behavior in using energy and resources. It conducted green procurement, and required suppliers to sign and fulfill the Agreement on Energy Conservation, Emission Reduction and Green and Eco-friendly Development on an on-going basis, persistently prompted suppliers to jointly fulfill social and environmental responsibilities.

Developing low-carbon and energy-saving buildings and upgrading infrastructure for environmental protection. During the implementation of infrastructure projects, the Bank reduced energy consumption in buildings through measures such as architectural composition, spatial processing and rational design in the thermal performance of building envelopes according to local conditions. It strictly followed the requirements of local governments on green buildings in completed projects of business buildings renovation in Zhejiang Branch, Jinzhong Branch in Shanxi Province and Dongguan Branch in Guangdong Province. It complied with the Energy Saving Design Standards for Public Buildings, the Green Building Evaluation Standards (GB/T50378-2019), and the Implementation Plan of Actions for Green Buildings of Dongguan City in the design and construction. The Bank complied with the two-star green building standards in the office building of the Hefei Base Management Center, which is equipped with a solar photovoltaic power generation system. 60,000 kWh of electricity were generated in the first half of 2023, covering 100% of the energy use in the Base. This move improved economic benefits for the Base, while contributing to energy conservation and emission reduction. The Hefei Data Center adopted a green and efficient water cooling system, and built an AI energy efficiency management platform for refrigeration system. After obtaining hundreds of millions of operation data of the cooling system from nearly 1,000 data collection points for electric power monitoring, power environment monitoring and self-control of cooling sources, a data-driven model was built by using the gradient enhancement algorithm to fit the historical operation data to accurately control the water temperature, pump frequency, fan frequency, etc. during the operation. In this way, the overall energy consumption of the cooling system was brought under optimal control. Thanks to the continuously optimized operation and maintenance and the application of the AI-enabled energy efficiency management system, in the past three years, the Base has reduced its power usage effectiveness (PUE) by nearly 3%, and saved about RMB1.07 million in electricity costs on average each year, thus helping to achieve carbon peaking and carbon neutrality goals.

Column

Developing Demonstration Outlets of Green Sub-branches and Acting on Green Development Concept

As per the requirements of the country's carbon peaking and carbon neutrality goals and the concept of green development, the Bank formulated the Assessment Standards of Demonstration Outlets of Green Sub-branches (Trial) to develop green sub-branches. While assessing the scale of green credit business, it also listed a series of requirements for low-carbon operation such as working mechanism, green building, comprehensive energy consumption per unit of output value, energy efficiency standards, green office and energy-saving publicity as assessment indicators. PSBC inaugurated the first 25 demonstration outlets of green sub-branches in the first half of the year, marking that its efforts in building green sub-branches achieved initial results and setting an example for the development of green finance business, energy saving and emission reduction, and low-carbon operation.

In practice, tier-1 branches of the Bank selected pilot sub-branches to align them with the implementation rules, focusing on continuous support and follow-up. Demonstration outlets provided green finance lectures in the form of micro-salons and micro-courses, prompted employees to establish the concept of green development, vigorously developed green and low-carbon modes of service, improved the cost control system by aligning with advanced standards, and assigned green development, energy conservation and consumption reduction tasks to every employee in all positions. At the same time, they reduced waste in accordance with the recycling requirements to strike a balance between revenue increase and cost reduction. They pasted energy saving and emission reduction posters, set up a green finance corner, and placed table signs of energy conservation and emission reduction and green finance in business halls, to disseminate knowledge of green finance. They set up caring service counters and PSBC love station for customers to take a rest, and set up renewable resources recycling points. All of these steps helped outlets generate greater social benefits.

Care for Employees

The Bank attached great importance to employee care, always stayed employee-centered, continued to improve the quality of life and maintain physical and mental health of employees, and helped solve the pressing difficulties and problems that concern them most. As a consequence, the sense of happiness, fulfillment and security of employees was raised continuously.

Creating a Diverse Family Culture

The Bank continued to develop the employee service system. Staff homes were built as the most frontline and direct stronghold for employee care. Steps were adopted to improve the quality and enriched functions of staff homes. The Bank encouraged outlets to set up employee growth and care centers through means such as continuously introducing care services internally, building mommy rooms, staff canteens and staff dormitories, thus creating a multi-functional and diversified family culture for employees.

Taking Care of Employees’ Physical and Mental Health

Shaping the Mindset for a Positive Outlook

As an advocate of the healthy work and life philosophy, the Bank aimed to “develop the awareness of mental health and career adaptability among employees in a harmonious atmosphere”. From four dimensions of mechanism formation, team building, stronghold construction and demonstration site building, the Bank created mental health centers and teams of mental health professionals, carried out pilot programs to play a guiding and exemplary role, opened a mental health hotline with the help of professionals, and organized various mental care activities for frontline employees such as mental health lectures and psychological counseling. All of these efforts encouraged and helped employees to shape a positive mindset.

Creating heart-warming staff homes by Zhejiang Branch

Investing in Physical Fitness of Employees

The Bank attached great importance to the improvement of employees' physical fitness. To meet the ever-growing needs for diversified sports events, it organized a variety of sports activities for employees to enhance their fitness awareness and activate their sports life, thus injecting vitality into the corporate development. In addition to badminton and air volleyball competitions, the Bank also organized a number of sports events with local features such as dragon boat races and basketball matches. Staff were expected to enhance their all-around fitness through physical exercises.

Culture Building

The Bank advocated a culture of innovation, actively promoted innovative experiences and practices, practiced the concept of green development, encouraged employees to foster stronger family ties, values and traditions, organized a host of themed activities, including the female workers' commendation ceremony/advanced and innovative case seminar themed "Innovation with She-power", the voluntary tree planting campaign themed "One Tree, Greener World", the open day for families themed "Let Children Shine Their Light and Make the Good Things Happen" and the campaign themed "Carry forward Good Family Values and Family Tradition", in a bid to create a positive corporate culture that would advocate creativity and innovation.

Consumer Protection

Adhering to people-centered development philosophy, the Bank incorporated consumer protection into its corporate governance, corporate culture building and business development strategies, continued to improve the whole-process consumer protection that involves prevention, case management and control and supervision, and fulfilled the main responsibility for protecting consumer rights and interests substantially.

During the reporting period, the Bank complied with the laws and regulations such as the Personal Information Protection Law and the Administrative Measures for Consumer Protection in Banks and Insurance Institutions, revised the policy on the protection of consumers' personal information, and improved the consumer protection system. As per the principle of "prevention first", it conducted in-depth and detailed review of consumer protection, where the policies, rules, business rules, fee prices, terms and conditions of agreements, and publicity texts that may affect consumers' rights and interests were checked and assessed so as to bring forward the timing of risk control. It optimized the complaint management mechanism, stepped up the complaint monitoring and alert efforts, and promptly identified potential problems of products and services, in a bid to continuously improve the quality of products and services. It carried out special governance measures against major issues and key areas, to consolidate the foundation of related work and bolster up weak links. With all of these steps, the Bank endeavored to enhance the capabilities of consumer protection.

Column

Exploring New Financial Literacy Activities for Consumers to Provide Financial Services with a Human Touch

The Bank was actively involved in disseminating financial knowledge. According to the annual work plan for awareness enhancement, in addition to participating in the education and publicity activities organized by regulatory authorities and industry associations, it planned to carry out a total of 29 independent publicity activities in 2023, including the dissemination of insurance knowledge, the knowledge on the safe use of bank cards, and the loan knowledge in schools. During the reporting period, the Bank carried out promotional activities such as the March 15 Consumer Protection Awareness Week and the Journey for Financial Knowledge campaign, to popularize various types of basic financial knowledge while taking into account what consumers really needed, further enhance consumers' understanding of financial products and services, and help create a harmonious and stable financial consumption environment.

All branches continued to increase the input of resources and innovate education and publicity forms to enhance financial literacy and safety awareness among consumers. For example, Chongqing Branch launched the "Explore Better Life" Consumer Protection Bazaar activity with the theme of "Conduct Consumer Protection with Human Touch" to provide considerate services for consumers. Beijing Branch pioneered the city's first "Financial Consumer Promotion Caravan" project to provide consumers in urban and rural areas with a popular and entertaining way to learn about financial products and services. Fujian Branch partnered with Fujian Daily to open an integrated media column in the New Fujian APP, where reports in the form of comics such as Consumer Protection Classroom were launched to offer a user-friendly introduction to financial knowledge and key points of financial risk prevention, helping consumers establish a correct concept of financial consumption.

Capability Building

Embrace Change and Keep Innovating
——Theme song for publicity of PSBC's culture of innovation

Financial Technology

- Won Excellent Scientific and Technological Results of China International Big Data Industry Expo 2023
- Obtained Data Management Capability Maturity Model Quantitative Management Level Certificate
- Built the unified, large-scale, integrated and evolvable PSBC financial cloud platform

In its IT work, the Bank focused on the "5 plus 1" strategic path and the development requirements of capabilities in six aspects, followed the 14th Five-Year IT Plan as the guidance, implemented in depth the technological finance strategy and technology-driven capability building, and put forth efforts to build a first-rate technology support system and empower high-quality development of the Bank.

FinTech Development

IT Team Building

The Bank continued regular recruitment, intensified introduction of talents in key areas such as R&D, testing and data analysis, deepened cooperation with universities and enterprises, and further optimized the IT team structure. It strengthened team capability building and steadily pushed for Phase II "performance improvement" of IT human resources. It enhanced differentiated performance-based salary allocation, strengthened the multi-level and multi-channel IT talent training system, and developed the training programs for leaders, backbone workers and elites at branches. Meanwhile, it intensified the promotion and application of research results of the leading talents at the Head Office and further strengthened the role of three-tiered talent team that comprises "youth, backbone and leader" in supporting FinTech development.

Column

Empowering Business Innovation and Exploring New Differentiated Competitive Edges through IT

The Bank took exploring innovative models for business and technology integration, creating the new service concept of customer service engineers based on its six major capabilities and using front-end technology support to empower business innovation and expansion in lower-tier cities as key measures in deepening the development of the new "1 plus N" operation and service system and building differentiated competitiveness of the Bank.

Integrating Business and Technology to Build a Wholly New Ecosystem

The Bank built a new FinTech ecosystem by organizing a customer service engineer team with nearly 150 IT personnel. Customer service engineers were dispatched to frontline business positions to conduct face-to-face marketing, empower business through technology, and improve the quality and efficiency of services. Customer service engineers focused on the most pressing difficulties and problems that are of great concern to Sannong customers and SMEs, perceived their requirements and applied targeted policies. As at the end of the reporting period, the first group of customer service engineers came to their positions successively and formed a working group for business and technology integration with business personnel of the Head Office and branches. Under the innovative model for cooperation between the Head Office and branches and business and technology integration, the Bank provided more than 50 exclusive financial services to key customers nationwide, made more than 100 visits to customers through collaboration between business and technology, empowered key business segments including corporate banking, transaction banking, credit business and smart government affairs, promoted the execution of eight key characteristic projects including trade finance and payment and settlement. The technology empowerment produced remarkable results. Through the practice of the innovative service model of customer service engineers, the Bank gave full play to the role of technology in boosting businesses and reached a new height in integrating business and technology.

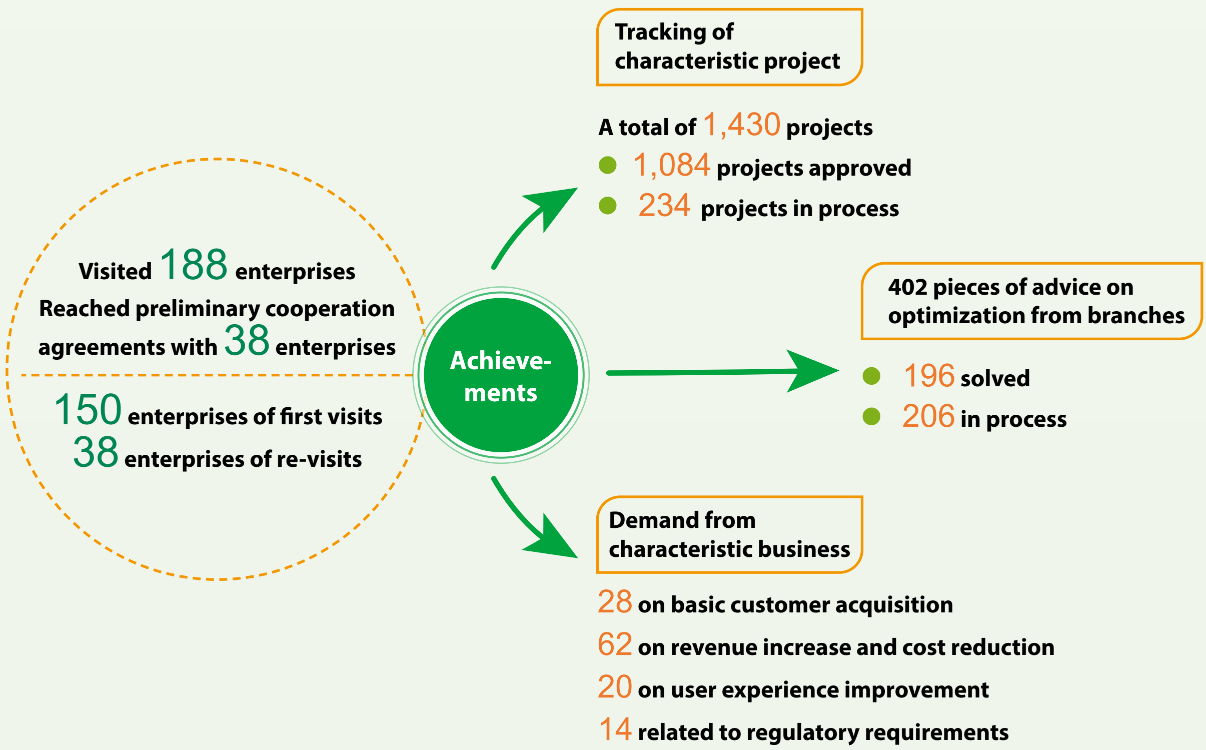
Focusing on Characteristic Demands to Create Ultimate Experience

Customer service engineers went to the frontline and conducted face-to-face marketing. While efficiently responding to customers' exclusive financial service demands, they, together with business personnel, conducted market surveys, developed marketing plans, compiled product requirements, etc., to clear the "blockages" in IT application at branches and solve the "pain points" in real business requirements. On the one hand, they made surveys centering around personalized, differentiated and characteristic project demands, analyzed in depth frontline characteristic products and business demands with a keen IT perspective and professional technology capability, produced highly professional and targeted solutions and analyzed their business value so as to explore the feasibility of nationwide application. On the other hand, by dispatching customer service engineers to frontline positions, the Bank created a fast, accurate and convenient feedback channel from branches to the Head Office, from frontline to back office and from business end to IT end. With customer service engineers as the vanguard, the Bank built a communication bridge between business and IT personnel at the Head Office and branches and between the Bank and customers, effectively empowering business development at branches and upgrading the Bank's business from "smart finance" to "unconscious finance", hence creating ultimate customer experience.

Financial Technology

Cultivating Interdisciplinary Talents to Lead Business Innovation

Through the innovative service model of customer service engineers, the Bank cultivated a group of interdisciplinary talents who are proficient at IT and understand business. They can not only solve actual financial problems for customers in business areas but also provide expert solutions at the technology level. The Bank achieved sound momentum in which technology empowerment leads business innovation and development. First, based on the corporate banking business that customer service engineers carried out at primary-level institutions, the Bank organized activities like special training and communication forums for customer service engineers at branches to sum up and promote experiences, avoid problems and learn lessons, and continue to improve their professionalism in business and technology as well as comprehensive capabilities, hence building a team of professional, practical and innovative customer service engineers. Second, the Bank established the cultivation and support mechanism for the customer service engineer team. By referring to successful management experiences and methods, it provided more comprehensive and effective support for individual development and team building, gradually refined team management process, mechanism and methods, and built the innovative service model of customer service engineers into a powerful tool to promote the integration of business and technology and high-quality leapfrog development of the Bank.



IT Development

With a focus on 100 projects including "new core plus ten programs", the Bank accelerated the development of enterprise-level middle offices, and continued to deepen capability building of the technology middle office and the data middle office to boost Bank-wide digital transformation and business innovation and development. During the reporting period, 197 IT projects were put into operation, which further cemented the IT support foundation and enhanced technology empowerment in all respects.

Column

Pursuing a Better Life through IT Empowerment

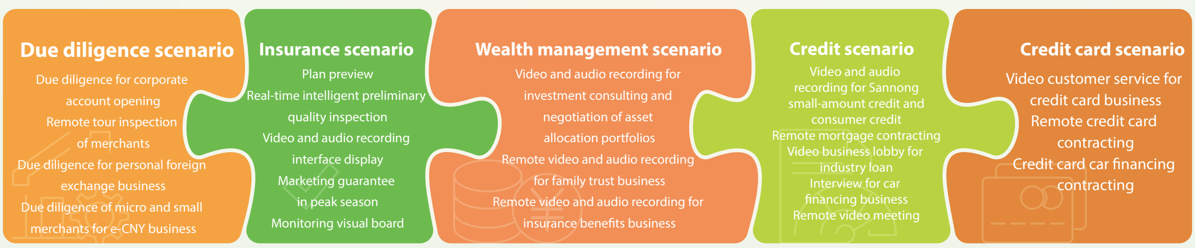
Delivering Financial Services by Your Side

The Bank was the first to build enterprise-level remote service capability. By establishing the remote service center system and creatively rebuilding the financial business handling process with AI technology, the Bank provided customers with brand new online service experience that is around the clock, interactive and has a human touch. It was the only bank to win Excellent Scientific and Technological Results of China International Big Data Industry Expo 2023.

Since it was put into operation in 2022, the remote service center system of the Bank has successfully launched various scenarios including remote video and audio recording for insurance business, remote contract signing for credit business, video customer service for credit card business and remote investment consulting service for wealth business, fully empowering all banking business segments.

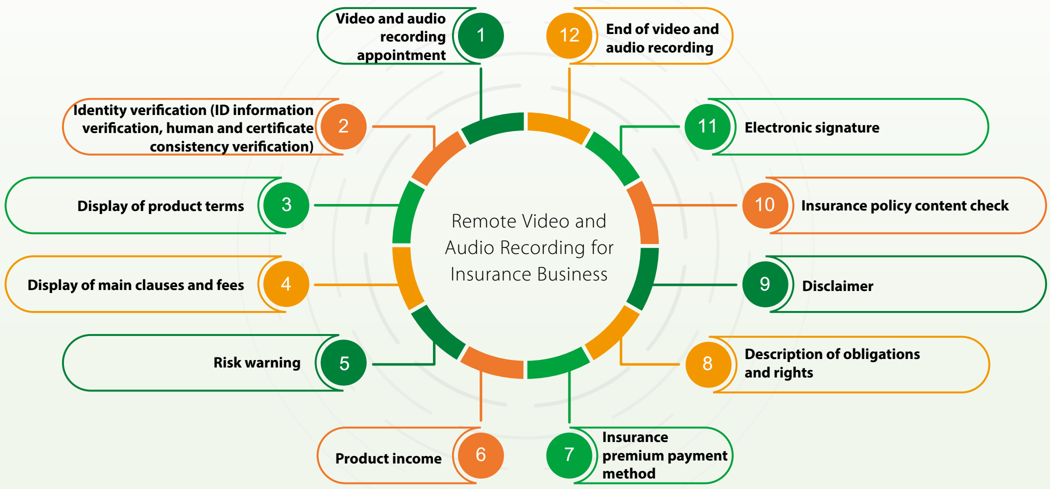
The Bank's remote service capability has high technology density as it involves new technologies in various areas including video and audio stream processing, intelligent speech synthesis and recognition, intelligent video face recognition and cloud container deployment. The automatic broadcast function significantly improved product broadcast efficiency and effectively avoided manual reading errors. The credible handling process with evidence taken throughout the full process, combined with customers' electronic signatures, ensured unity of human and material evidence, face consistency and compliant handling. Metaverse multimedia functions such as screen sharing and push and skeuomorphic design improved customer experience and provided innovative marketing models. Meanwhile, microservice containers can support dynamic expansion of resources, and multi-center concurrent routes of videos can reach over 10 thousand at the highest, which can effectively support the Bank's marketing campaigns during peak season. Based on a number of AI technologies including computer vision, intelligent speech and biometric identification, the Bank became the first to build a full-channel intelligent video quality inspection system, which had an accuracy of over 90%, improved quality inspection efficiency by five times and reduced human cost for quality inspection by 75%. Meanwhile, the system can provide intelligent, visual quality inspection reports and precisely identify problems, thus helping optimize business handling process.

Five Business Scenarios Covered by the Remote Service Center



The remote service center met customers' new requirement of enjoying the Bank's "face-to-face, interactive" digital online financial services with a human touch without going to outlets, expanded the scope of services for customer groups like rural residents and elderly people, and earnestly practiced the Bank's responsibilities and missions of serving the people and acting as a large state-owned bank. As at the end of the reporting period, the remote service center covered more than 30 thousand outlets and more than 50 thousand customer managers nationwide, served a total of nearly one million customers, and video-recorded more than one million transactions. Remote videos became an important new service counter that connects the Bank and customers, brought the service of the Bank in front of residents, and created a customer experience where "all kinds of services can be accessed with a tap on user terminals".

Financial Technology



Reaching the "Last Mile" in Sannong Financial Service Delivery

The Bank built the "Smart Rubber Platform" of Hainan based on regional characteristics and developed the new service model of "platform + farmer households + technology + finance" based on the technology capabilities output by the open service platform such as API and H5. The "Smart Rubber Platform", which combined financial services such as account service and payment and settlement with technology services such as in face liveness detection and online verification, greatly improved rubber transaction efficiency for rubber farmers and effectively improved its digital service capability for the rubber ecosystem. Since its launch, more than 28 thousand rubber farmers and merchants were registered at the platform, with an average monthly transaction amount of about RMB50 million. It realized online operation of financial services throughout the full process, truly turning "counter services" to "doorstep services".

Enhanced Independence and Controllability

The Bank continued to enhance independence and controllability and completed independent R&D of 142 systems including the customer information platform and the outlet video surveillance security centralization system 2.0. It intensified technology capability output, built middle office and service capabilities, and provided rich reusable components, which laid a strong technological foundation for R&D and operation of business systems, agilely responded to business requirements, and realized rapid innovation in products and services. As at the end of the reporting period, more than 200 projects were connected to the DevOps (integrated development, operation and maintenance) platform, and both the quality and the efficiency of system development were improved.

The Bank conducted process improvement based on the CMMI (Capability Maturity Model Integration) Level 4 certification, stepped up efforts in measurement and efficiency management, established ten base lines and three models including progress, quality, cost, etc., forecasted abnormal risks in the R&D process and identified root causes, and realized quantitative management and control. Through process optimization, it improved R&D efficiency and the flexibility of agile R&D. Based on the TMMi (Test Maturity Model Integration) Level 4 certification, the Bank established and implemented the test measurement system, promoted standardization and normalization of the testing process through the intelligent testing "Star Platform", improved testing management capability in a targeted manner, and realized high-quality product delivery.

The Bank continued to develop the unified monitoring system, strengthened network monitoring capability, deepened value mining of operation and maintenance data and scenario-based services, discovered system operation problems faster and more accurately, strengthened operation and maintenance support to branches, and provided higher-quality services to customers. The roles of operation and maintenance as a "telescope" and "microscope" were clearly enhanced. Meanwhile, the Bank continued to push for the development of the integrated operation and maintenance platform, made the operation and maintenance process more standard, automated and intelligent, and further consolidated the three-in-one operation and maintenance system that integrated monitoring, management and control.

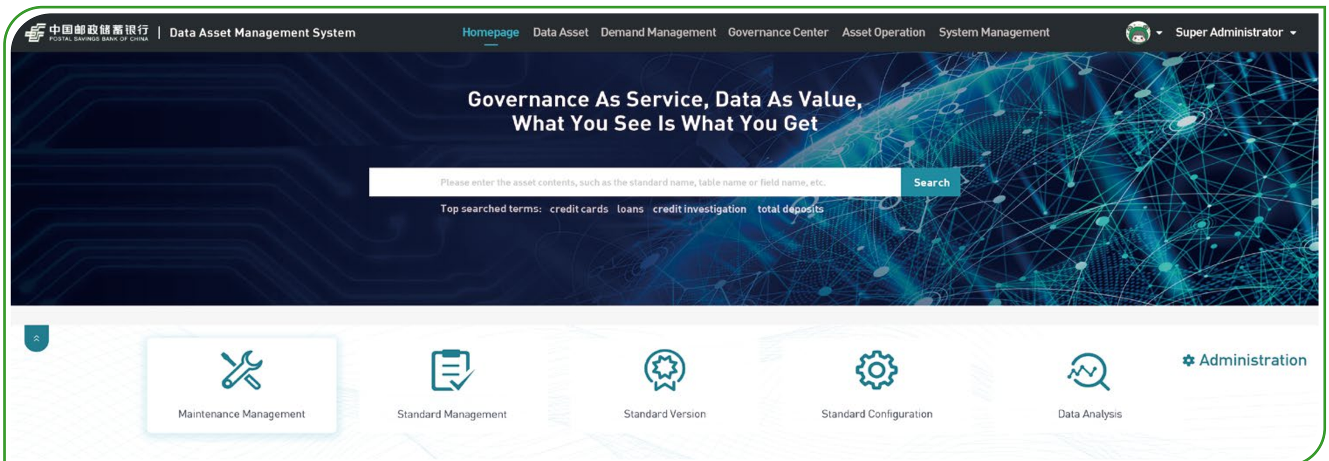
Enhancing Data Capability

The Bank continued to revise the Five-Year Development Plan of Big Data, focused more on business penetration, digital and intelligent decision-making and circulation empowerment, gave full play to the driving role of data as a factor, and supported the digital transformation of the Bank.

The Bank continued to deepen data asset management. On the system level, it further strengthened the development of the data asset management platform, released more than 1.05 million data assets, established rapid channels for data users across the Bank to query and use data, and provided "one-stop" data services. On the operation level, with a focus on core business areas, it continued to make an inventory of data assets, explored and established the "personal data computer" for corporate banking, and provided accurate, agile and efficient data services.

The Bank continued to strengthen data service capability. It released 1,932 retail customer tags and 533 corporate customer tags through customer data mart, empowering precision marketing toward customers. The data middle platform provided a total of 1,144 data service contents and primarily supported real-time marketing campaigns. At the same time, the Bank built an enterprise-level Secure Multi-party Computation platform, which provides four major business functions of private set intersection, hidden query, joint statistics and combined computation, hence realizing combined application of data.

The Bank continued the launch and dynamic management of big data application and analysis scenarios, gave major support to business scenarios like rural revitalization, precision marketing and protection against fraud, and provided differentiated data services such as visual products and customer tags to all types of users. Supported by the management cockpit and the big data portal application system, the Bank built in depth the intelligent indicator system, and developed data products including "rural financial service profile" and "creditworthy village visualization platform", meeting the operation and decision-making needs of five levels of institutions of the Bank. Also, the Bank organized and held the Fourth Data Modeling Competition and innovated in the competition system. While keeping improving the modeling capability of the data analysis team, it actively looked for hot spots and difficult problems in business development, and promoted value realization of excellent analysis results through the competition.



Interface of the Data Asset Management Platform

Column

Continuing to Build Industry-leading Data Governance Capability Based on Data and Customization

In recent years, the Bank has actively implemented the big data development philosophy of "establishing data authority and achieving data-driven development". With data governance as the foundation and data application as the goal, the Bank kept improving the data empowerment capability and used data to reshape the value of finance.

Implementing data-based governance and building a standard and process-based data control system. The Bank scientifically planned the implementation approach for data governance, established a data governance system with complete coverage and long-term effectiveness, built a multi-level and interconnected operation mechanism, and realized professional, standardized and refined enterprise-level data control mechanisms, procedures and specifications in the areas of data quality, data standards, metadata, data structure, data security, etc.

Providing customized services based on usage and realizing scenario-based and intelligent asset sedimentation. The Bank continued to enrich digital products to provide clients with customized, specialized, differentiated and professional comprehensive financial service solutions. Supported by models such as intelligent risk management models and anti-fraud models, it kept improving the efficiency of online approval, reducing the time for business handling, improving customer experience, and effectively fulfilled financial risk control responsibilities to protect clients' fund safety. Through accurate "profile drawing" of administrative villages, it supported the building of creditworthy villages and boosted rural revitalization with financial power.

In May 2023, the Bank successfully obtained the Data Management Capability Maturity Model Quantitative Management Level Certificate, indicating that the Bank's data management capability reached the advanced level in the banking industry. Data Management Capability Maturity Assessment Model (DCMM) is China's first national standard of data management and is considered an authoritative certification system of data management maturity within the country. The DCMM evaluation is an important measure to guide enterprises to enhance data management awareness, improve enterprise data management capability, and promote enterprise digital transformation.


DCMM

数据管理能力成熟度（甲方）

等级证书

依据国家标准《数据管理能力成熟度评估模型》（GB/T 36073-2018），经评估，中国邮政储蓄银行股份有限公司 数据管理能力成熟度达到量化管理级（4级），特发此证书。

评估机构：南京新一代人工智能研究院有限公司
评估依据：《数据管理能力成熟度评估模型》（GB/T 36073-2018）
证书编号：DCMM-I-4-1100-000591
查询平台：https://www.dcmm-cfeii.com
发证日期：2023年05月15日
有效日期：2026年05月14日止

中国电子信息行业联合会

The Bank obtained the Data Management Capability Maturity Model Quantitative Management Level Certificate.

The Bank will closely follow the major task of high-quality development, continuously deepen reform and innovation to inject strong data vitality into the building of a digital ecosystem-based bank. It will continue to strengthen data capability building and strive to build an industry benchmark for data governance. It will accelerate the construction of the data asset management system and enhance the mechanism for realizing the value of data assets, providing clients with digitalized experience. It will closely keep the pace with the national data factor market, actively fulfill its data governance responsibilities as a major state-owned bank, and promote data openness and sharing on the basis of security and compliance to support the construction of Digital China.

Application of New Technologies

The Bank adhered to being innovation-driven and kept deepening the application of new technologies. It promoted the improvement of innovation empowerment capability by improving overall technology capacity. Replying on technological innovation capability, it empowered business development with high standard, gave play to the role of innovation as an engine, and continued to speed up empowerment through innovation.

The Bank concentrated efforts on technological innovation, continued to promote the construction of PSBC Brain, and strengthened innovation capability in multiple dimensions. The Internet of Things (IoT) platform, one of the three major platforms of PSBC Brain, went online successfully, improving the data awareness and acquisition capabilities of PSBC Brain and expanding new smart IoT businesses. It realized lifecycle management of IoT equipment, integrated multimode sensing data, and applied intelligent algorithm to explore the value of data.

The Bank deepened collaboration between the Head Office and branches and put forth efforts to output new technology capability to branches to empower their business development. The Head Office and branches launched over 30 innovative application scenarios with the support of PSBC Brain and RPA (Robot Process Automation) system. The intelligent language and voice system continued to expand the scope of intelligent outbound call. Voice capability was used for more than 130 million times in intelligent outbound calls with a success rate of more than 99%, and it can substitute 40% of the workload of customer managers. The RPA system had 1,078 process scenarios. During the reporting period, it executed main tasks 411.1 thousand times, which were more than three times those executed in the past. With an effort to increase the promotion and application in branches, 22 branches carried out independent development of process with the RPA system, which was applied to business scenarios such as downloading of reporting images, processing of vostro account from the People's Bank of China, and printing of bulk documents for lending business. Meanwhile, the Bank actively conducted research on cutting-edge technologies such as digital employee, NLP (Natural Language Processing) chatbot and pre-trained large models, and promoted the integrated application of new technologies.

The Bank deepened the development of PSBC U-Chain. With the help of the blockchain technology, it strengthened building of characteristic scenarios for Xiongan New Area, and undertook the supervision business of the construction funds of the express line from Xiongan New Area to Beijing Daxing International Airport Line R1. It expanded the application of digital collection NFT scenario and issued 10 digital collections including "proactive credit extension" and "mascot Shu Wa", with more than 60 thousand person-times claiming the digital collections. Those efforts greatly increased the activity of mobile banking customers of the Bank.

The Bank deepened cloud computing application. With a focus on cementing the digital and intelligent financial service foundation, it strengthened the development of the cloud infrastructure platform, the multi-cloud management platform and the enterprise-level cloud native platform, put forth efforts to build a unified, large-scale, integrated and evolvable PSBC financial cloud platform, and established the financial production cloud, development and testing cloud and branch custody cloud that cover its four data centers in two cities, which effectively supported the Bank's FinTech innovation and accelerated business transformation.

Channel Development

- The monthly active users (MAU) of mobile banking exceeded **54.00** million.
- The Bank promoted the operation mode of "cloud counter", which was piloted through self-service terminals, counters and mobile business terminals.
- The Bank launched PSBC Credit Card App 5.0.

The Bank focused on digitalized and intensive development, and made continuous efforts to improve the physical, electronical and remote service channels, in a bid to improve customer service capability, promote inclusive finance and serve the real economy.

Physical Channels

The physical outlet network remains one of the Bank's traditional advantages, and an important basis for the Bank to implement inclusive finance and serve the real economy. In order to facilitate the high-quality development of its outlet operations, the Bank adopted a package of steps to continuously improve the comprehensive competitiveness of its outlets.

Improving the service image of the Bank's outlets. To strengthen its outlet network in key cities, the Bank launched "flagship" outlets to improve the visibility of its outlets in cities, and worked to enhance the outlets' capability to provide business negotiation and wealth management services. As at the end of the reporting period, nearly 32 thousand outlets replaced their exterior signage, and over 3,000 outlets kicked off interior renovation.

Enhancing the customer experience at outlets. The Bank developed the "Lingxi" customer experience management system, which connects 30 internal systems, monitors 676 indicators of 22 key retail customer journeys, and proactively collects real-time customer feedback on scenario-based services. In terms of financial outlets, the Bank launched a "four-in-one" campaign to increase service quality with the theme of "integrated standards, specifications, drills and improvement measures", and promoted the application of software/hardware service standards at outlets. For frontline staff at outlets, the Bank prepared service specifications, standards, manuals and demonstration videos, and conducted service training, drills and tests, so as to provide customers with "heart-warming services". It energetically promoted the "PSBC Care" services, and set up "PSBC Care Station" at outlets as a space where outdoor workers can take a rest, drink water, recharge mobile phones, find medical kits, convenience facilities and toiletries, and gain knowledge about public good, and where human-oriented and barrier-free services are tailored for special customer groups and maternal and child services are also available. The Banking Department of PSBC Longyan Branch of Fujian Province was awarded the title of 2022 "Top 100 Demonstration Banking Outlets for Civilized and Standardized Services".

Boosting the digital operations at outlets. The Bank promoted the "cloud counter" operation mode, which has already been piloted through self-service terminals, counters and mobile business terminals, and pushed forward the centralized operation model to increase efficiency of outlets. At over 30% of directly-operated outlets, the duties of tellers and lobby managers have been integrated, marking a smooth transition from operating personnel to customer service managers with comprehensive ability. In addition, the Bank promoted the centralized workforce management of outlet tellers within the same city, and adopted intellectual analytical model to enhance optimal personnel scheduling of bank tellers across outlets. In terms of mobile business terminals, the Bank piloted video-based remote operation model, which enabled the single-person field marketing practice, reduced the number of personnel occupied and generated new marketing potentials of outlets.

Promoting the integration of online and offline channels. For corporate customers, the Bank refined the online reservation function for account opening, and added the due diligence function to the PSBC E Link App (New Generation Integrated Office System of PSBC) to facilitate account managers to carry out due diligence surveys on the mobile platform. Through pre-approval of customer information, the Bank reduced the customer waiting time at counters. It also enabled automated reporting of RPA accounts and intelligent verification through voice calls, further improving the account service efficiency. For personal customers, the Bank provided quick services including one-click cancelling at counters and limits on non-counter payment, and launched more online functions on the mobile banking platform, such as printing account statements, certificate of deposits, account decontrol, and pre-filling of card issuance forms.

As at the end of the reporting period, the Bank had a total of 39,440 outlets, including 7,715 directly-operated outlets and 31,725 agency outlets. It set up 1,791 outlets in key counties receiving government assistance for rural revitalization as well as areas in Xinjiang and Tibet that are managed as key counties and receive government assistance.

In addition, the Bank had 137,397 self-service terminals, including 50,937 intelligent teller machines (ITMs), which accounted for 96.26% of self-service terminals for non-cash business, and 68,951 internet-enabled mobile business terminals.

Customers handling business with the "cloud counter" smart counter system

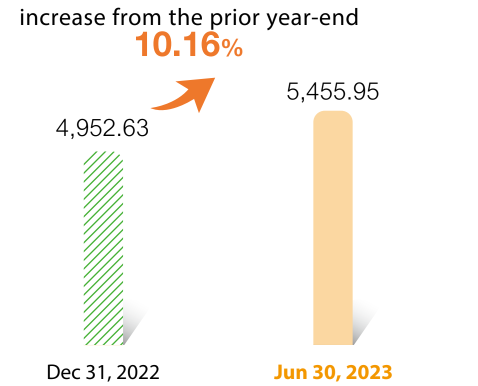
Electronic Banking Channels

Mobile Banking

The Bank continued to increase the service capability of mobile banking, and stepped up efforts to develop the main platform for customer interaction and business operations. In order to enhance convenient services, it launched innovative services such as "balance of payments analysis" and "retirement benefits calculator", and continued to refine page layout, basic functions and financial services. It launched innovative featured services, and issued digital collections such as Intelligence Rabbit based on blockchain technology, and relied on "local services" to enrich featured scenarios with regional characteristics. It upgraded the smooth risk control, introduced the local number authentication service, supported quick transfer without login, and strengthened precise identification and intelligent risk control capabilities. As at the end of the reporting period, the number of mobile banking users totaled 353 million, with the monthly active users reaching 54,559.5 thousand, and an annual transaction amount of RMB8.21 trillion.

The Bank constantly improved its capability to serve corporate customers on the mobile banking platform. It developed a differentiated user authentication system to provide "available upon download" comprehensive financial services for diverse customer groups. A message center was established to guide self-service users at mobile terminals, helping enterprises build a convenient mobile office. The Bank also launched an audio-intelligent interface covering 48 business types, so that the mobile banking platform is able to "hear and talk" and provide customers with more "humanlike" services. In order to make preparations early on to provide better services, the Bank also developed remote functions to confirm customers' account-opening intentions and conduct due diligence survey, effectively refining the customer journey in respect of account opening. From its launch in November 2022 to the end of June 2023, the corporate mobile banking had a total of 307.3 thousand registered users, and processed up to 21.00 million transactions.

Monthly active users (MAU) of mobile banking
(In 10,000)



Channel Development

Online Banking

The Bank constantly improved the online service capability for corporate customers. It launched batch agency payment and electronic bill acceptance with no need to sign a contract at bank counters, which addressed the last-mile problem for full-process online services. It rolled out the asset and liability analysis function, supported large-amount transfer on holidays, and made integrated templates for batch trading to achieve intelligent trading route matching, increasing fund settlement efficiency. It conducted segmented customer management, and leveraged big data analysis to recommend financial products to targeted customer groups. As at the end of the reporting period, the number of corporate online banking customers reached 1,292.1 thousand, representing an increase of 9.86% compared with the prior year-end; and effective corporate online banking customers accounted for 91.64% of total corporate customers, representing an increase of 1.84 percentage points compared with the prior year-end. The transaction amount stood at RMB7.94 trillion, up 25.63% year on year.

The Bank further improved the customer experience of personal online banking. It extended the service hours for transaction detail inquiry, refined the login, transfer, batch agency payment and other functions, and improved operational friendliness. The number of personal online banking customers reached 248 million.

Credit Card APP

In June 2023, the Bank launched the PSBC Credit Card App 5.0, and developed a core online platform for the credit card business. It reshaped the five major channels on the home page, completed the process reengineering of core functions, and provided the one-click access to key businesses, thus greatly improving customer experience. In order to continue its brand culture, the Bank applied postal elements to the upgraded App visual design. It developed application scenarios for card users, such as car owner services and platinum services, and launched the reward point channel to attract and activate customers. With the upgraded voice search and the innovative functions on the home page such as "Shake" and Profile Center, the Bank explored a new model of application interaction and user experience. As at the end of the reporting period, the number of PSBC Credit Card App users reached 20,867.5 thousand, representing an increase of 25.64% compared with the prior year-end. The accumulative bank cards linked to PSBC Credit Card App amounted to 23,808.8 thousand, representing an increase of 31.60% compared with the prior year-end.

Remote Service Channels

Remote Banking Services

The Bank actively extended its remote service coverage, improved the AI and data operation service system, and enhanced remote collaboration and support capabilities. It provided the dedicated service hotline for private banking, expanded the scope of video customer services, focused on various needs of different customer groups, continued to build the one-stop remote comprehensive services, and the answer success rate by manual response was 92.17%. Relying on "AI plus data", the Bank enhanced the level of intensive operations and service output capabilities, improved the robot matrix of service robots, quality inspection robots etc. and the data strategy, which delivered more targeted AI services. It launched the new generation digital employees, explored virtual business halls, and accelerated the development of remote intelligent service ecosystem.

Credit Card Customer Service Hotline

In terms of credit card customer service hotline, the Bank worked to empower customer service with intelligent and digitalized technology. It provided smooth remote audio/video call services, expanded the service scenarios of consulting business, and carried out experimental marketing campaigns that involve all service scenarios and links. It launched the intelligent consumer protection function, improved the full-process management mechanism, opened the diversified dispute resolution platform, provided more dedicated service hotlines for consumer protection, and adopted a new model of digitalized consumer protection to address reasonable consumer demands in a prompt, smart and convenient manner. The customer service hotline ran smoothly, with an intelligent diversion rate of 84.16%. The customer satisfaction with manual service was 99.76%.

Column

Scenario-Based Management and Digitalized Operations of Mobile Payment to Accelerate the Formation of Mobile Payment Ecosystem

Extending mobile payment services to lower-tier markets to facilitate the development of consumer ecosystem in county areas. With the building of county-wide financial ecosystem at the core, the Bank worked to build demonstration counties for mobile payment. It leveraged local industries to advance the implementation of county-specific plans, and launched the agricultural product purchase service on the unified acquiring system, as part of its efforts to embed financial services into featured scenarios in county areas. As at the end of the reporting period, the number of merchants in counties took up 55.24% of the total number of merchants, with 380 demonstration counties for mobile payment, covering more than 220,000 county-level scenarios like retail stores and supermarkets, restaurants, healthcare and travelling.

Promoting characteristic business districts to upgrade the business models of outlets. In order to give full play to outlet merchant resources, the Bank took acquiring service as the breakthrough point to extend its service coverage. Through online and offline integration, it developed the new digitalized ecosystem of "outlets plus business districts", which became the new drivers for business model transformation and high-quality customer management at outlets. For example, the Junshanlu Sub-branch of Luoyang City, Henan Province took homestay as the core scenario to form the business circle of Chongdugou resort, and conducted subcontracting program to achieve centralized customer acquisition, precise pricing and comprehensive development. Accordingly, the merchants from the business circle contributed 47.86% and 18.23% of the total demand deposits and total credits of the sub-branch, respectively. The Huashilu Sub-branch of Guiyang City, Guizhou Province adopted the comprehensive marketing mechanism for merchants. Accordingly, the merchants from the business circle contributed 53.62% and 43.84% of total demand deposits and AUM of the sub-branch, respectively. The Datonglu Sub-branch of Tengzhou City, Shandong Province strengthened customer relations with merchants to conduct targeted operations, achieving effective customer group penetration and value mining. Accordingly, the merchants from the business circle contributed 84.35% and 53.65% of total demand deposits and AUM of the sub-branch, respectively.

PSBC Pay

Expanding key industry scenarios and developing comprehensive solutions for merchants. The Bank proactively served the "Going out" and "Bringing in" strategies, worked to bring together the financial service capabilities of the Bank and the vertical application capabilities of the industry partners, promoted the transformation from a payment settlement service to digitalized solutions for merchants, and provided a package of "finance plus life" services covering 20 scenarios in 9 industries, including community convenience stores, chain drugstores, tourist resorts and hotels, etc. It developed over 800 smart scenarios in the two key areas of campus and canteen.

Strengthening digital operation capabilities to develop targeted customer operation tools. The Bank built and improved the "Smart Cube" digital operation platform, which is data-driven and supports customer group analysis, strategy configuration and precise customer reach, with the aim of achieving intelligent and refined operations, empowering deep customer management such as mobile banking and electronic payment, and forming an online operation system with customer needs as the guide, data insight as the means, risk prevention and control as the defense line, and value creation as the result. The Bank's customers who had debit cards linked for electronic payment reached 291 million, up 3.19% from the prior year-end.

Channel Development

Column

Promoting Innovation-Driven Development of E-CNY Business to Optimize Customer Service Experience

Under the guidance of the PBOC, the Bank accelerated the development and pilot of e-CNY, and fully leveraged the advantages of the digital legal tender, such as security, convenience, inclusiveness, and intelligence. The Bank actively explored customer needs, innovated service models, strengthened product research and development, effectively enhanced scenario construction and operation capabilities, and further promoted innovation-driven development of the e-CNY business. As at the end of the reporting period, the Bank ranked first among the authorized operators in terms of the number of customers who opened personal wallets through the e-CNY APP.

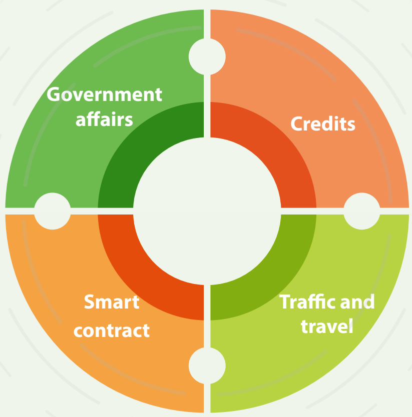
The Bank expanded the scope of scenario application to accelerate the development of payment ecosystems. The Bank actively promoted the in-depth application of e-CNY in government service scenarios, and continued to expand the coverage of e-CNY tax payment business. As a result, the cumulative tax payment amount increased by 15 times from the end of 2022, assisting local governments in successfully issuing relief funds through e-CNY corporate loans. It launched the innovative e-CNY smart-contract prepayment products, taking the lead in implementing the application scenarios in e-commerce and fitness industries. It expanded the coverage of e-CNY in the credit business, and supported the e-CNY loan extension and repayment function for six credit products, including both corporate banking and retail banking. As a result, the cumulative amount of e-CNY loans exceeded RMB1.7 billion. In order to develop the payment scenario for public transportation featuring small amount and high frequency, the Bank launched e-CNY payment covering various traffic scenarios such as buses, subways and expressways in 17 cities like Fuzhou, Qingdao, Ningbo, Jinhua, etc., providing customers with a more convenient transport service.

The Bank strengthened the leading role of technology and innovation to improve customer experience. By supporting customers to send and receive e-CNY red packets and share to social media, the Bank adopted the MGM (Member Get Member) marketing model to acquire customers, and dramatically expanded its personal wallet customers by nearly 200,000. It continued to refine the business process, and launched the one-click contract signing service at counters, which enabled customers to open personal wallet and link bank cards to the account through the one-stop service. To facilitate government customers to grant subsidies and collect tax, the Bank developed relevant e-CNY functions such as return and allocation from the treasury, and automated withdrawal and tax payment through connection to treasury, effectively meeting diverse payment needs of customers.

The Bank promoted the close integration between e-CNY business and traditional businesses, providing more comprehensive and open financial services. In developing the e-CNY business, it also worked to enrich the scenario ecosystem, expand customer acquisition channels, boost customer activity and empower the sustained development of traditional businesses.

Government subsidies: Under the guidance and support of the people' s government of Xiongan New Area, the Bank successfully provided e-CNY subsidies in the form of enterprise loans to many enterprises. As an innovative way to grant e-CNY relief funds, it effectively facilitated the government to ease the difficulties of enterprises by granting relief funds.

Tax payment and refund: The Bank launched e-CNY tax payment service in over 10 regions including Hainan, Hunan and Sichuan, and supported the e-CNY tax refunding scenario in Changsha, Qingdao and Hainan.

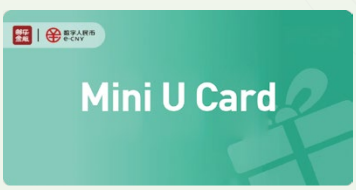


Corporate loans: The Bank granted corporate loans in e-CNY in Jiangsu, Fujian, Guangxi and other regions, and implemented "carbon reduction support instrument + sustainability linkage + e-CNY loan" scenario in Nanning, the first of its kind in China.

Bill discounting: The Bank implemented the e-CNY scenario of "Green G Discount" in Shanghai, Zhejiang, Sichuan, Guangdong and other regions, and launched the "rediscount + green bill discount + e-CNY" scenario in Dongguan, the first of its kind in China.

Startup guarantee loan: The Bank launched the first e-CNY startup guarantee loan in Hebei Province.

The Bank rolled out the e-CNY smart-contract prepayment services, launched the first prepayment product for e-commerce and fitness industry on the e-CNY APP, which can effectively prevent the risk of misappropriation of funds, increase transaction transparency and intelligent fund management, fully protect the fund security of consumers and help merchants reduce costs and improve efficiency.



The Bank implemented the e-CNY fee payment scenario at expressway MTC (manual toll collection) lanes in Zhejiang and Shandong. In Jinhua, Zhejiang Province, it launched online functions on the Bus App such as e-CNY top-up and e-ticket purchase, as well as offline functions including QR code payment of bus fare with the e-CNY APP.

Human Resources and Institution Management

Human Resources Management

In terms of talent team building, the Bank continued to improve the quality of the talent team, stimulated personnel's vitality to create, and provided sufficient human resources support for the Bank's transformation and development. The Bank optimized the structure of the talent team by strengthening the development of the frontline marketing personnel. It also refined the Head Office-level professional leading personnel management mechanism to give full play to the leading and demonstration role of high-end talents. Meanwhile, based on the double promotion channel of "management plus professional", the Bank vigorously managed promotion of high-caliber employees to a higher level and built the Bank's competitive advantage in core talents.

In terms of talent training, the Bank continued developing and cultivating talents at greater depth and kept improving the comprehensive capability and quality of employees across the Bank. Sticking closely to operation management and development situations, it improved the talent training and development system with centralized training and remote training as major approaches and Party School training and qualification certification as supplementary ones. During the reporting period, the Bank earnestly put in place the CPC education campaign of studying and implementing Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, held the study class of the Party Committee of PSBC to study and implement Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, and organized and completed the special training on the 20th CPC National Congress for Party members and officials. The Bank further optimized quality training projects, continued to carry out the "Pilot" training project for leadership, the "3-5-8" Refinement • Competitiveness Building training project for employees of Head Office organs[1], and improved training quality and effect. Upholding the concept of continuous learning and lifelong learning, the Bank achieved employee growth along with organizational development. During the reporting period, more than 20,000 online and offline training courses were provided, with more than 1.6 million person-times trained.

In terms of remuneration and benefits management, based on the Bank's strategies and human resources management strategy, the Bank stressed the performance and value creation orientation, optimized the total wage distribution system, and the cost effectiveness of labor. It refined the renumeration allocation mechanism, strengthened the performance evaluation-based renumeration allocation, and channeled more renumeration resources to frontline employees and core operation and management personnel with outstanding contributions to motivate employees. Meanwhile, the Bank continued to refine its benefits system, improve employee welfare benefits, and enhance the employees' senses of security, belonging and happiness.

Employees

As at the end of the reporting period, the Bank had a total of 191,453 employees, among which, 176,300 were contracted employees (including 1,692 in majority-owned subsidiaries), and 15,153 were dispatched employees. The number of retired employees of the Bank was 26,272.

The Bank's Employees by Age

Item	Number of employees	Percentage (%)
Up to 30 years old (inclusive)	29,266	16.60
31-40 years old	87,349	49.55
41-50 years old	41,818	23.72
Over 51 years old (inclusive)	17,867	10.13
Total	176,300	100.00

The Bank's Employees by Education Background

Item	Number of employees	Percentage (%)
Master's degree and above	17,295	9.81
Bachelor's degree	131,048	74.33
Associate degree	24,645	13.98
Others	3,312	1.88
Total	176,300	100.00

1 "3-5-8" Refinement • Competitiveness Building training project for employees of Head Office organs refers to the hierarchical and classified empowerment training for employees with 1-3 years, 4-7 years and more than 8 years of work experience in the Head Office according to the training needs of employees with different working years, aiming to help employees improve their professional capabilities and cultivate innovative thinking and build a team of talents that are sophisticated, professional and innovative.

Human Resources and Institution Management

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 subordinate 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.

During the reporting period, the Bank continued to optimize its organizational structure to better support the implementation of the Bank's strategies and business development. The Money Laundering Risk Management Committee was set up under the senior management of the Head Office to improve the money laundering risk governance structure of the Bank. Meanwhile, according to the centralized operation arrangements of all businesses, the Bank pushed for relevant institutional adjustment to support the intensive operation transformation across the Bank and improve organizational and operational efficiency. It carried out the pilot project of personnel optimization at institutions of tier-2 branches, streamlined institutional setting and staffing in tier-2 branches, allocated more personnel to business and primary-level positions, and accelerated the transformation towards a "dumbbell-shaped" organizational structure. It also optimized the layout of branches and dynamically adjusted the internal institutions at all levels to provide strong support for business transformation and development.

As at the end of the reporting period, the Bank had 8,030 institutions, including the Head Office, 36 tier-1 branches, 324 tier-2 branches, 2,167 tier-1 sub-branches, 5,499 tier-2 sub-branches, and three 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	10,505,603	39.70	1	0.01	7,343	4.16
Yangtze River Delta	2,552,182	9.64	909	11.32	19,862	11.26
Pearl River Delta	1,667,906	6.30	725	9.03	18,437	10.46
Bohai Rim	2,566,879	9.70	1,122	13.97	25,930	14.71
Central China	4,813,365	18.19	2,373	29.55	44,775	25.40
Western China	3,216,394	12.15	2,112	26.30	40,244	22.83
Northeastern China	1,142,820	4.32	788	9.82	19,709	11.18
Total	15,123,107(2)	100.00	8,030	100.00	176,300	100.00

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

Note (2): Total assets are the amount after internal offset, and the offset amount is RMB11,342.042 billion.

Note (3): Other than the number of institutions disclosed above, the Bank has one Credit Card Center as a specialized institution.

Create a New Paradigm of Youthful Expression

The Bank continued to deepen the cultural IP of "PSBC New Youth". In 2023, taking China's Youth Day as an opportunity, the theme film PSBC New Youth 2 was released through the WeChat official account of PSBC Labor Union, which, adhering to the purpose of "letting the brilliance of young PSBCers be seen", showed the growth, striving spirit and glory moments of three young employees from different regions and different positions, reflecting the spirit of the new youth in the PSBC in the new era from each aspect, and generating strong emotional and inner heart resonance among the young employees of the Bank.

PSBC New Youth

Scan the QR code to watch PSBC New Youth 2

Risk Management

The NPL ratio was **0.81**%, **0.03** percentage point lower than the prior year-end.

The application rate of automated credit review and approval for retail credit businesses reached **100**%.

The Bank strengthened system management and continuously improved the efficiency of digitalization of internal control and compliance.

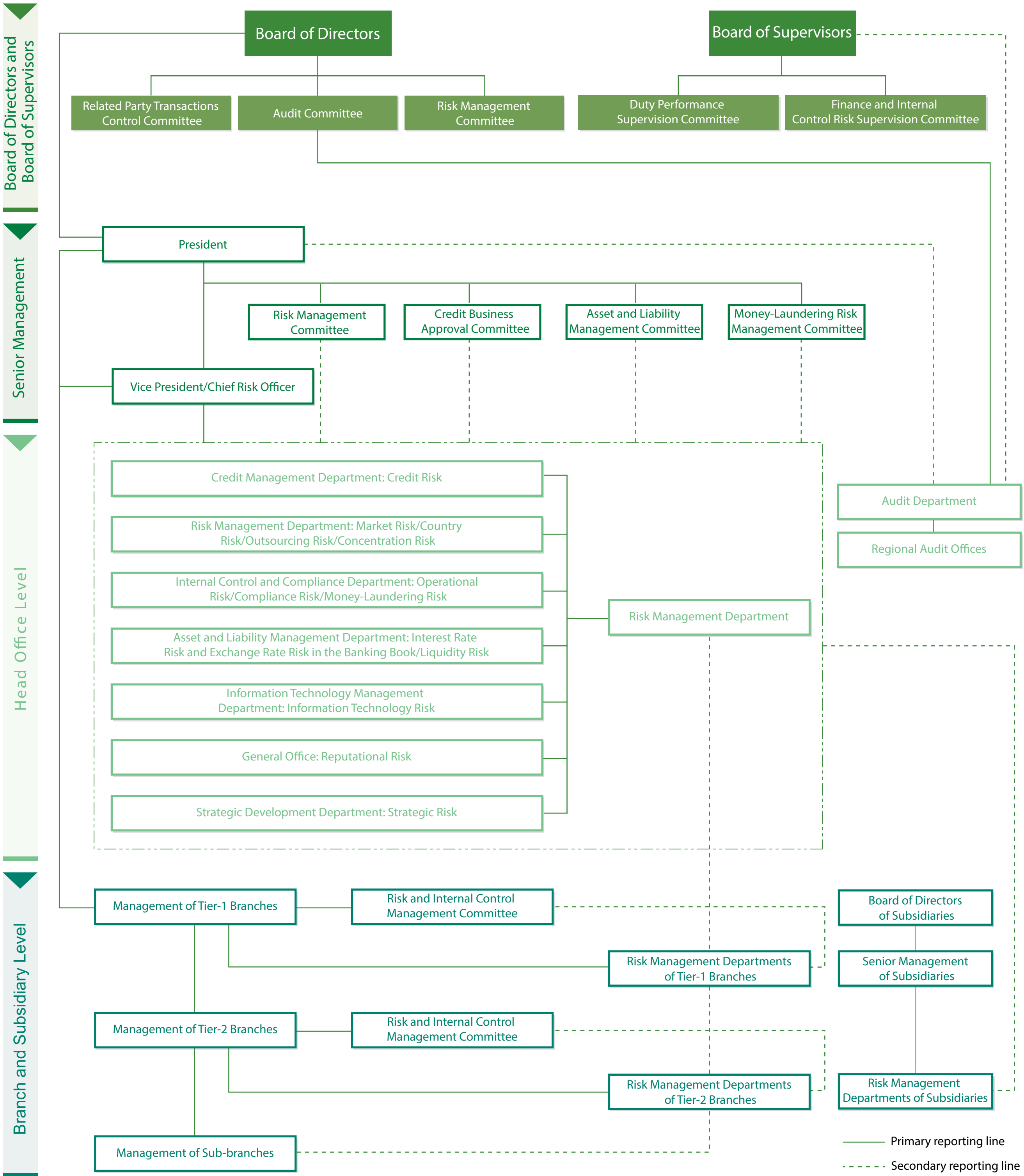
Risk Management Organizational Structure

The Board of Directors assumes ultimate responsibilities for comprehensive risk management. It is responsible for establishing the risk culture; formulating and approving risk management strategies; setting and approving the appetite 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; reviewing and approving disclosure of comprehensive risks and various significant risks; appointing Chief Risk Officer; and performing other duties related to risk management.

The Board of Supervisors assumes the responsibilities for supervising the 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 to make rectifications.

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

Risk Management Organizational Structure



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

Comprehensive Risk Management

Facing the complicated and severe environment and risk challenges, the Bank actively fulfilled its responsibilities as a major state-owned bank, implemented national policies and requirements, upheld the prudent and sound risk appetite, continuously improved its risk management capability and ensured no material risks arise. During the reporting period, the Bank's overall risk profile was sound, with all risk indicators remaining stable.

Following the principle of "guaranteed by risk control", the Bank further refined its comprehensive risk management framework, drove digital transformation of risk management, pushed forward the development and application of advanced approaches for capital management, and holistically enhanced the efficiency and quality of risk control. **Laying a solid foundation for risk control**, the Bank launched a comprehensive risk management system, developed tools for panoramic risk monitoring and risk detection, and enhanced risk consolidated management. It further enhanced risk monitoring and assessment mechanism for all subsidiaries, and strengthened the transmission of the Bank Group's risk appetite. **Giving full play to the empowering role of risk management**, the Bank continued to strengthen the credit extension policy framework, carried out innovative industry research and application, and enhanced the ability to pick out high-quality customers. It deepened the application of intelligent risk control tools, put in place a credit anti-fraud platform, refined the tiered customer management system, and realized more forward-looking and precise risk management. **Firmly guarding the lines of defense against risks and non-compliance**, the Bank optimized the long-term mechanism for internal control and case prevention, fortified the prevention mechanism, penalty mechanism and self-discipline mechanism to see that employees do not have the opportunity, audacity, or desire to engage in any violation, and effectively elevated the quality and efficacy of internal control and compliance management.

Advanced Approaches for Capital Management

The Bank pushed forward the development of advanced approaches for capital management, so as to continuously deepen the application of advanced approaches in areas such as decision-making for credit extension, differentiated post-lending management, loan pricing, impairment provision, economic capital, performance appraisal, etc. It benchmarked with latest regulatory requirements to carry out assessment and analysis on a timely basis, and optimized the development of advanced approaches in accordance with the requirements. It conducted surveys on the application of advanced approaches for capital management at branches, guided them to take concrete measures to implement relevant requirements, and actively exerted the supporting and enabling role of the advanced approaches to alleviate burden and boost efficiency of community-level institutions.

Risk Appetite

The Bank upheld a prudent and sound risk appetite, aimed to balance stable growth and risk prevention, closely followed changes in internal and external risk environment, focused on risk prevention in key fields, and set management objectives against all types of major risks in line with the strategic positioning adopted by the Bank Group, the Bank and its subsidiaries. In doing so, it aimed to make sure that risks are generally under control and continuously empowered the stable operation and high-quality development of all businesses across the Bank.

Intelligent Risk Control

The Bank continuously promoted the digital transformation of risk management, significantly raised the capability of intelligent risk control, established a digital risk control analysis system, realized quantitative management of risk control throughout the whole process, and empowered the high-quality development of businesses. In terms of risk control for retail banking businesses, the Bank achieved preliminary success in establishing a proactive credit extension model where it selected and reached out to high-quality customers through proactive selection and marketing, hence achieving effective balance among rapid growth of business scale, significant enhancement of customer experience and effective business risk control. It implemented automated credit review and approval for retail credit businesses, cutting the workload of credit review and approval personnel at branches by half while preventing and controlling risks. It established a unified credit anti-fraud platform to provide intelligent, automated fraud detection services for credit products of the Bank. In terms of intelligent compliance, the Bank gradually improved application, and developed an intelligent anti-money laundering model to screen out suspicious transactions of individual customers, which improved the accuracy of suspicious transaction screening. It launched an intelligent supporting tool for consumer protection review, effectively enhancing the quality and efficiency of consumer protection review. It also launched an enterprise knowledge management system to provide a one-click intelligent query function for external laws and regulations as well as internal rules and policies, and improved the intelligent level of legal risk and compliance risk management.

Stress Testing

The Bank made active efforts to cope with the severe and complicated internal and external risk situations. It timely carried out comprehensive stress tests and special stress tests focusing on the real estate industry and other key risk fields, set assumptions of various stress scenarios, and made prudent evaluation and prediction on its asset quality, profitability, capital adequacy and liquidity levels. Results showed that the Bank maintained an overall strong resilience under various stress scenarios, with all types of risks under control and no significant impact on net profit and capital adequacy.

Three Lines of Defense

The Bank kept improving the "three lines of defense" for internal control, classified major risks such as credit risk, market risk and operational risk, and incorporated all institutions and departments into the "three lines of defense".

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

Credit Risk

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

The Bank's organizational system of credit risk management is as follows: the Board of Directors undertakes the ultimate responsibilities for credit risk management; and the Board of Supervisors undertakes the supervisory responsibilities for credit risk management. 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 and Credit Business Approval Committee are responsible for credit risk management and approving credits 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, among 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.

Credit Risk Management

Taking multiple measures to firmly guard the line of defense for asset quality

The Bank continued to promote the coordination of the three lines of defense, thereby jointly guarding the line of defense for asset quality. It improved the risk classification rules for financial assets, optimized the list-based management mechanism for customers with large credit exposures, enhanced early warning management, integrated risk information through multiple channels, gave full play to coordination between the Head Office and branches and among business lines, and realized effective and efficient risk prevention and control in a forward-looking manner. As at the end of the reporting period, the Bank's asset quality was stable with a sound momentum. The NPL ratio was 0.81%, 0.03 percentage point lower than the prior year-end. The annualized NPL formation ratio was 0.78%, 0.07 percentage point lower than the prior year-end.

Focusing on key areas and strengthening risk monitoring

The Bank strengthened the in-depth analysis and investigation in key areas such as real estate, construction and public-private partnership (PPP) projects, and deepened targeted supervision and inspection. It systematically analyzed risks associated with key retail credit products and carried out annual inspection of online lending cooperative institutions. The Bank also continuously improved the functions of "Jinjing" (Golden Eye) credit risk monitoring system, enriched data import, added and optimized risk monitoring indicators in the fields of justice, tax, abnormal transactions, capital flow, production and operation status of enterprises, finance, public opinions and other fields, upgraded early warning rules and models, and constantly refined the granularity of risk prompts.

Reducing cost and enhancing efficiency, and intensifying efforts in NPA disposal

The Bank continued to deepen NPA disposal and improved the disposal quality and efficiency. As at the end of the reporting period, the Bank disposed of a total of RMB26,710 million of on- and off-balance-sheet principal and interest on non-performing loans, representing a year-on-year increase of 12.11%, among which, RMB12,513 million of principal and interest was from cash collection, RMB8,265 million of principal and interest from bad debt write-offs, RMB5,865 million by NPA securitization, and RMB66 million by other methods.

Deepening transformation to empower business development

The Bank launched 24 off-site inspection data models of retail credit business to support intelligent supervision and inspection. It continued to improve the connection between the new generation guarantee management system and the "one-stop" real estate system, and completed the launch of the new generation non-performing asset management system, thereby further promoting technological empowerment and digital transformation. The Bank launched an enterprise-level paperless system, which adhered to the construction concept of "convenience, visualization, sharing, independence and controllability". It thoroughly implemented the "five-pronged" transformation and realized the full coverage of paperless services for the credit business, covering all institutions, entire product lines and whole processes, allowing users to enjoy integrated paperless services from retrieving, editing, signing to filing online, which lays the foundation for PSBC to accelerate digital transformation and deepen integrated risk control driven by digital intelligence.

Credit Risk Analysis[1]

Non-Performing Loans Structure by Collateral

In millions of RMB, except for percentages

	June 30, 2023		December 31, 2022	
Item	Amount	Percentage (%)[1]	Amount	Percentage (%)[1]
Unsecured loans	21,783	34.59	19,858	32.70
Guaranteed loans[2]	9,481	15.05	8,158	13.43
Loans secured by mortgages[2][3]	30,212	47.96	31,206	51.38
Loans secured by pledges[2][4]	1,514	2.40	1,514	2.49
Discounted bills	–	–	–	–
Total	62,990	100.00	60,736	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 collateral, the classification would be based on the primary form.

Note (3): Represents loans secured by assets that are still under the possession of the borrower, and mainly includes loans secured by buildings and fixtures, land use rights, machinery, equipment and vehicles.

Note (4): Represents loans secured by possession of or registration 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.

Aging Analysis of Overdue Loan Structure

In millions of RMB, except for percentages

	June 30, 2023		December 31, 2022	
Item	Amount	Percentage of total loans (%)	Amount	Percentage of total loans (%)
Overdue for 1 to 90 days	26,535	0.34	25,237	0.35
Overdue for 91 to 180 days	12,257	0.16	11,744	0.16
Overdue for 181 days to 1 year	15,286	0.20	12,566	0.18
Overdue for 1 to 3 years	14,380	0.18	12,574	0.18
Overdue for over 3 years	6,320	0.08	6,031	0.08
Total	74,778	0.96	68,152	0.95

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

Overdue Loans to Customers by Geographical Region

In millions of RMB, except for percentages

Item	June 30, 2023 Amount	June 30, 2023 Percentage (%)	December 31, 2022 Amount	December 31, 2022 Percentage (%)
Head Office	5,296	7.08	5,898	8.65
Yangtze River Delta	13,261	17.74	12,126	17.79
Pearl River Delta	7,739	10.35	7,123	10.45
Bohai Rim	8,558	11.44	7,387	10.84
Central China	19,391	25.93	16,259	23.86
Western China	16,374	21.90	15,028	22.05
North-eastern China	4,159	5.56	4,331	6.36
Total	74,778	100.00	68,152	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	160,819	2.06	14.66
Borrower B	Transportation, storage and postal services	17,318	0.22	1.58
Borrower C	Transportation, storage and postal services	14,852	0.19	1.35
Borrower D	Transportation, storage and postal services	13,045	0.17	1.19
Borrower E	Transportation, storage and postal services	12,232	0.16	1.12
Borrower F	Transportation, storage and postal services	11,655	0.15	1.06
Borrower G	Manufacturing	10,253	0.13	0.93
Borrower H	Leasing and business services	9,778	0.13	0.89
Borrower I	Transportation, storage and postal services	9,549	0.12	0.87
Borrower J	Mining	9,401	0.12	0.86

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 (Provisional).

Note (2): Percentage of loans to the largest single borrower = balance of loans to the largest borrower/net capital x 100%. The largest borrower refers to the customer with the highest balance of loans at the period end. As at 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 RMB160,819 million, accounting for 14.66% 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 RMB240.0 billion which was approved by the relevant regulatory authorities. As at the end of the reporting period, the outstanding loan balance under such credit line for China State Railway Group Co., Ltd. was RMB144.5 billion. After deduction of this RMB144.5 billion, the Bank's balance of loans to China State Railway Group Co., Ltd. accounts for 1.49% of the Bank's net capital.

Distribution of Loans by Five-Category Classification

In millions of RMB, except for percentages

Item	June 30, 2023 Amount	June 30, 2023 Percentage (%)	December 31, 2022 Amount	December 31, 2022 Percentage (%)
Normal	7,691,134	98.57	7,089,573	98.60
Special mention	48,538	0.62	40,067	0.56
Non-performing loans	62,990	0.81	60,736	0.84
Substandard	18,333	0.24	20,415	0.28
Doubtful	18,824	0.24	15,739	0.22
Loss	25,833	0.33	24,582	0.34
Total	7,802,662	100.00	7,190,376	100.00

Distribution of Non-Performing Loans by Product Type

In millions of RMB, except for percentages

Item	June 30, 2023 Non-performing loan balance	June 30, 2023 Percentage (%)	June 30, 2023 Non-performing loan ratio (%)(1)	December 31, 2022 Non-performing loan balance	December 31, 2022 Percentage (%)	December 31, 2022 Non-performing loan ratio (%)(1)
Personal loans						
Consumer loans						
Residential mortgage loans	11,535	18.31	0.50	12,878	21.20	0.57
Other consumer loans	10,493	16.66	2.25	9,913	16.32	2.14
Personal micro loans	21,292	33.80	1.62	19,203	31.62	1.70
Credit card overdrafts and others	3,526	5.60	1.83	3,541	5.83	1.95
Subtotal	46,846	74.37	1.09	45,535	74.97	1.13
Corporate loans						
Corporate loans(2)	9,870	15.67	0.47	8,883	14.63	0.47
Small business loans	5,163	8.20	0.94	5,039	8.30	1.12
Trade finance	1,111	1.76	0.26	1,279	2.10	0.38
Subtotal	16,144	25.63	0.53	15,201	25.03	0.57
Discounted bills	–	–	–	–	–	–
Total	62,990	100.00	0.81	60,736	100.00	0.84

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

Note (2): Consist of general corporate loans and advances.

Distribution of NPL Formation Ratio[1] by Product Type

%

Item	June 30, 2023	December 31, 2022	Increase/ (decrease)
Personal loans			
Consumer loans			
Residential mortgage loans	0.43	0.41	0.02
Other consumer loans	2.75	3.07	(0.32)
Personal micro loans	1.83	1.80	0.03
Credit card overdrafts and others	3.60	3.34	0.26
Subtotal	1.23	1.24	(0.01)
Corporate loans			
Corporate loans[2]	0.22	0.25	(0.03)
Small business loans	0.95	1.21	(0.26)
Trade finance	–	0.41	(0.41)
Subtotal	0.30	0.42	(0.12)
Discounted bills	–	–	–
Total	0.78	0.85	(0.07)

Note (1): Calculated by dividing the sum of difference between the NPL balance at the end of the period and the NPL balance at the beginning of the period of each product category and the amount collected, disposed of and adjusted upwards during the period by the total amount of loans at the beginning of the period of that product category. The data for the comparative period has been restated. This is the annualized NPL formation ratio.

Note (2): Consist of general corporate loans and advances.

Distribution of Non-Performing Loans by Geographical Region

In millions of RMB, except for percentages

	June 30, 2023		December 31, 2022	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	3,528	5.60	3,543	5.83
Yangtze River Delta	11,379	18.07	10,830	17.83
Pearl River Delta	5,970	9.48	5,926	9.76
Bohai Rim	6,320	10.03	6,374	10.49
Central China	17,061	27.09	16,164	26.62
Western China	15,164	24.07	13,801	22.72
North-eastern China	3,568	5.66	4,098	6.75
Total	62,990	100.00	60,736	100.00

Domestic Non-Performing Corporate Loans by Industry

In millions of RMB, except for percentages

Item	June 30, 2023		December 31, 2022	
	Amount	Percentage (%)	Amount	Percentage (%)
Transportation, storage and postal services	2,475	0.30	2,272	0.29
Manufacturing	2,954	0.60	3,261	0.80
Production and supply of electricity, heating, gas and water	298	0.11	231	0.09
Financial services	–	–	–	–
Wholesale and retail	3,190	1.42	3,039	1.70
Construction	790	0.40	641	0.41
Real estate	2,457	1.01	3,059	1.45
Mining	6	0.01	12	0.02
Water conservancy, environmental and public facilities management	1,031	0.66	489	0.38
Leasing and business services	1,544	0.83	917	0.62
Agriculture, forestry, animal husbandry and fishery	974	4.33	807	5.57
Information transmission, computer services and software	85	0.54	70	0.55
Accommodation and catering	119	1.66	153	3.64
Residential services and other services	69	1.58	67	1.89
Culture, sports and entertainment	32	0.22	43	0.35
Others(1)	120	0.33	140	0.46
Total	16,144	0.53	15,201	0.57

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

Movements of Allowance for Impairment Losses on Loans

Allowance for Impairment Losses of Customer Loans at Amortized Cost

In millions of RMB

Item	June 30, 2023			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2023	169,911	9,087	53,725	232,723
Transfers:				
Transfer to stage 1	2,402	(1,570)	(832)	–
Transfer to stage 2	(1,645)	2,743	(1,098)	–
Transfer to stage 3	(1,567)	(3,647)	5,214	–
Changes of ECL arising from transfer of stages	(1,570)	4,604	15,893	18,927
Financial assets derecognized or settled during the period	(44,819)	(1,846)	(9,812)	(56,477)
New financial asset originated or purchased	56,347	–	168	56,515
Remeasurement	(5,405)	(30)	1,512	(3,923)
Write-offs	–	–	(8,265)	(8,265)
Loss allowance as at June 30, 2023	173,654	9,341	56,505	239,500

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

In millions of RMB

Item	June 30, 2023			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2023	1,253	1	168	1,422
Transfers:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(4)	4	–	–
Transfer to stage 3	–	–	–	–
Changes of ECL arising from transfer of stages	–	3	–	3
Financial assets derecognized or settled during the period	(853)	(1)	(168)	(1,022)
New financial asset originated or purchased	466	–	–	466
Remeasurement	(197)	(1)	–	(198)
Write-offs	–	–	–	–
Loss allowance as at June 30, 2023	665	6	–	671

Large Exposure Management

In strict accordance with the requirements of Rules on Large Exposure of Commercial Banks, the Bank bolstered information system support for large risk exposure management, improved the monitoring and early warning management system for large exposure, strengthened control of customer concentration risk, and tightened management of large exposure through consolidation of financial statements, to continuously improve refined management capabilities of credit risk.

Market Risk

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

The Bank strictly followed the relevant regulatory requirements on market risk management and established a market risk management system commensurate with the business nature, scale and complexity of the Bank. The Board of Directors undertakes the ultimate responsibilities for monitoring the market risk management; the senior management is responsible for formulating, periodically reviewing and monitoring the implementation of the market risk management policies and procedures; the Risk Management Department is responsible for coordinating market risk management, the Asset and Liability Management Department is responsible for the interest rate risk management in banking book, and each business department is responsible for the market risk management in its field of business in accordance with the division of functions.

The Bank actively responded to market fluctuations, continuously monitored and analyzed market risk, strengthened the risk monitoring of key process in the treasury business, and enhanced the consolidated market risk management. During the reporting period, the Bank's market risks were generally under control.

Classification of Trading Book and Banking Book

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

Market Risk Management for Trading Book

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

During the reporting period, the Bank continued to optimize the market risk management system, completed the conversion of the international benchmark interest rate curve, tracked interest rate and exchange rate fluctuations in the financial markets, properly responded to and summarized risk warning and material risk events, and improved the closed-loop management of market risk emergency response. It reinforced technological empowerment, improved the market risk management system, built the monitoring model for key links of the treasury business, and pushed forward the development of the implementation system for standardized approaches for market risk under the new capital management approaches.

Market Risk Management for Banking Book

Management of Interest Rate Risk in Banking Book

Interest rate risk refers to the risk that causes losses to the economic value of books and overall earnings of banks due to adverse changes in interest rate and maturity structure, etc. The interest rate risk in the Bank's banking book mainly arises from the mismatch between the repricing periods of assets and liabilities as well as the inconsistent changes in their pricing basis.

The Bank mainly carried out management of interest rate risk in the banking book through repricing gap analysis, net interest income and economic value sensitivity analysis, limit management, duration management, stress testing and proactive adjustment of asset-liability structure. During the reporting period, the Bank paid close attention to the fluctuation of market interest rate and effect of events related to interest rate risk of offshore banks, strengthened the dynamic monitoring and analysis of the risk, and fully carried out special stress tests. It moderately optimized the interest rate risk limit management system, strengthened risk limit control for key businesses, actively adjusted the asset and liability structure, and continuously enriched the risk management toolbox, thereby continuously improving the ability to actively control and mitigate interest rate risk. During the reporting period, the overall interest rate risk of the Bank's banking book remained stable, and all risk indicators met the regulatory requirements.

Interest Rate Risk Analysis

Interest Rate Risk Gap

In millions of RMB

Item	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing
June 30, 2023	(2,876,343)	284,110	425,078	656,991	1,660,784	632,399
December 31, 2022	(333,680)	(795,752)	(831,211)	473,069	1,559,012	654,362

Interest Rate Sensitivity Analysis

We assume that the market interest rates move up or down in parallel, the repricing cycles of loans, time deposits and other businesses are determined according to the contract and the repricing cycles of non-fixed-term businesses such as demand deposits are set as overnight. Regardless of the risk management activities that may be taken by the management to mitigate interest rate risk, the interest rate sensitivity analysis of the Bank's banking book is as follows:

In millions of RMB

	June 30, 2023	December 31, 2022
Basis point movements in yield rate	Impact on net interest income	Impact on net interest income
Upward parallel shift of 100 bps for yield curves	(23,983)	(13,143)
Downward parallel shift of 100 bps for yield curves	23,983	13,143

Exchange Rate Risk Management

Exchange rate risk refers to the risk of losses in foreign exchange exposure arising from unbalanced foreign exchange assets and liabilities due to adverse movements in exchange rates. During the reporting period, relevant indicators of exchange rate risk met regulatory requirements, and the exchange rate risk was controllable on the whole.

During the reporting period, the Bank paid close attention to the impact of multiple interest rate hikes by the Federal Reserve on the international economy, actively studied and judged exchange rate fluctuations and future trends, and dynamically monitored and analyzed risk limits related to foreign exchange exposures. It carried out stress tests on a regular basis, and explored the proactive management for foreign exchange exposure, so as to ensure that the exchange rate 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 Condensed Consolidated Financial Statements – 41.4 Market risk – Foreign exchange rate risk".

Currency Concentration

In millions of RMB

Item	June 30, 2023			
	USD (in RMB equivalent)	HKD (in RMB equivalent)	Others (in RMB equivalent)	Total
Spot assets	88,406	920	7,559	96,885
Spot liabilities	(33,477)	(2,693)	(1,186)	(37,356)
Forward purchases	73,739	6,006	840	80,585
Forward sales	(102,811)	(3,648)	(9,232)	(115,691)
Net long/(short) position	**25,857**	**585**	**(2,019)**	**24,423**

Item	December 31, 2022			
	USD (in RMB equivalent)	HKD (in RMB equivalent)	Others (in RMB equivalent)	Total
Spot assets	78,939	854	6,581	86,374
Spot liabilities	(40,886)	(242)	(1,034)	(42,162)
Forward purchases	35,823	1,376	480	37,679
Forward sales	(49,599)	(1,407)	(6,218)	(57,224)
Net long/(short) position	**24,277**	**581**	**(191)**	**24,667**

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.

Governance Structure of Liquidity Risk Management

The governance structure of the Bank's liquidity risk management consists of the systems for decision making, execution and monitoring. Among them, 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 department responsible for liquidity management, 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 and sub-branches; the monitoring system consists of the Board of Supervisors, the Audit Department, and departments responsible for legal affairs and compliance, etc. The subsidiaries assume the primary responsibility for their own liquidity risk management.

Objective, Strategy and Policy of Liquidity Risk Management

The objective of liquidity risk management of the Bank is to effectively identify, measure, monitor and control liquidity risk via the establishment of a scientific and comprehensive liquidity risk management system, and to ensure the liquidity demand is satisfied and its payment obligation to external parties fulfilled promptly under the normal operation scenario and the stress scenario. The Bank adheres to a prudent and sound liquidity risk management strategy to strike a balance between fund sources and utilization in terms of their amount, maturities, and structure. The Bank, in accordance with the requirements of regulatory policies, changes in the external environment as well as the characteristics of its business, formulates liquidity risk management policies such as those on limit management, intraday liquidity management, stress testing and contingency plans, and manages the liquidity risk of the Bank in a centralized manner.

Liquidity Risk Management Method

The Bank paid close attention to changes in macroeconomic situation and monetary policies, closely monitored liquidity conditions of market and the Bank, and strengthened trend forecast and analysis on factors affecting liquidity. It strictly implemented limit management, strengthened its asset and liability portfolio and their matching management, and effectively controlled the risk of maturity mismatch. It adhered to the development philosophy of maintaining high-quality liabilities, ensured a stable source of deposits, and used interbank liabilities as liquidity replenishment and adjustment tool to enhance the diversification of capital sources. The Bank strengthened capital position management to meet various payment requirements. It also strengthened liquidity risk consolidated management to ensure safety of the Group's liquidity. The Bank continued to optimize its liquidity management system to enhance the level of informatization and intelligent management.

Key Factors Affecting Liquidity Risk

In addition to changes in macroeconomic situation, monetary policies and market liquidity conditions, 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 of assets and liabilities, difficulties in liquidating assets, and weakening in financing ability, etc.

In the first half of 2023, the situation for commercial banks to conduct liquidity risk management was complex and volatile. The Bank focused on the impact of external factors such as macroeconomic situation, market liquidity and changes in capital prices on liquidity. It also paid close attention to the fluctuation of internal capital sources, total size, structure and matching pace of assets and liabilities, and strengthened prospective and proactive management to effectively balance safety, liquidity and efficiency.

Liquidity Risk Stress Testing

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

Liquidity Risk Analysis

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 at the end of the reporting period, the liquidity ratio of the Bank was 87.38%; the liquidity coverage ratio was 245.25%; and the net stable funding ratio was 163.41%, 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
June 30, 2023	18,516	(3,876,824)	(200,667)	(232,765)	(3,035,012)	2,322,482	4,559,995	1,227,294	783,019
December 31, 2022	15,586	(4,005,681)	(541,711)	(1,319,402)	(935,554)	1,948,002	4,357,384	1,207,176	725,800

Liquidity Coverage Ratio

In millions of RMB, except for percentages

Item	June 30, 2023	December 31, 2022
High-quality liquid assets	2,540,306	2,601,067
Net cash outflow for the next 30 days	1,035,822	1,036,868
Liquidity coverage ratio (%)	245.25	250.86

Net Stable Funding Ratio

In millions of RMB, except for percentages

Item	June 30, 2023	March 31, 2023	December 31, 2022
Total available stable funding	12,526,993	12,568,022	12,035,369
Total required stable funding	7,665,836	7,471,007	7,080,701
Net stable funding ratio (%)	163.41	168.22	169.97

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

The formula for calculating the NSFR is: Net stable funding ratio = available stable funding (ASF)/required stable funding (RSF) x 100%

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

Operational Risk

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

The Bank continuously improved the operational risk management system, and enhanced the quality and efficiency of the application of operational risk management tools. It carried out the annual self-assessment of operational risk and control, and added key operational risk indicators on the basis of re-examination of key risk indicators. It further optimized the system of key operational risk indicators, implemented standardized collection of data on operational risk events and losses, consolidated the foundation for operational risk management, and refined operational risk management. The Bank worked towards the digital transformation of operational risk management in all aspects, adopted an agile iterative approach to optimize the functions of the operational risk management system, studied the access to related systems such as the legal affairs system, and expanded the loss data sources. The Bank developed and launched a new operational risk "cockpit" to create a multi-dimensional data analysis visual card, and worked to make the operational risk management system more intelligent. It issued the Notice on Further Enhancing the Application Effectiveness of Operational Risk Management Tools, which refined management measures and optimized the mechanism for operational risk management in six aspects, namely risk and control self-assessment, key risk indicators, loss data collection, information reporting, performance assessment and capacity building. It also advanced the regular implementation of operational risk management tools at agency outlets, to enhance the quality and efficiency of operational risk management.

Legal Risk

Legal risk refers to the risk of commercial banks suffering from adverse legal consequences including legal liabilities, loss of rights and reputational damage due to violation of laws and regulations or terms of contract of its business operations, non-compliance with laws and breach of contracts by others including the counterparty to the contract, and significant changes in the external legal environment. During the reporting period, the Bank's legal risk was manageable in general.

The Bank continued to improve the legal risk management system, and enhanced the capability for legal risk management, prevention and control. It prepared legal review guidelines, promoted the standardization of standardized contract texts and gradually improved the specialization and standardization level of legal review. It properly responded to major litigation and legal disputes, and effectively prevented and controlled litigation risks. The Bank stepped up civil procedures management, regularly summarized and promoted experience in responding to litigations, and worked to improve the capabilities of branches at all levels to safeguard rights and mitigate risks through legal approaches. It strengthened authorization management, optimized annual authorization and further refined authorization management. It tightened intellectual property management, and encouraged scientific and technological innovation, to facilitate the creation, use and protection of intellectual property rights. Moreover, the Bank actively carried out law publicity to enhance the legal awareness of all employees. It optimized the legal affairs system, and increased the technological support for legal risk prevention and control.

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

The Bank continued to improve the compliance management mechanism, kept advancing the compliance review of new systems, new products and new businesses, with a focus on forestalling and mitigating compliance risks from the source, and took the compliance review as an essential requirement for the formulation of rules and regulations, the decision-making of significant events, the operation of major projects and other business management behaviors. The Bank promoted the digitalization of compliance management, and enhanced the effectiveness of the enterprise knowledge management system in supporting compliance management. It optimized the external regulation and internal system module, completed the data access of more than 1.6 million external laws and regulations and the Head Office's policies, and realized the intelligent search, sorting and clustering of multiple data sources, hence improving the quality and efficiency of compliance review. Also, the Bank carried out sorting and re-examination of policies in an all-round way, made available the inquiry permissions of policy tree structure display module, and made the Bank's policy formulation and implementation more scientific and standard. It followed up with the latest changes in relevant laws, rules and guidelines of regulatory authorities as well as the Bank's internal policies in real time, compiled and issued regulatory trends and risk tips, made interpretation of new policies and regulations, and strengthened compliance risk monitoring. The Bank has established an internal control monitoring center to promote the centralized management of risk information verification by the compliance management system. It steadily carried out the pilot centralization work, improved the verification policies and rules, unified the verification standards, and greatly improved the quality and efficiency of the verification. It continuously developed its off-site monitoring and analysis system for internal control and further improved the model system to enhance its effectiveness in monitoring through organizing the establishment and optimization of the compliance management system model. It also leveraged the model data to carry out off-site inspections targeted at employees at key positions of the Bank and China Post Group.

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. Centering on core tasks such as customer due diligence, retention of customer identity information and transaction records, and suspicious transaction monitoring and analysis, the Bank continuously strengthened management mechanisms, optimized workflow processes, worked further to make the management of money laundering risk more digitalized and intensive, and improved the management of money laundering risk. During the reporting period, the Bank had no major money laundering risk events, and the money laundering risk was overall under control.

In strict compliance with AML laws and regulations, the Bank upheld the risk-based AML management concept, and sincerely fulfilled its legal obligations and social responsibilities concerning AML. It enhanced the AML duty performance mechanism, strengthened the building of the AML team, and improved the foundation and capabilities of performing AML duties. The Bank further clarified the boundaries between customer due diligence and money laundering risk management responsibilities, and promoted the effective implementation of policies related to customer-related money laundering risk management. It also deepened the application of self-assessment results of institution-related money laundering risk, improved the management measures for assessing money laundering risk associated with business, formulated policies for managing business-related money laundering risks, and continuously strengthened list-based monitoring and sanctions compliance risk management. The Bank initiated a consulting project to enhance the compliance and effectiveness of suspicious transaction monitoring standards, and continually refined the suspicious transaction monitoring model system. It also enhanced quality management of suspicious transaction analysis and improved the value of suspicious transaction reports. The Bank successfully launched the new generation AML system, which features more comprehensive and robust functions. Additionally, it initiated a project for AML data governance to reinforce data support for AML.

Information Technology Risk

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

Guided by its IT Planning for the 14th Five-Year Plan period, the Bank made every effort to speed up the building of its technological capability. Based on the campaign to upgrade IT risk management, the Bank launched the "Reinforcing Infrastructure and Securing Network" program to further improve the prevention and control of IT risk. It built robust and reliable IT infrastructure, improved the "Four Platforms" for operation and maintenance (i.e. integrated operation and maintenance management platform, unified monitoring platform, security management platform and cloud computing management platform), and pushed for a higher level of automated and intelligent operation and maintenance. Also, the Bank drove the implementation of its cyber safety plan, and put protection requirements for key IT infrastructures in place. It also deepened the transformation and upgrading of data governance, enhanced the value of data assets, and earnestly implemented the requirements concerning data safety and personal financial information protection. The Bank strengthened drills in complex scenarios, improved emergency response capabilities, and ensured uninterrupted services in critical periods and business peaks.

Reputational Risk

Reputational risk refers to the risk resulting from negative comments by stakeholders, the public, the media and other parties due to the Bank's institutional behaviors, employees' behaviors or external events, etc., which damages the brand value, adversely affects normal operations, and even affects market and social stability. During the reporting period, public opinions about the Bank remained overall positive, and no major reputational incident occurred. Through effective reputational risk management, the Bank created a favorable external public opinion environment for the transformation and development of the Bank and the implementation of various key tasks. The proper management of reputational risk also contributed to the sound and stable development of the banking industry and a favorable online public opinion environment.

Upholding the reputational risk management concept of "addressing both symptoms and root causes, with a focus on root causes", the Bank strictly implemented regulatory requirements and integrated reputational risk management into the Bank-wide comprehensive risk management system. It further strengthened the coordinated management of reputational risk and other types of risk, and continuously improved the management competency and professional level in reputational risk management. It pressed ahead with the management of reputational risk at earlier stages, and carried out screening of reputational risk. It conducted in-depth analysis of hidden reputational risk before taking targeted steps for control. By further optimizing the ex ante reputational risk evaluation mechanism, the Bank steadily expanded the scope of items to be evaluated, and consolidated management and control over reputational risk from the source. It continued to utilize information technology to improve the quality and effectiveness of reputational risk management, and constantly upgraded system functions, to give full play to the role of science and technology in supporting management of reputational risk. Moreover, the Bank further improved the closed-loop management mechanism of reputational events, and responded to and handled such events in an orderly manner. With the main focus on better telling PSBC stories, the Bank effectively carried out publicity activities on key themes such as supporting the real economy, serving rural revitalization, financing micro and small-sized enterprises, developing green finance, strengthening technology empowerment, and protecting consumer rights. It ensured effective publicity by coordinating the use of various media resources, enhancing outreach to both lower-tier markets and key urban branches. By doing so, the Bank achieved favorable outcomes in conveying its corporate image, facilitating market expansion, communicating investment value, and supporting business development. These efforts helped the Bank continue to accumulate reputation capital.

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 strategies, deviations in strategy implementation or failure to respond to changes in the external environment in a timely manner. During the reporting period, the Bank performed well in strategy implementation, and the strategic risk was generally under control.

The Bank centered its efforts around the strategic goals and policies of the 14th Five-Year Plan, while following the "5 plus 1" strategic path. By fostering innovation to ignite vitality, it earnestly advanced the implementation of key strategic measures and cultivated new advantages for differentiated development. By comprehensively assessing the implementation of strategies, the Bank fully identified and monitored various risk factors during the implementation of strategies, and increased the effectiveness of strategy management.

Country Risk

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

In strict compliance with country risk policies and relevant regulatory requirements, the Bank continuously improved its country risk management system, and managed country risk through a series of management instruments such as country risk rating, country risk limit, country risk exposure measurement and monitoring, and country risk reserve provisions. In the face of the complicated and changing international political and economic situations, the Bank closely tracked the changes in country risks of all countries or regions, and regularly monitored and reported the implementation of country risk limit and changes in country risk exposure, thus effectively controlling country risk.

Climate Risk

Climate risk refers to the potential adverse effects of climate change on the natural system and the economic and social system, mainly including physical risks and transition risks. Among them, physical risk refers to the risk of events such as climate anomalies and environmental pollution that may lead to severe damage to the balance sheets of enterprises, households, banks, insurance companies and other market entities, which in turn affects the financial system and the macro economy. Transition risk refers to the risk of repricing of high-carbon assets and financial losses due to significantly tightening of relevant policies such as carbon emissions or technological innovations, in order to address climate change and promote low-carbon economic transformation.

The Bank deepened environmental and climate risk management, and has conducted ESG and climate risk inspections for seven consecutive years. The Bank improved the construction of the environmental data platform of the "Jinjing" credit risk monitoring system, and introduced corporate customer data such as carbon emissions, actual annual discharge of wastewater and exhaust gas, and permitted emission limits. It accelerated the digital transformation of green finance, completed the development of "Green Credit Services Based on Big Data Technology", a pilot project of the comprehensive application of financial data of the Beijing Branch of the PBOC (previously known as the Operations Office of the PBOC), and strengthened environmental and climate risk management.

Risk Consolidated Management

Risk consolidated management refers to the continuous improvement of the comprehensive risk management framework of the Bank Group and its subsidiaries, and the management process of effectively identifying, measuring, monitoring and controlling the overall risk of the Bank Group. Pursuant to regulatory requirements, as at the end of the reporting period, the Bank's subsidiaries were all incorporated into its risk consolidated management framework. The overall risks of the Bank Group were manageable.

The Bank strictly followed national policies and relevant regulatory requirements and continuously improved the risk consolidated management system of the Bank Group. With a focus on the Bank Group's risk appetite plan, the Bank heightened the guidance and restraints of risk appetite limits on risk management for subsidiaries. It developed risk compliance assessment plans commensurate with the business characteristics and risk features of different subsidiaries. The Bank formed a long-term risk monitoring mechanism for subsidiaries, and kept abreast of their risk levels and management. In accordance with the regulatory requirements on the internal control measures for wealth management companies, the Bank oversaw that PSBC Wealth Management set up a comprehensive, balanced, appropriate and prudent internal control management mechanism and organizational structure. Also, it oversaw that PSBC Consumer Finance made great efforts to expand customer base and promote refined operation, and enhance its capabilities of controlling risks in proactive credit extension. In addition, the Bank oversaw that YOU⁺ BANK adhered to the original aspiration of inclusive finance and steadily advanced the data risk control capabilities based on real scenarios. At the same time, the Bank implemented the management requirements of regulators for the Bank Group's risk isolation, realized the coordination of business collaboration and risk isolation, and ensured that the risks of the Bank Group were controllable in general.

Capital Management

The objective of the Bank's capital management is to maintain a stable and reasonable capital adequacy level, and continuously meet regulatory policies and macro-prudential requirements; comprehensively establish and apply a value management system centered on economic capital, strengthen capital constraints, communicate the concept of value creation, continuously strengthen the Bank's capital, constantly improve the endogenous growth of capital and proactively expand channels for external capital replenishment.

During the reporting period, the Bank continued to improve its capital management system, effectively implemented regulatory requirements, stepped up refined capital management, steadily improved the capital replenishment by internal resources, and replenished capital through external sources in a reasonable and orderly manner, hence further enhancing its capabilities for serving the real economy, and effectively supporting the sustainable and healthy development of various businesses. In respect of internal sources, the Bank formulated rolling capital plans, strengthened capital constraints, improved the capital allocation, assessment and evaluation system, and continuously optimized the business structure, thereby enhancing the capital replenishment by internal sources. In respect of external sources, the Bank built up its capital strength through capital replenishment tools such as private placement and tier 2 capital bonds in a reasonable and orderly manner. As at the end of the reporting period, the Bank's capital indicators stayed within the reasonable range, and the capital adequacy ratios and the leverage ratio continued to meet all regulatory requirements including additional requirements for domestic systemically important banks and maintained at a sound and reasonable level.

Capital Adequacy Ratio

According to the requirements of the Capital Rules for Commercial Banks (Provisional) and its supporting policy documents, the Bank measured credit risk by weighted approach, market risk by standardized approach, and operational risk by basic indicator approach. As at the end of the reporting period, the core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were 9.42%, 11.19%, and 13.87%, respectively, details of which are as follows:

Capital Adequacy Ratio

In millions of RMB, except for percentages

	June 30, 2023		December 31, 2022	
Item	**The Group**	**The Bank**	The Group	The Bank
Core tier 1 capital – net	744,708	722,651	679,887	658,372
Tier 1 capital – net	884,843	862,637	820,013	798,358
Net capital	1,096,748	1,073,679	1,003,987	981,608
Risk-weighted assets	7,909,618	7,850,204	7,266,134	7,216,448
Credit risk-weighted assets	7,420,745	7,375,169	6,779,896	6,744,048
Market risk-weighted assets	55,441	55,441	52,806	52,806
Operational risk-weighted assets	433,432	419,594	433,432	419,594
Core tier 1 capital adequacy ratio (%)	9.42	9.21	9.36	9.12
Tier 1 capital adequacy ratio (%)	11.19	10.99	11.29	11.06
Capital adequacy ratio (%)	13.87	13.68	13.82	13.60

Market Risk Capital Requirements

In millions of RMB

Item	June 30, 2023	December 31, 2022
Interest rate risk	2,311	2,230
Exchange rate risk	2,125	1,994

Leverage Ratio

As at 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) was 5.57%, 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 refined management of economic capital and accelerated the implementation of the concept of achieving transformation and development with less capital consumption. It reinforced internal capital constraint and advanced the intensive use of capital. The Bank promoted greater application of the capital allocation mechanism with risk-adjusted return on capital (RAROC) as the core indicator, strictly controlled the inefficient use of capital and deepened capital conservation. It continuously promoted the application of internal rating results in economic capital measurement, allocation and performance assessment in an orderly manner. During the reporting period, the awareness of capital saving and value creation has been continuously enhanced across the Bank, and the capital consumption structure was continuously improved.

Capital Financing Management

On the basis of replenishing capital from internal sources through retained earnings, the Bank comprehensively utilized external financing instruments to replenish its capital.

In accordance with its capital requirements and capital replenishment plan, the Bank non-publicly issued 6,777,108,433 A shares of ordinary shares in March 2023 at an issue price of RMB6.64 per share, raising a total of approximately RMB45 billion. After deducting the issuance cost, actual net proceeds were approximately RMB44,980.159 million, all of which were used to replenish core tier 1 capital. Please refer to "Changes in Share Capital and Shareholdings of Shareholders" for details.

The Bank publicly issued RMB20.0 billion tier 2 capital bonds in aggregate in the national Interbank Bond Market in May 2023, with all proceeds used to replenish tier 2 capital in accordance with applicable laws and approval of the competent authorities.

Corporate Governance

PSBC's Panjin Branch in Liaoning Province empowered the agriculture modernization with innovation in financial services.

Changes in Share Capital and Shareholdings of Shareholders

Ordinary Shares

As at the end of the reporting period, the total number of ordinary shares of the Bank amounted to 99,161,076,038, including 79,304,909,038 A shares and 19,856,167,000 H shares, accounting for 79.98% and 20.02% of all shares respectively.

Details of Changes in Shares

share, except for percentages

	As at December 31, 2022		Increase/decrease (+, -) during the reporting period					As at June 30, 2023	
	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 selling restrictions	61,253,339,187	66.30	+6,777,108,433	–	–	-55,847,933,782	-49,070,825,349	12,182,513,838	12.29
1. Shareholdings of the State	–	–	–	–	–	–	–	–	–
2. Shareholdings of state-owned legal entities	61,253,339,187	66.30	+6,777,108,433	–	–	-55,847,933,782	-49,070,825,349	12,182,513,838	12.29
3. Other domestic shareholdings	–	–	–	–	–	–	–	–	–
Including: Shareholdings of domestic non-state-owned legal entities	–	–	–	–	–	–	–	–	–
Shareholdings of domestic natural persons	–	–	–	–	–	–	–	–	–
4. Foreign shareholdings	–	–	–	–	–	–	–	–	–
Including: Shareholdings of foreign legal entities	–	–	–	–	–	–	–	–	–
Shareholdings of foreign natural persons	–	–	–	–	–	–	–	–	–
II. Circulating shares not subject to selling restrictions	31,130,628,418	33.70	–	–	–	+55,847,933,782	+55,847,933,782	86,978,562,200	87.71
1. RMB ordinary shares	11,274,461,418	12.21	–	–	–	+55,847,933,782	+55,847,933,782	67,122,395,200	67.69
2. Domestically listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas listed foreign shares	19,856,167,000	21.49	–	–	–	–	–	19,856,167,000	20.02
4. Others	–	–	–	–	–	–	–	–	–
III. Total ordinary shares	92,383,967,605	100.00	+6,777,108,433	–	–	–	+6,777,108,433	99,161,076,038	100.00

Changes in Ordinary Shares

Pursuant to the Approval of the Non-public Issuance of Shares by Postal Savings Bank of China Co., Ltd. (Zheng Jian Xu Ke [2023] No. 340) issued by the CSRC on February 16, 2023, the Bank completed the non-public issuance of 6,777,108,433 A shares of ordinary shares in March 2023. The closing price of the A shares of the Bank on the date of signing the subscription agreement (i.e. February 24, 2023) was RMB4.54 per share. After issuance, the Bank raised a total of around RMB45,000 million at an issue price of RMB6.64 per share. After deducting the issuance fee, the actual net proceeds raised totaled RMB44,980.159 million, and net proceeds per share was approximately RMB6.64. After completion of the non-public issuance, total number of shares of the Bank increased from 92,383,967,605 to 99,161,076,038. For details, please refer to the announcement of the Bank dated March 29, 2023.

Impact of Changes in Ordinary Shares on Financial Indicators such as Earnings per Share and Net Assets per Share

During the reporting period, the Bank completed the non-public offering of ordinary A shares. After the issuance, the total number of shares of the Bank increased from 92,383,967,605 to 99,161,076,038, with an increase of RMB6,777,108,433.00 in share capital and RMB38,203,050,586.96 in capital reserve.

RMB Yuan

Item	January to June 2023	January to June 2023 under same standard (1)
Basic earnings per share	0.46	0.48
Diluted earnings per share	0.46	0.48
Net assets per share attributable to ordinary shareholders of the Bank	7.55	7.62

Note (1): Basic earnings per share, diluted earnings per share and net assets per share attributable to ordinary shareholders of the Bank for January to June 2023 under same standard are calculated on the basis of no share issuance in 2023.

There was no change in ordinary shares of the Bank between the end of the reporting period and the disclosure date of this report.

Changes in Share Capital and Shareholdings of Shareholders

Changes in Shares Subject to Selling Restrictions

Share

Name of shareholder	Number of shares subject to selling restrictions at the beginning of 2023	Shares released from selling restrictions in 2023	Increase in shares subject to selling restrictions in 2023	Number of shares subject to selling restrictions at the end of the reporting period	Reason for selling restrictions	Date of release from selling restrictions
China Post Group Corporation Limited	55,847,933,782	55,847,933,782	–	–	Commitments on selling restrictions of initial public offering of A shares	June 12, 2023
	5,405,405,405	–	–	5,405,405,405	Commitments on selling restrictions of non-public issuance of A shares	March 25, 2026
China Mobile Communications Group Co., Ltd.	–	–	6,777,108,433	6,777,108,433	Commitments on selling restrictions of non-public issuance of A shares	March 28, 2028
Total	61,253,339,187	55,847,933,782	6,777,108,433	12,182,513,838	/	/

Number of Shareholders and Shareholdings

As at the end of the reporting period, the Bank had a total number of 165,705 ordinary shareholders (including 163,209 A-share holders and 2,496 H-share holders) and no holders of preference shares with voting rights restored.

The shareholdings of top 10 ordinary shareholders as at the end of the reporting period are as follows:

Shareholdings of Top Ten Ordinary Shareholders

share, except for percentages

Name of shareholder	Number of shares held	Shareholding percentage (%)	Number of shares subject to selling restrictions	Number of shares pledged, marked or locked-up	Nature of shareholder	Type of ordinary shares
China Post Group Corporation Limited	62,255,549,280	62.78	5,405,405,405	–	State-owned legal entity	RMB ordinary shares, overseas listed foreign shares
HKSCC Nominees Limited	19,843,174,510	20.01	–	Unknown	Foreign legal entity	Overseas listed foreign shares
China Mobile Communications Group Co., Ltd.	6,777,108,433	6.83	6,777,108,433	–	State-owned legal entity	RMB ordinary shares
China Life Insurance Company Ltd.	1,730,893,405	1.75	–	–	State-owned legal entity	RMB ordinary shares
China Telecommunications Corporation Limited	1,117,223,218	1.13	–	–	State-owned legal entity	RMB ordinary shares
Hong Kong Securities Clearing Company Limited	845,339,434	0.85	–	–	Foreign legal entity	RMB ordinary shares
Shanghai International Port (Group) Co., Ltd.	112,539,226	0.11	–	–	State-owned legal entity	RMB ordinary shares
Shanghai Pudong Development Bank Co., Ltd. – E Fund Yufeng Return Bond Fund	91,121,435	0.09	–	–	Other	RMB ordinary shares
E Fund Management Co., Ltd. – Social Security Fund Portfolio 1104	89,241,576	0.09	–	–	Other	RMB ordinary shares
New China Life Insurance Co., Ltd. – Traditional – General Insurance Products – 018L – CT001 Shanghai	88,652,095	0.09	–	–	Other	RMB ordinary shares

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

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

Note (3): HKSCC Nominees Limited is a wholly-owned subsidiary of Hong Kong Securities Clearing Company Limited (HKSCC). Apart from this, the Bank is not aware of any connected relations among the aforementioned shareholders or whether they constitute persons acting in concert as stipulated in the Administrative Measures for the Takeover of Listed Companies.

Note (4): Except for the unknown situation of HKSCC Nominees Limited, as at the end of the reporting period, the remaining top ten ordinary shareholders of the Bank did not participate in margin trading, short selling or refinancing.

Note (5): The above shareholders do not have special repurchase accounts nor do they involve delegation/entrustment of voting rights or abstention of voting rights.

Note (6): In March 2023, the Bank completed the non-public offering of 6,777,108,433 new shares, and China Mobile Communications Group Co., Ltd. became one of the top ten ordinary shareholders due to placement of new shares. Save as disclosed above, no other strategic investor or general legal entity became the top ten ordinary shareholders of the Bank due to placement of new shares.

Shareholdings of the Top Ten Shareholders Not Subject to Selling Restrictions

Share

Name of shareholder	Number of circulating shares held not subject to selling restrictions	Type and number of shares: Type	Type and number of shares: Number
China Post Group Corporation Limited	56,850,143,875	RMB ordinary shares	56,769,443,875
		Overseas listed foreign shares	80,700,000
HKSCC Nominees Limited	19,843,223,510	Overseas listed foreign shares	19,843,223,510
China Life Insurance Company Ltd.	1,730,893,405	RMB ordinary shares	1,730,893,405
China Telecommunications Corporation Limited	1,117,223,218	RMB ordinary shares	1,117,223,218
Hong Kong Securities Clearing Company Limited	845,339,434	RMB ordinary shares	845,339,434
Shanghai International Port (Group) Co., Ltd.	112,539,226	RMB ordinary shares	112,539,226
Shanghai Pudong Development Bank Co., Ltd. – E Fund Yufeng Return Bond Fund	91,121,435	RMB ordinary shares	91,121,435
E Fund Management Co., Ltd. – Social Security Fund Portfolio 1104	89,241,576	RMB ordinary shares	89,241,576
New China Life Insurance Co., Ltd. – Traditional – General Insurance Products – 018L – CT001 Shanghai	88,652,095	RMB ordinary shares	88,652,095
National Social Security Fund Portfolio 108	79,345,100	RMB ordinary shares	79,345,100

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

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

Note (3): HKSCC Nominees Limited is a wholly-owned subsidiary of Hong Kong Securities Clearing Company Limited (HKSCC). Apart from this, the Bank is not aware of any connected relations among the aforementioned shareholders or whether they constitute persons acting in concert as stipulated in the Administrative Measures for the Takeover of Listed Companies.

Note (4): Except for the unknown situation of HKSCC Nominees Limited, as at the end of the reporting period, the remaining top ten ordinary shareholders of the Bank did not participate in margin trading, short selling or refinancing.

Note (5): The above shareholders do not have special repurchase accounts nor do they involve delegation/entrustment of voting rights, abstention of voting rights, nor do any strategic investor or general legal entity become top ten shareholders not subject to selling restrictions due to placement of new shares.

Shareholdings of the Top Ten Shareholders Subject to Selling Restrictions

Share

Name of shareholder	Number of shares subject to selling restrictions	Conditions for listing and trading of shares subject to selling restrictions		Selling restrictions
		Date on which listing and trading may commence	Number of new shares allowed to be listed and traded	
China Post Group Corporation Limited	5,405,405,405	March 25, 2026	–	60 months since the date of the non-public issuance of A shares of the Bank in 2021
China Mobile Communications Group Co., Ltd.	6,777,108,433	March 28, 2028	–	60 months since the date of the non-public issuance of A shares of the Bank in 2023

Strategic Investor or General Legal Entity Becoming Top Ten Shareholders Due to Placement of New Shares

Name of strategic investor or general legal entity	Agreed start date of shareholding	Agreed end date of shareholding
China Mobile Communications Group Co., Ltd.	March 28, 2023	–

Shareholdings by the Directors, Supervisors and Senior Management Members

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

Substantial Shareholders

According to the Interim Measures on Equity Management of Commercial Banks published by the former CBIRC, China Post Group and China Mobile Communications Group Co., Ltd. are substantial shareholders of the Bank as each of them holds more than 5% of interest in the Bank; China State Shipbuilding Corporation Limited ("CSSC") and Shanghai International Port (Group) Co., Ltd. ("SIPG") are substantial shareholders of the Bank as each of them designates Directors to the Bank.

Basic Information of Substantial Shareholders

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

Controlling Shareholder and De Facto Controller

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

Other Substantial Shareholders

China Mobile Communications Group Co., Ltd. ("China Mobile Group") 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 RMB300 billion. Its registered address is No. 29 Financial Street, Xicheng District, Beijing. Its unified social credit code is 911100007109250324, and the legal representative is Yang Jie. China Mobile Group, a central state-owned enterprise established on July 22, 1999 in accordance with the overall plan of the national telecommunications system reform, is the world's largest mobile communications service provider with over 900 million mobile users and over 200 million household customers. China Mobile Group is principally engaged in basic telecommunications business, value-added telecommunications business, and innovative digital services such as digital media content and information solutions. As a unit which holds the license for operating international networking of computer information and international communication accesses, China Mobile Group is able to provide quality products and services related to information and communication, and integrated information solutions to individuals, families, government agencies, enterprises and other customers.

China State Shipbuilding Corporation Limited ("CSSC") is a wholly state-owned enterprise established on November 8, 2019 under the Company Law of the People's Republic of China by the state with a registered capital of RMB110 billion. Its registered address is No. 889 Zhonghua Road, Huangpu District, Shanghai and its unified social credit code is 91310000MA1FL70B67 and the legal representative is Wen Gang. CSSC has the largest shipbuilding and repair base in China and the most complete research and development capacity for shipping and supporting products. It is the world's largest shipbuilding group capable of designing and building shipping and marine equipment that meet the requirements of global classification societies, international general technical standards and safety conventions. CSSC 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.

Shanghai International Port (Group) Co., Ltd. ("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. The registered capital of SIPG is approximately RMB23.279 billion. 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. Its ultimate controller is Shanghai State-owned Assets Supervision and Administration Commission. SIPG is mainly engaged in port-related business including container services, bulk cargo services, port logistics and port services.

Pledging of the Bank's Shares by Its Substantial Shareholders

As at the end of the reporting period, CSSC pledged 1,560,000,000 ordinary shares of the Bank, accounting for 1.57% of the total share capital of the Bank, and there was no share pledge by other substantial shareholders of the Bank.

Related Parties of Substantial Shareholders and Connected Transactions

About 1,700 institutions including the above-mentioned substantial shareholders and their controlling shareholders, de facto controllers, related parties, persons acting in concert and ultimate beneficiaries are regarded as related parties of the Bank. During the reporting period, the types of transactions between the Bank and the above-mentioned related parties mainly included credit extension, asset transfer, service provision, etc. These connected transactions were included in the routine connected transaction management of the Bank and submitted to the Board of Directors and its Related Party Transactions Control Committee for approval or kept on record.

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, saved as disclosed below, 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 were required 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:

share, except for percentages

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 Corporation Limited	Beneficial owner	A shares	62,174,849,280	Long position	78.40	62.70
	Beneficial owner	H shares	80,700,000	Long position	0.41	0.08
China Mobile Communications Group Co., Ltd.	Beneficial owner	A shares	6,777,108,433	Long position	8.55	6.83
China State Shipbuilding Corporation Limited	Interest of controlled corporations	H shares	3,939,907,462	Long position	19.84	3.97
Shanghai International Port (Group) Co., Ltd.	Beneficial owner and interest of controlled corporations	H shares	3,702,921,041	Long position	18.65	3.73
	Beneficial owner	A shares	112,539,226	Long position	0.14	0.11
Li Ka-Shing	Interest of controlled corporations	H shares	1,774,700,000	Long position	8.94	1.79
	Founder of discretionary trust	H shares	196,138,000	Long position	0.99	0.20
Li Tzar Kuoi, Victor	Interest of controlled corporations	H shares	1,774,700,000	Long position	8.94	1.79
	Potential beneficiary of a discretionary trust	H shares	196,138,000	Long position	0.99	0.20
China National Tobacco Corporation	Beneficial owner	H shares	1,296,000,000	Long position	6.53	1.31
Li Lu	Interest of controlled corporations	H shares	1,274,411,000	Long position	6.42	1.29
The Capital Group Companies, Inc.	Interest of controlled corporations	H shares	1,203,366,000	Long position	6.06	1.21
BNP PARIBAS SA	Interest of controlled corporations	H shares	1,545,250,830	Long position	7.78	1.56
	Interest of controlled corporations	H shares	197,955,033	Short position	1.00	0.20
CITIC Securities Company Limited	Interest of controlled corporations	H shares	1,652,007,744	Long position	8.32	1.67
	Interest of controlled corporations	H shares	2,595,731,797	Short position	13.07	2.62

Note (1): The 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 met. When a shareholder's shareholding in the Bank changes, the shareholder is not required to inform the Bank and Hong Kong Stock Exchange unless certain criteria are met, therefore the shareholder's latest shareholding in the Bank may differ from the shareholding filed with Hong Kong Stock Exchange.

Note (2): China State Shipbuilding Corporation Limited is interested in a total of 3,939,907,462 H shares (long position), of which 3,777,884,462 H shares (long position) are indirectly held by controlled corporations, namely China Shipbuilding Industry Corporation, China Shipbuilding & Offshore International Co., Limited, China Shipbuilding & Offshore International (H.K.) Co., Limited and China Shipbuilding Capital Limited through CSIC Investment One Limited as the beneficial owner, and 162,023,000 H shares (long position) are indirectly held by the controlled corporation China Shipbuilding Industry Corporation through China Shipbuilding Capital Limited as the beneficial owner.

Note (3): Shanghai International Port (Group) Co., Ltd. is interested in a total of 3,702,921,041 H shares (long position), of which 337,300,000 H shares (long position) are beneficially owned by it, 3,215,660,360 H shares (long position) are beneficially owned by the controlled corporation Shanghai International Port Group (HK) Co., Limited; and 149,960,681 H shares (long position) are indirectly held by the controlled corporation Shanghai International Port Group (HK) Co., Limited through Shanghai Port Group (BVI) Holding Co., Limited as the beneficial owner.

Note (4): Mr. Li Ka-Shing and Mr. Li Tzar Kuoi, Victor is each interested in a total of 1,970,838,000 H shares (long position), of which 1,108,228,000 H shares (long position), 397,221,000 H shares (long position), 269,251,000 H shares (long position) and 196,138,000 H shares (long position) are beneficially owned by the controlled corporation Li Ka Shing (Canada) Foundation, Li Ka Shing (Global) Foundation, Li Ka Shing Foundation Limited and Silvery Ring Limited.

Note (5): Li Lu is interested in 1,274,411,000 H shares (long position) indirectly held by the controlled corporation LL Group, LLC through Himalaya Capital Investors, L.P. as the beneficial owner. Himalaya Capital Management LLC is interested in the 1,274,411,000 H shares (long position) as the investment manager.

Note (6): The Capital Group Companies, Inc. is interested in a total of 1,203,366,000 H shares (long position), including 1,131,816,000 H shares (long position), 6,523,000 H shares (long position) and 65,027,000 H shares (long position) held by the controlled corporations Capital Research and Management Company, Capital International Sarl and Capital International, Inc. as beneficiary owners.

Note (7): BNP PARIBAS SA is deemed to be interested in a total of 1,545,250,830 H shares (long position) and 197,955,033 H shares (short position) as it controls several enterprises, of which 1,297,692,946 H shares (long position) are available for lending, 116,837,789 H shares (long position) and 106,540,595 H shares (short position) are owned through holding listed derivatives of convertible instruments, and 57,041,925 H shares (long position) are owned through holding unlisted derivatives delivered via cash.

Note (8): CITIC Securities Company Limited is deemed to be interested in a total of 1,652,007,744 H shares (long position) and 2,595,731,797 H shares (short position) as it controls several enterprises, including 26,427,459 H shares (long position) and 1,297,173,870 H shares (short position) held through holding listed derivatives of convertible instruments, 327,826,130 H shares (long position) and 1,297,753,870 H shares (short position) held through holding unlisted derivatives delivered in kind, and 804,057 H shares (short position) held through holding unlisted derivatives delivered in cash.

Issuance and Listing of Securities

Type of equity and derivative securities	Issuing date	Issue price (RMB/share)	Issuing quantity (share)	Listing date	Permitted trading volume (share)	Termination date of transaction
RMB ordinary shares	March 28, 2023	6.64	6,777,108,433	March 28, 2023	6,777,108,433	–

For details of the issuance of other securities of the Bank during the reporting period, please refer to "Notes to the Condensed Consolidated Financial Statements – 29 Debt securities issued" and "Notes to the Condensed Consolidated Financial Statements – 31.2 Other equity instruments".

The Bank has no employee stocks.

Corporate Governance

Overview of Corporate Governance

During the reporting period, the Bank complied with laws and regulations, requirements for corporate governance of the NAFR, CSRC, SSE and other regulatory authorities as well as the principles and code provisions of the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules. It continued to improve the management mechanism, and enhanced the quality and efficiency of corporate governance based on its corporate governance practices.

During the reporting period, the Bank convened one Shareholders' General Meeting, with 12 proposals reviewed and approved and 4 reports heard. Details are as follows:

Meeting	Date	Websites for publishing announcements	Disclosure date	Meeting resolutions
2022 Annual General Meeting	June 30, 2023	The announcement on resolutions is published on the websites of SSE (www.sse.com.cn), Hong Kong Stock Exchange (www.hkexnews.hk) and the Bank on June 30, 2023.	June 30, 2023	See the Announcement on Poll Results of the 2022 Annual General Meeting of PSBC

During the reporting period, the Bank convened a total of 4 meetings of the Board of Directors (3 on-site meetings and 1 meeting by written circulation), at which 51 proposals were reviewed and 12 reports were heard. The special committees of the Board of Directors convened 19 meetings (4 by Strategic Planning Committee, 1 by Related Party Transactions Control Committee, 3 by Audit Committee, 5 by Risk Management Committee, 4 by Nomination and Remuneration Committee and 2 by Social Responsibility and Consumer Rights Protection Committee), at which 51 proposals were reviewed and 9 reports were heard.

During the reporting period, the Board of Supervisors convened a total of 4 meetings (3 on-site meetings and 1 meeting by written circulation), at which 49 proposals and supervision matters were reviewed. The special committees of the Board of Supervisors convened 7 meetings (1 by Nomination Committee, 3 by Duty Performance Supervision Committee and 3 by Finance and Internal Control Risk Supervision Committee), at which 19 proposals were reviewed.

Directors, Supervisors and Senior Management

Directors, Supervisors and Senior Management

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

The Board of Directors consisted of 12 directors in total, including 2 Executive Directors, namely Mr. Liu Jianjun (performing the duties on behalf of Chairman)[1] and Ms. Yao Hong; 5 Non-executive Directors, namely Mr. Han Wenbo, Mr. Chen Donghao, Mr. Wei Qiang, Mr. Liu Yue and Mr. Ding Xiangming; and 5 Independent Non-executive Directors, namely Mr. Wen Tiejun, Mr. Chung Shui Ming Timpson, Mr. Hu Xiang, Ms. Pan Yingli and Mr. Tang Zhihong.

The Board of Supervisors consisted of 6 supervisors, including Mr. Chen Yuejun, the Chairman and Shareholder Representative Supervisor; Shareholder Representative Supervisor Mr. Zhao Yongxiang; 2 External Supervisors, namely Mr. Bai Jianjun and Mr. Chen Shimin; and 2 Employee Supervisors, namely Mr. Li Yue and Mr. Gu Nannan.

The Bank had a total of 7 senior management members, namely Mr. Liu Jianjun, Ms. Yao Hong, Mr. Xu Xueming, Mr. Du Chunye, Mr. Niu Xinzhuang, Ms. Wang Fei and Mr. Liang Shidong.

1 This is a transitional arrangement. For details of the Bank's compliance with code provision C.2.1 of the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules, please refer to "Corporate Governance" in the 2022 Annual Report of the Bank.

Changes in Directors, Supervisors and Senior Management

Changes in Directors

According to the resolution of the Board of Directors of the Bank and upon approval by the former CBIRC on March 10, 2023, Mr. Tang Zhihong has been serving as Independent Non-executive Director, Chairman and member of the Related Party Transactions Control Committee of the Board of Directors, member of the Risk Management Committee of the Board of Directors and member of the Nomination and Remuneration Committee of the Board of Directors of the Bank, with a three-year term of office. Mr. Fu Tingmei no longer serves as Independent Non-executive Director or at relevant special committees of the Board of Directors of the Bank from the date when Mr. Tang Zhihong took office. For details, please refer to the announcements of the Bank dated October 26, 2022 and March 16, 2023.

On April 19, 2023, Mr. Zhang Xuewen reached the mandatory retirement age, and resigned from positions as Executive Director, member of the Strategic Planning Committee of the Board of Directors, member of the Related Party Transactions Control Committee of the Board of Directors and member of the Nomination and Remuneration Committee of the Board of Directors of the Bank. For details, please refer to the announcement of the Bank dated April 19, 2023.

On May 29, 2023, the Board of Directors of the Bank nominated Mr. Huang Jie and Mr. Li Chaokun as candidates for Non-executive Directors of the Bank. At the 2022 Annual General Meeting of the Bank held on June 30, 2023, Mr. Huang Jie and Mr. Li Chaokun were elected as Non-executive Directors of the Bank. Their qualifications as directors are subject to approval by the NAFR. For details, please refer to the announcements of the Bank dated May 29, 2023 and June 30, 2023.

Changes in Supervisors

On May 29, 2023, Mr. Bu Dongsheng resigned from positions as Employee Supervisor and member of the Finance and Internal Control Risk Supervision Committee of the Board of Supervisors of the Bank due to expiry of term of office. As the composition of the Board of Supervisors of the Bank met the requirement for the proportion of external supervisors, Mr. Wu Yu no longer serves as External Supervisor, Chairman and member of the Finance and Internal Control Risk Supervision Committee of the Board of Supervisors of the Bank from the date of resignation of Mr. Bu Dongsheng. For details, please refer to the announcement of the Bank dated May 29, 2023.

Changes in Senior Management

On April 19, 2023, Mr. Zhang Xuewen reached the mandatory retirement age, and resigned from the position as Vice President of the Bank. For details, please refer to the announcement of the Bank dated April 19, 2023.

On April 19, 2023, Mr. Qu Jiawen reached the mandatory retirement age, and resigned from the position as Vice President of the Bank. For details, please refer to the announcement of the Bank dated April 19, 2023.

On April 19, 2023, Ms. Wang Fei began to serve as Secretary of the Discipline Inspection Committee of the Bank.

On April 27, 2023, the Board of Directors of the Bank appointed Mr. Niu Xinzhuang as Vice President of the Bank. On June 6, 2023, the qualifications of Mr. Niu Xinzhuang were approved by the NAFR. For details, please refer to the announcement of the Bank dated April 27, 2023 and June 8, 2023.

On May 29, 2023, the Board of Directors of the Bank appointed Ms. Yao Hong to concurrently serve as Chief Risk Officer of the Bank; and Mr. Liang Shidong ceased to serve as Chief Risk Officer of the Bank. For details, please refer to the announcement of the Bank dated May 29, 2023.

On May 29, 2023, the Board of Directors of the Bank appointed Mr. Liang Shidong as Chief Retail Banking Officer of the Bank. His qualification was approved by the NAFR on July 14, 2023. For details, please refer to the announcement of the Bank dated May 29, 2023 and July 21, 2023.

Changes in Biographies of Directors, Supervisors and Senior Management

Changes in Biographies of Directors

Starting from June 2023, Mr. Hu Xiang no longer serves as Independent Director of New China Fund Management Co., Ltd. and Chairman of Shanghai TURIN Chi Robot Co., Ltd., but continues to serve as Director of Shanghai TURIN Chi Robot Co., Ltd.

Changes in Biographies of Supervisors

Starting from February 2023, Mr. Zhao Yongxiang began to serve as Senior Manager of Discipline Inspection Office of the Leading Party Members' Group of China Post Group, and ceased to serve as Managing Director and Inspection Commissioner of Discipline Inspection Office of the Leading Party Members' Group of China Post Group.

In March 2023, Mr. Chen Shimin no longer serves as Independent Director of Huaxia Happiness Foundation Co., Ltd.

In June 2023, Mr. Bai Jianjun no longer serves as Independent Director of Sichuan Xinwang Bank Co., Ltd.

Changes in Biographies of Senior Management

In April 2023, Mr. Du Chunye also served as Member Representative of Natural Persons of China Association for Public Companies (i.e. Vice President of Members).

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

Name	Name of company	Major titles	Tenure
Liu Jianjun	China Post Group	Vice President	May 2021 till present
Han Wenbo	China Post Group	Board Member	February 2021 till present
Chen Donghao	China Post Group	Board Member	February 2021 till present
Ding Xiangming	SIPG	Vice President	July 2013 till present
		Secretary to the Board of Directors	March 2014 till present
		General Counsel	November 2022 till present
Zhao Yongxiang	China Post Group	Senior Manager of Discipline Inspection Office of the Leading Party Members' Group	February 2023 till present

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

Profit and Dividends Distribution

The Bank reviewed and approved the profit distribution plan for 2022 at the 2022 Annual General Meeting held on June 30, 2023. On the basis of 99,161,076,038 ordinary shares of the Bank, the Bank distributed cash dividends of RMB2.579 (before tax) per ten shares, totaling approximately RMB25,574 million (before tax), to all the ordinary shareholders whose names appeared on the share register on the record date. The profit distribution scheme has been implemented completely. The Bank did not declare or distribute interim dividends of 2023, nor did it convert any capital reserve to share capital.

Significant Events

Internal Control and Internal Audit

Internal Control

The Bank has established an internal control governance and organizational structure with reasonable division of labor, clear responsibilities and clear reporting relationships which consists of the Board of Directors, the Board of Supervisors, senior management, functional departments of internal control management, internal audit departments and business departments. 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 Bank continuously refined the internal control system, advanced the rigid control of problems identified in inspections, and established a regular, process-based and professional closed-loop governance mechanism of "problem identification – system optimization – review and assessment – root cause rectification". It carried out in-depth publicity and education on compliance, and organized a series of activities such as internal control and compliance knowledge competition, Top 10 Risk Managers Competition and "Publicize Compliance Culture at Primary Level". It established a tour publicity mechanism for case warning education, and gave full play to its advantages in wide presence of outlets to launch publicity on prevention of illegal fund-raising and regular crackdown on gang crimes at multiple levels and via multiple channels and forms, hence enhancing the risk prevention awareness and capacity of internal employees and customers. It also developed and launched the "Employee Risk Profile" function, and built a multi-dimensional, objective and comprehensive employee risk rating system. Furthermore, the Bank strengthened the accountability management for non-compliance, revised and issued the score-based management measures for minor non-compliance of employees, and optimized the scoring principle and updated entries for non-compliant behaviors. It further clarified the accountability bottom line standard for serious non-compliant behaviors.

Internal Audit

The Bank implements an internal audit system, establishes an independent vertical audit system consisting of the Audit Department at the Head Office, regional audit offices and audit divisions, forms an audit management structure that accommodates to the Bank's business development and governance, and develops and effectively implements an internal audit reporting system and reporting lines. The Audit Department at the Head Office is responsible to the Board of Directors and the Audit Committee thereunder, regularly reports to the Board of Directors, the Audit Committee thereunder and the Board of Supervisors, and notifies the senior management.

The Audit Department 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 Bank-wide audit activities in accordance with the Guidelines for the Internal Audit of Commercial Banks and the audit charter of the Bank. The Audit Department at the Head Office has seven regional audit offices thereunder and directly manages Beijing Audit Division. The 7 regional audit offices manage 28 audit divisions by jurisdiction. The audit offices shall implement the annual audit plan of the Head Office, allocate audit projects and resources under jurisdiction, carry out the audits of tier-1 branches and their subordinate institutions under jurisdiction, and conduct routine audit projects such as audits for local branch managers when leaving office and audits upon local regulatory requirements. The audit divisions shall execute the audit tasks assigned and be responsible for routine audits such as audits for local branch managers when leaving office and audits upon local regulatory requirements.

During the reporting period, the internal audit of the Bank adhered to the philosophy of problem-oriented, risk-based and efficiency-first audit, and carried out a series of audit activities centering on the decisions and plans of the central government, regulatory requirements and the Bank's business strategy. Focusing on important businesses, key areas and major tasks, the Bank intensified efforts in governance and internal control, risk prevention, compliant operation, financial income and expenses, information technology, duty performance of senior management, business innovation, transformation and development, asset quality and policy implementation. Leveraging the role of supervision, evaluation and consultation, the Bank effectively revealed prominent problems and potential risks, and put forward audit opinions and suggestions on policies, procedures, systems and mechanisms, system operation, operation quality and efficiency, and management and internal control, effectively promoted the Bank to enhance corporate governance, improve internal control and compliance, refine operation and management, and strengthen risk management and control, and continuously urged and tracked the rectification of audit findings.

During the reporting period, the internal audit of the Bank focused on its main responsibility and primary business, and strengthened the audit system development. The Bank improved the audit rules and standards, and strictly controlled the audit quality. It pushed forward the IT-based audit and promoted the digital transformation of audit. It also strengthened the audit team building and enhanced the professional competency. It facilitated the application of audit results, and improved the supervision effect. It continuously expanded the scope and depth of internal audit, thus providing solid support to the Bank's steady operation and high-quality development.

Use of Proceeds from Fund-Raising Activities

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

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

Material Legal Proceedings and Arbitration

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

As at the end of the reporting period, the Bank was the defendant or arbitration respondent in certain pending and material legal proceedings or arbitrations each with a claim amount of over RMB10 million, and the aggregate claim amount was approximately RMB6,285 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 NAFR. There were no cases in which the Bank entered into guarantee contract in violation of laws and administrative regulations or the resolution procedure for guarantee stipulated by the CSRC.

Credibility

During the reporting period, there were no cases in which the Bank and its controlling shareholder failed to perform obligations under effective legal 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.

Fulfillment of Commitments

Commitments during or carried forward to the reporting period by the de facto controller, shareholders, related parties, 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	42 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
		Directors and senior management 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
Commitments in relation to non-public issuance of A shares in 2021	Subscription and lock up of shares	China Post Group	Commitment in relation to further clarifying the number of intending subscription to shares of A-share non-public issuance of Postal Savings Bank of China Co., Ltd.	5 years since share acquisition after the non-public issuance of A shares	Yes	Yes
Commitments in relation to non-public issuance of A shares in 2023	Subscription and lock up of shares	China Mobile Communications Group Co., Ltd.	Commitment in relation to subscribing for new shares of Postal Savings Bank of China Co., Ltd.	5 years since share acquisition after the non-public issuance of A shares	Yes	Yes

Accounting Firm's Engagement

Upon review and approval at the 2022 Annual General Meeting, the Bank engaged Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as the auditors of the Bank for 2023, which are responsible for providing audit and related services for the financial statements of the Bank prepared in accordance with the PRC GAAP and IFRSs in 2023.

Connected Transactions

During the reporting period, the Bank followed laws, regulations and regulatory requirements and established a sound management system for connected transactions. It improved the operating mechanism for connected transactions and continued to cultivate compliance culture to further strengthen the management of connected transactions. During the reporting period, the Bank's connected transactions were conducted in compliance with relevant laws, which served the overall interests of the Bank and its minority shareholders.

Implementation of the Caps of Connected Transactions[1]

Pursuant to relevant provisions in the SSE Listing Rules and the Hong Kong Listing Rules, on October 28, 2021, the Bank convened the 12th meeting of the Board of Directors in 2021, at which it reviewed and approved the Proposal on the Forecast Caps of Connected Transactions of Postal Savings Bank of China for 2022-2024, and published the Announcement of Postal Savings Bank of China Co., Ltd. on Renewing the Connected Transactions Framework Agreement and Proposed Annual Caps of Routine Connected Transactions from 2022 to 2024 and the Announcement of Postal Savings Bank of China Co., Ltd. on Continuing Connected Transactions and Proposed Annual Caps from 2022 to 2024 on the websites of the SSE and Hong Kong Stock Exchange, respectively. Due to business development and other reasons, the Bank held the seventh meeting of the Board of Directors in 2022 on August 22, 2022, at which it reviewed and approved the Proposal on Revising the Annual Caps of the Bancassurance Services Provided by Postal Savings Bank of China to China Post Group and Its Associates from 2022 to 2024, agreed to revise the annual caps of connected transactions of the bancassurance services provided by the Bank to China Post Group and its associates from 2022 to 2024, and published the Announcement of Postal Savings Bank of China Co., Ltd. on Routine Connected Transactions and the Announcement of Postal Savings Bank of China Co., Ltd. on Continuing Connected Transactions and Revised Annual Caps from 2022 to 2024 on the websites of the SSE and Hong Kong Stock Exchange, respectively. As at the end of the reporting period, the actual amounts of the aforementioned connected transactions did not exceed the projected annual caps.

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

Credit Type Connected Transactions[2]

In 2023, the cap of routine credit type connected transactions between the Bank and China Post Group and its associates shall be RMB14.0 billion, and as at the end of the reporting period, the balance of credit to China Post Group and its associates by the Bank was RMB5.0 billion.

1 Except for the "connected transactions between the Bank and China Post Group and its associates" disclosed in this section that constitute connected transactions under the Hong Kong Listing Rules, the other connected transactions disclosed in this section do not constitute connected transactions under the Hong Kong Listing Rules, and the Bank has no other connected transactions or continuing connected transactions that shall be disclosed according to relevant provisions on connected transactions in the Hong Kong Listing Rules.

2 Pursuant to Rule 14A.87 of the Hong Kong Listing Rules, for any financial assistance provided by a banking company in its ordinary and usual course of business to a connected person, the transaction is fully exempt under the Hong Kong Listing Rules if it is conducted on normal commercial terms. Accordingly, the credit type transactions conducted between the Bank and all of its associates (including China Post Group) on normal commercial terms were fully exempt under the Hong Kong Listing Rules.

Non-credit Type Connected Transactions

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

In RMB100 million

Type of connected transactions	Annual caps in 2023	Amount of connected transactions as at June 30, 2023
Leasing of certain properties and ancillary equipment by China Post Group and/or its associates to the Bank	14.90	4.18
Leasing of certain properties and ancillary equipment by the Bank to China Post Group and/or its associates	2.00	0.27
Sale of philatelic items and provision of mailing services by China Post Group and/or its associates to the Bank	4.40	0.37
Sale of goods other than philatelic items by China Post Group and/or its associates to the Bank	13.80	2.05
Provision of marketing services for deposit-taking and other businesses by China Post Group and/or its associates to the Bank	19.50	4.47
Provision of labor services by China Post Group and/or its associates to the Bank	17.90	4.80
Provision of bancassurance services by the Bank to China Post Group and/or its associates	37.50	24.76
Provision of agency sales (distribution) of precious metals business by the Bank to China Post Group and/or its associates	7.00	0.19
Sales of production materials and other goods by the Bank to China Post Group and/or its associates	2.50	0.23
Provision of labor services by the Bank to China Post Group and/or its associates	4.00	0.48

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 at the end of the reporting period is shown in the following table:

In RMB100 million

Type of connected transactions	Annual caps in 2023	Amount of connected transactions as at June 30, 2023
Clearing services between the Bank and China UnionPay Co., Ltd. – Fund paid by the Bank	32.50	6.56
Clearing services between the Bank and China UnionPay Co., Ltd. – Fund received by the Bank	78.50	24.20

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

Pledge of Assets

For details relating to the pledge of assets of the Bank during the reporting period, please refer to "Notes to the Condensed Consolidated Financial Statements – 38.2 Collateral".

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

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

Securities Transactions by Directors and Supervisors

The Bank has adopted a code of conduct for securities transactions by Directors and Supervisors on terms no less stringent than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Hong Kong Listing Rules. The Directors and Supervisors of the Bank have confirmed that they have complied with such code of conduct during the reporting period.

Directors' and Supervisors' Rights to Acquire Shares or Debentures

During the reporting period, the Bank did not grant any rights to acquire shares or debentures to any of its Directors or Supervisors, nor were any of such rights exercised by any of the Bank's Directors or Supervisors. Neither the Bank nor 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 at the end of the reporting period, none of the Directors or Supervisors of the Bank held any interests or short positions (including interests and short positions in which they are deemed to have under such provisions of the SFO) in the shares, underlying shares or debentures of the Bank or any of its associated corporations (as defined in Part XV of the SFO) which are required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or any interests or short positions which have to be recorded in the register under Section 352 of the SFO, or any interests or short positions which have to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules. For the interests and short positions of substantial shareholders of the Bank and other persons, please refer to "Changes in Share Capital and Shareholdings of Shareholders – Interests and Short Positions Held by Substantial Shareholders and Other Persons".

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

During the reporting period, neither the Bank nor any of its controlling shareholder, Directors, Supervisors or senior management members were subject to investigation, criminal punishment or material administrative penalty due to suspected crime, or investigation, administrative penalties or regulatory measures by the CSRC due to suspected violation of laws and regulations, or disciplinary actions by the stock exchange. Neither the controlling shareholder, Directors, Supervisors nor senior management members of the Bank were subject to detention or other compulsory measures by the competent authorities due to suspected violation of laws and regulations, or disciplinary actions and such action affected his/her performance of duties.

Other Significant Events

For details of other significant matters disclosed by the Bank pursuant to regulatory requirements during the reporting period, please refer to the announcements published by the Bank.

Interim Review

The 2023 interim financial report prepared by the Bank in accordance with the PRC GAAP and IFRSs has been reviewed by Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu in accordance with the Chinese and international standards on review engagements, respectively.

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

Financial Statements and Others

PSBC Baisha Li Autonomous County Sub-branch in Hainan Province facilitated the development of tea industry in Baisha

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte. 德勤

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

Introduction

We have reviewed the condensed consolidated financial statements of Postal Savings Bank of China Co., Ltd. (the "Bank") and its subsidiaries (collectively referred to as the "Group") set out on pages 145 to 257, which comprise the condensed consolidated statement of financial position as of June 30, 2023 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board ("IASB"). The directors of the Bank are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, China
August 30, 2023

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

		Six-month period ended June 30	
	Notes	2023 (unaudited)	2022 (unaudited)
Interest income	3	245,310	235,447
Interest expense	3	(105,005)	(98,330)
Net interest income	3	140,305	137,117
Fee and commission income	4	34,006	30,074
Fee and commission expense	4	(15,803)	(12,194)
Net fee and commission income	4	18,203	17,880
Net trading gains	5	2,253	2,188
Net gains on investment securities	6	13,677	10,913
Net gains on derecognition of financial assets measured at amortized cost		1,325	195
Net other operating gains	7	1,387	5,342
Share of results of associates		7	–
Operating income		177,157	173,635
Operating expenses	8	(103,109)	(93,834)
Credit impairment losses	9	(19,316)	(27,099)
Impairment losses on other assets		(1)	(9)
Profit before income tax		54,731	52,693
Income tax expenses	10	(5,093)	(5,523)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

	Notes	Six-month period ended June 30	
		2023 (unaudited)	2022 (unaudited)
Net profit		49,638	47,170
Net profit attributable to:			
Equity holders of the Bank		49,564	47,114
Non-controlling interests		74	56
Other comprehensive income (expense):			
Items that will not be reclassified to profit or loss			
Remeasurement of retirement benefit obligations	33.3	(22)	–
Changes in fair value of equity instrument investments measured at fair value through other comprehensive income	33.3	(600)	(1,077)
Subtotal		(622)	(1,077)
Item that may be reclassified subsequently to profit or loss			
Net gains/(losses) on investments in financial assets measured at fair value through other comprehensive income	33.3	1,771	(837)
Subtotal		1,771	(837)
Total comprehensive income for the period		50,787	45,256
Total comprehensive income attributable to:			
Equity holders of the Bank		50,713	45,200
Non-controlling interests		74	56
Basic and diluted earnings per share (in RMB Yuan)	11	0.46	0.44

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

	Notes	As at June 30, 2023 (unaudited)	As at December 31, 2022 (audited)
Assets			
Cash and deposits with central bank	12	1,276,264	1,263,951
Deposits with banks and other financial institutions	13	175,650	161,422
Placements with banks and other financial institutions	14	309,456	303,836
Derivative financial assets	15	4,060	1,905
Financial assets held under resale agreements	16	376,924	229,870
Loans and advances to customers	17	7,583,167	6,977,710
Financial investments			
Financial assets measured at fair value through profit or loss	18.1	854,130	863,783
Financial assets measured at fair value through other comprehensive income-debt instruments	18.2	460,693	416,172
Financial assets measured at fair value through other comprehensive income-equity instruments	18.3	8,535	9,346
Financial assets measured at amortized cost	18.4	3,889,153	3,669,598
Interests in associates	20	660	653
Property and equipment	21	53,611	53,272
Deferred tax assets	22	64,947	63,955
Other assets	23	65,857	51,809
Total assets		15,123,107	14,067,282
Liabilities			
Borrowings from central bank	24	33,963	24,815
Deposits from banks and other financial institutions	25	83,754	78,770
Placements from banks and other financial institutions	26	67,365	42,699
Derivative financial liabilities	15	5,662	2,465
Financial assets sold under repurchase agreements	27	330,814	183,646
Customer deposits	28	13,301,591	12,714,485
Income tax payable		2,039	2,868
Debt securities issued	29	298,259	101,910
Deferred tax liabilities	22	14	11
Other liabilities	30	108,955	89,799
Total liabilities		14,232,416	13,241,468

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

	Notes	As at June 30, 2023 (unaudited)	As at December 31, 2022 (audited)
Equity			
Share capital	31.1	99,161	92,384
Other equity instruments			
Perpetual bonds	31.2	139,986	139,986
Capital reserve	32	162,682	124,479
Other reserves	33	243,401	242,180
Retained earnings		243,798	225,196
Equity attributable to equity holders of the Bank		889,028	824,225
Non-controlling interests		1,663	1,589
Total equity		890,691	825,814
Total equity and liabilities		15,123,107	14,067,282

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

Approved and authorized for issue by the Board of Directors on August 30, 2023.

Liu Jianjun
(On behalf of Board of Directors)

Yao Hong
(On behalf of Board of Directors)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

		Attributable to equity holders of the Bank									
			Other equity instruments		Other reserves						
	Notes	Share capital	Perpetual bonds	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Subtotal	Non-controlling interests	Total equity
As at January 1, 2023 (audited)		92,384	139,986	124,479	58,478	178,784	4,918	225,196	824,225	1,589	825,814
Net profit for the period		–	–	–	–	–	–	49,564	49,564	74	49,638
Other comprehensive income for the period	33.3	–	–	–	–	–	1,149	–	1,149	–	1,149
Total comprehensive income for the period		–	–	–	–	–	1,149	49,564	50,713	74	50,787
Insurance of ordinary shares	31.1	6,777	–	38,203	–	–	–	–	44,980	–	44,980
Appropriation to general reserve	33.2	–	–	–	–	80	–	(80)	–	–	–
Dividends to ordinary shareholders	34	–	–	–	–	–	–	(25,574)	(25,574)	–	(25,574)
Distribution to perpetual bonds holders	34	–	–	–	–	–	–	(5,316)	(5,316)	–	(5,316)
Others		–	–	–	–	–	(8)	8	–	–	–
As at June 30, 2023 (unaudited)		99,161	139,986	162,682	58,478	178,864	6,059	243,798	889,028	1,663	890,691

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

		Attributable to equity holders of the Bank										
			Other equity instruments			Other reserves						
	Notes	Share capital	Preference shares	Perpetual bonds	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Subtotal	Non-controlling interests	Total equity
As at January 1, 2022 (audited)		92,384	47,869	109,986	125,486	50,105	157,367	12,054	198,840	794,091	1,458	795,549
Net profit for the period		–	–	–	–	–	–	–	47,114	47,114	56	47,170
Other comprehensive income for the period	33.3	–	–	–	–	–	–	(1,914)	–	(1,914)	–	(1,914)
Total comprehensive income for the period		–	–	–	–	–	–	(1,914)	47,114	45,200	56	45,256
Issuance of perpetual bonds	31.2	–	–	30,000	(3)	–	–	–	–	29,997	–	29,997
Appropriation to general reserve	33.2	–	–	–	–	–	84	–	(84)	–	–	–
Dividends to ordinary shareholders	34	–	–	–	–	–	–	–	(22,856)	(22,856)	–	(22,856)
Dividends to preference shareholders		–	–	–	–	–	–	–	(2,430)	(2,430)	–	(2,430)
Distribution to perpetual bonds holders	34	–	–	–	–	–	–	–	(4,278)	(4,278)	–	(4,278)
Realized gain of equity instrument investments measured at fair value through other comprehensive income	18.3	–	–	–	–	–	–	(486)	486	–	–	–
As at June 30, 2022 (unaudited)		92,384	47,869	139,986	125,483	50,105	157,451	9,654	216,792	839,724	1,514	841,238

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

		Attributable to equity holders of the Bank										
			Other equity instruments			Other reserves						
	Notes	Share capital	Preference shares	Perpetual bonds	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Subtotal	Non-controlling interests	Total equity
As at January 1, 2022 (audited)		92,384	47,869	109,986	125,486	50,105	157,367	12,054	198,840	794,091	1,458	795,549
Net profit for the year		–	–	–	–	–	–	–	85,224	85,224	131	85,355
Other comprehensive income for the year		–	–	–	–	–	–	(6,650)	–	(6,650)	–	(6,650)
Total comprehensive income for the year		–	–	–	–	–	–	(6,650)	85,224	78,574	131	78,705
Redemption of preference shares		–	(47,869)	–	(1,004)	–	–	–	–	(48,873)	–	(48,873)
Issuance of perpetual bonds	31.2	–	–	30,000	(3)	–	–	–	–	29,997	–	29,997
Appropriation to surplus reserve	33.1	–	–	–	–	8,373	–	–	(8,373)	–	–	–
Appropriation to general reserve	33.2	–	–	–	–	–	21,417	–	(21,417)	–	–	–
Dividends declared and paid to ordinary shareholders	34	–	–	–	–	–	–	–	(22,856)	(22,856)	–	(22,856)
Dividends declared and paid to preference shareholders		–	–	–	–	–	–	–	(2,430)	(2,430)	–	(2,430)
Distribution to perpetual bonds holders	34	–	–	–	–	–	–	–	(4,278)	(4,278)	–	(4,278)
Realized gain of equity instrument investments measured at fair value through other comprehensive income	18.3	–	–	–	–	–	–	(486)	486	–	–	–
As at December 31, 2022 (audited)		92,384	–	139,986	124,479	58,478	178,784	4,918	225,196	824,225	1,589	825,814

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

	Six-month period ended June 30	
	2023 (unaudited)	2022 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	54,731	52,693
Adjustments for:		
Amortization of intangible assets and other assets	939	652
Depreciation of property and equipment and right-of-use assets	4,508	4,335
Impairment loss on assets		
– Credit impairment losses	19,316	27,099
– Impairment losses on other assets	1	9
Interest income arising from financial investments	(67,762)	(63,450)
Interest expense arising from debt securities issued	2,414	1,701
Net gains on investment securities	(15,002)	(11,108)
Unrealized exchange gains	(1,194)	(2,356)
Share of results of associates	(7)	–
Net losses/(gains) from disposal of property and equipment and other assets	4	(9)
Subtotal	(2,052)	9,566
NET (INCREASE)/DECREASE IN OPERATING ASSETS		
Deposits with central bank	(21,733)	(47,872)
Deposits with banks and other financial institutions	(14,852)	(60,456)
Placements with banks and other financial institutions	(23,250)	(1,978)
Financial assets measured at fair value through profit or loss	(1,132)	23,374
Financial assets held under resale agreements	27,163	28,332
Loans and advances to customers	(620,953)	(546,665)
Other operating assets	(14,269)	6,028
Subtotal	(669,026)	(599,237)
NET INCREASE/(DECREASE) IN OPERATING LIABILITIES		
Borrowings from central bank	8,938	1,421
Deposits from banks and other financial institutions	5,248	(15,304)
Placements from banks and other financial institutions	23,043	(1,133)
Financial assets sold under repurchase agreements	147,181	4,673
Customer deposits	602,070	806,023
Other operating liabilities	(24,603)	(49,304)
Subtotal	761,877	746,376
NET CASH FLOWS FROM OPERATING ACTIVITIES BEFORE TAX	90,799	156,705
Income tax paid	(7,302)	(9,791)
NET CASH GENERATED FROM OPERATING ACTIVITIES	83,497	146,914
CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:		
Interest received	186,296	179,444
Interest paid	(120,894)	(135,067)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

	Note	Six-month period ended June 30	
		2023 (unaudited)	2022 (unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from disposal/redemption of financial investments		791,753	671,601
Cash received from income arising from financial investments		81,580	77,007
Cash received from disposal of property and equipment, intangible assets and other long-term assets		46	61
Cash paid for purchase of financial investments		(1,012,895)	(901,866)
Cash paid for purchase of property and equipment, intangible assets and other long-term assets		(5,570)	(4,060)
NET CASH USED IN INVESTING ACTIVITIES		(145,086)	(157,257)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash received from issuance of ordinary shares		45,000	–
Cash received from issuance of perpetual bonds		–	30,000
Cash received from issuance of debt securities		211,530	40,000
Cash paid for dividends and interests		(8,270)	(5,178)
Cash paid for issuance of ordinary shares		(20)	–
Cash paid for issuance of perpetual bonds		–	(3)
Cash paid for issuance of debt securities		(1)	(3)
Cash paid for repayment of debt securities		(14,640)	(20,000)
Cash paid to repay principal and interest of lease liabilities		(1,891)	(1,862)
NET CASH GENERATED FROM FINANCING ACTIVITIES		231,708	42,954
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		160	541
NET INCREASE IN CASH AND CASH EQUIVALENTS		170,279	33,152
Balance of cash and cash equivalents at the beginning of period		239,980	313,764
BALANCE OF CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	35	410,259	346,916

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

1 General information

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

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

On September 28, 2016 and December 10, 2019, the Bank was listed on The Stock Exchange of Hong Kong Limited and The Shanghai Stock Exchange respectively. Information regarding the Bank's share issuance is set out in Note 31.

As at June 30, 2023, the Bank had 99,161 million common shares, at a face value of Renminbi ("RMB")1.00 per share.

The Bank, as approved by the former CBIRC, holds a financial institution license of the PRC (No. B0018H111000001) and approved by and obtained its business license with unified social credit code 9111000071093465XC from the Beijing Administration for Market Regulation. The address of the Bank's registered office is No. 3 Jinrong Street, Xicheng District, Beijing, the PRC.

The Bank and its subsidiaries (the "Group") conduct their operating activities in the PRC, and the principal activities include: personal and corporate financial services, treasury operations and other business activities as approved by the National Administration of Financial Regulation (the "NAFR").

As at June 30, 2023, the Bank had a total of 36 tier-one branches and 324 tier-two branches across the PRC.

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

The condensed consolidated financial statements are presented in RMB, which is also the functional currency of the Bank and its subsidiaries.

The condensed consolidated financial statements were authorized for issue by the Board of Directors of the Bank on August 30, 2023.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

2 Basis of preparation and significant accounting policies

2.1 Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 ("IAS 34") "*Interim Financial Reporting*" issued by the International Accounting Standards Board ("IASB") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2.2 Significant accounting policies

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

Other than additional accounting policies resulting from application of amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six-month ended June 30, 2023 are the same as those presented in the Group's annual financial statements for the year ended December 31, 2022.

Application of new and amendments to IFRSs

In the current period, the Group has applied the following new and amendments to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the Group's annual period beginning on or after January 1, 2023 for the preparation of the Group's condensed consolidated financial statements:

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform-Pillar Two model Rules

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

Impacts and changes in accounting policies and application of Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Deferred tax is recognized on temporary differences arising between the carrying amounts of assets and liabilities in the condensed consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. 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. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 requirements to the lease liabilities, and the related assets separately. The Group recognizes a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

2 Basis of preparation and significant accounting policies (continued)

2.2 Significant accounting policies (continued)

Impacts and changes in accounting policies and application of Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction (continued)

As disclosed in the Group's annual financial statements for the year ended December 31, 2022, the Group previously applied IAS 12 requirements to the lease transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities were assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulted in net deductible temporary differences. Upon the application of the amendments, the Group assessed the relevant assets and liabilities separately. In accordance with the transition provision:

(i) the Group has applied the new accounting policy to leasing transactions that occurred on or after January 1, 2022;

(ii) the Group also, as at January 1, 2022, recognized a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized) and a deferred tax liability for all deductible and taxable temporary difference associated with right-of-use-assets and lease liabilities.

The application of the amendments has had no material impact on the Group's financial position and performance, except that the Group recognized the related deferred tax assets and deferred tax liabilities on a gross basis but it has no impact on the retained earnings at the earliest period presented. The Group has disclosed the amount of the related deferred tax assets and deferred tax liabilities recognized on a gross basis at the earliest period presented in Note 22.

2.3 Use of estimates and assumptions

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

In the preparation of the condensed consolidated financial statements, the key sources of uncertainty derived from significant judgements and estimation made by the management while applying the Group's accounting policies are the same as these applied in the preparation of the Group's consolidated financial statements for the year ended December 31, 2022.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

3 Net interest income

	Six-month period ended June 30	
	2023	2022
Interest income		
Deposits with central bank	9,910	9,405
Deposits with banks and other financial institutions	2,196	1,444
Placements with banks and other financial institutions	4,962	4,901
Financial assets held under resale agreements	2,370	2,748
Loans and advances to customers	158,110	153,499
Including: Personal loans and advances	101,917	101,785
Corporate loans and advances	56,193	51,714
Financial investments		
Financial assets measured at fair value through other comprehensive income ("FVTOCI") – debt instruments	6,370	5,569
Financial assets measured at amortized cost	61,392	57,881
Subtotal	245,310	235,447
Interest expense		
Borrowings from central bank	(251)	(162)
Deposits from banks and other financial institutions	(503)	(630)
Placements from banks and other financial institutions	(940)	(706)
Financial assets sold under repurchase agreements	(1,285)	(788)
Customer deposits	(99,612)	(94,343)
Debt securities issued	(2,414)	(1,701)
Subtotal	(105,005)	(98,330)
Net interest income	140,305	137,117

(All amounts in millions of RMB unless otherwise stated)

4 Net fee and commission income

		Six-month period ended June 30	
		2023	2022
Agency service business	(1)	17,790	11,733
Bank cards business		6,154	5,973
Settlement and clearing	(2)	5,257	4,687
Investment banking	(3)	1,633	1,172
Wealth management		1,525	5,416
Custody business		564	593
Others		1,083	500
Fee and commission income		34,006	30,074
Fee and commission expense	(4)	(15,803)	(12,194)
Net fee and commission income		18,203	17,880

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

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

(3) Fee and commission income from investment banking refers to income derived from underwriting and distributing bonds, asset securitization, syndicated loan and advisory services.

(4) Fee and commission expense is expense incurred for agency and settlement services, including those paid to China Post Group for agency services (Note 36.3.1(1)).

5 Net trading gains

	Six-month period ended June 30	
	2023	2022
Debt securities	2,240	2,099
Derivatives and others	13	89
Total	2,253	2,188

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

6 Net gains on investment securities

	Six-month period ended June 30	
	2023	2022
Net gains from financial assets measured at fair value through profit or loss ("FVTPL")	12,707	9,883
Net gains from financial assets measured at FVTOCI	970	1,030
Total	13,677	10,913

7 Net other operating gains

	Six-month period ended June 30	
	2023	2022
Net gains on foreign exchanges	669	4,714
Government subsidies	455	337
Leasing income	48	61
Others	215	230
Total	1,387	5,342

8 Operating expenses

		Six-month period ended June 30	
		2023	2022
Deposit agency fee and others (Note 36.3.1(1))		56,076	49,667
Staff costs (including emoluments of directors, supervisors and senior management)	(1)	28,519	27,123
Depreciation and amortization		5,447	4,987
Taxes and surcharges	(2)	1,495	1,396
Other expenses	(3)	11,572	10,661
Total		103,109	93,834

(All amounts in millions of RMB unless otherwise stated)

8 Operating expenses (continued)

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

	Six-month period ended June 30	
	2023	2022
Short-term employee benefits		
Wages and salaries, bonuses, allowance and subsidies	18,830	18,312
Housing funds	2,165	1,993
Social insurance	1,758	1,620
Including: Medical insurance	1,686	1,551
Maternity insurance	31	31
Work injury insurance	41	38
Staff welfare	1,028	938
Labour union funds and employee education funds	560	483
Others	7	14
Subtotal	24,348	23,360
Defined contribution plans		
Basic pensions	2,597	2,438
Annuity scheme	1,478	1,269
Unemployment insurance	86	46
Subtotal	4,161	3,753
Supplementary retirement benefits and early retirement benefits	10	10
Total	28,519	27,123

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

(3) For the six-month period ended June 30, 2023, the rental expenses of short-term leases and low value asset leases included in other expenses were RMB282 million (for the six-month period ended June 30, 2022: RMB325 million).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

9 Credit impairment losses

	Six-month period ended June 30	
	2023	2022
Deposits with banks and other financial institutions	(122)	608
Placements with banks and other financial institutions	(547)	(130)
Financial assets held under resale agreements	1,133	374
Loans and advances to customers	16,729	26,098
Financial investments		
Financial assets measured at FVTOCI	598	161
Financial assets measured at amortized cost	1,139	(464)
Credit commitments	(154)	(22)
Other financial assets	540	474
Total	19,316	27,099

10 Income tax expenses

	Six-month period ended June 30	
	2023	2022
Current income tax	6,473	10,344
Deferred income tax (Note 22(1))	(1,380)	(4,821)
Total	5,093	5,523

Corporate income tax is mainly 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 expenses and profit before income tax are as follows:

	Six-month period ended June 30	
	2023	2022
Profit before income tax	54,731	52,693
Income tax expenses calculated at the statutory tax rate of 25%	13,683	13,173
Tax effect of income with non-taxable, tax reduction and deduction of interest for tax purpose	(9,253)	(8,104)
Tax effect of expenses not deductible for tax purpose	441	454
Effect of changes in tax rates of certain subsidiary	285	–
Effect of different tax rates of certain subsidiary	(63)	–
Income tax expenses	5,093	5,523

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

11 Basic and diluted earnings per share

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

	Six-month period ended June 30	
	2023	2022
Net profit attributable to equity holders of the Bank	49,564	47,114
Less: Net profit for the period attributable to preference shareholders of the Bank	–	2,430
Net profit for the period attributable to perpetual bonds holders of the Bank	5,316	4,278
Net profit attributable to ordinary shareholders of the Bank	44,248	40,406
Weighted average number of ordinary shares in issue (in millions)	95,773	92,384
Basic and diluted earnings per share (in RMB Yuan)	0.46	0.44

The Bank redempted the non-cumulative preference shares on September 27,2022 and did not issue any non-cumulative preference shares for the six-month period ended June 30, 2023. Accordingly, there were no potential dilutive ordinary shares and the diluted earnings per share were the same as the basic earnings per share for the six-month period ended June 30, 2023. (The Bank issued non-cumulative preference shares in 2017. The conversion feature of preference shares is considered to be contingently issuable ordinary shares. The triggering events of conversion did not exist for the six-month period ended June 30, 2022. Accordingly, there were no potential dilutive ordinary shares and the diluted earnings per share were the same as the basic earnings per share for the six-month period ended June 30, 2022.)

12 Cash and deposits with central bank

		As at June 30, 2023	As at December 31, 2022
Cash		46,273	50,149
Statutory reserve with central bank	(1)	1,213,981	1,189,962
Surplus reserve with central bank	(2)	12,022	17,673
Fiscal deposits with central bank		3,988	6,167
Total		1,276,264	1,263,951

(1) Statutory reserve with central bank is mainly the general reserve deposited with the People's Bank of China (hereinafter referred to as the "central bank" or the "PBOC") by the Group in accordance with the relevant regulations, and cannot be used for daily operating activities. As at June 30, 2023, the ratio of the Bank for RMB deposits statutory reserve was 9.25% (December 31, 2022: 9.50%), whereas the ratio for foreign currency deposits was 6.00% (December 31, 2022: 6.00%). The statutory reserve funds placed by subsidiaries of the Bank are determined by the PBOC.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

13 Deposits with banks and other financial institutions

	As at June 30, 2023	As at December 31, 2022
Deposits with domestic banks	172,918	157,623
Deposits with other domestic financial institutions	824	394
Deposits with overseas banks	2,593	4,212
Gross amount	176,335	162,229
Allowance for impairment loss	(685)	(807)
Carrying amount	175,650	161,422

The collateral received in connection with deposits with banks and other financial institutions is disclosed in "Note 38.2 Contingent liabilities and commitments – Collateral". As at June 30, 2023 and December 31, 2022, the Group did not have any netting agreements or similar arrangements with counterparties.

14 Placements with banks and other financial institutions

	As at June 30, 2023	As at December 31, 2022
Placements with domestic banks	2,073	2,367
Placements with other domestic financial institutions	308,487	303,120
Gross amount	310,560	305,487
Allowance for impairment loss	(1,104)	(1,651)
Carrying amount	309,456	303,836

In accordance with *the Interim Administrative Measures for Gold Lease Business (Yinbanfa [2022] No.88)* (《黃金租借業務管理暫行辦法》(銀辦發[2022]88號)) issued by the PBOC, the Group reclassified the carrying amount of gold lease business with financial institutions from other assets to placements with banks and other financial institutions from 2023, and adjusted the comparative figures of RMB526 million for the same period accordingly.

(All amounts in millions of RMB unless otherwise stated)

15 Derivative financial assets and liabilities

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

The contractual/notional amount and fair value of the derivative financial instruments held by the Group as at the end of the reporting period are set out in the following tables. The contractual/notional amounts of derivative financial instruments provide a basis for comparison with fair value of instruments recognized on the condensed consolidated statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The fair value of derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates, or market prices of precious metals relative to their terms. The aggregate fair value of derivative financial assets and liabilities can fluctuate significantly over different periods.

	As at June 30, 2023			As at December 31, 2022		
	Contractual/ Notional amounts	Assets	Liabilities	Contractual/ Notional amounts	Assets	Liabilities
Analyzed by types of contracts:						
Exchange rate contracts	168,822	2,765	(4,056)	79,144	986	(1,569)
Interest rate contracts	679,688	1,289	(1,322)	300,700	876	(890)
Precious metal contracts	4,998	6	(284)	3,350	43	(6)
Total	853,508	4,060	(5,662)	383,194	1,905	(2,465)

	As at June 30, 2023	As at December 31, 2022
Analyzed by credit risk-weighted amount for counterparty:		
Credit risk-weighted amount		
Exchange rate contracts	1,298	791
Precious metal contracts	74	16
Subtotal	1,372	807
Credit value adjustments	565	352
Central counterparties risk-weighted amount	137	257
Total	2,074	1,416

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

16 Financial assets held under resale agreements

	As at June 30, 2023	As at December 31, 2022
Analyzed by type of collateral:		
Debt securities	299,600	128,615
Bills	79,554	102,352
Gross amount	379,154	230,967
Allowance for impairment loss	(2,230)	(1,097)
Carrying amount	376,924	229,870

The collateral received in connection with the purchase of financial assets under resale agreement is disclosed in "Note 38.2 Contingent liabilities and commitments – Collateral". As at June 30, 2023 and December 31, 2022, the Group did not have any netting agreements or similar arrangements with counterparties.

17 Loans and advances to customers

17.1 Loans and advances to customers by type

		As at June 30, 2023	As at December 31, 2022
Loans and advances to customers			
– Measured at amortized cost	(1)	6,871,700	6,375,343
– Measured at FVTOCI	(2)	711,467	602,367
Total		7,583,167	6,977,710

(All amounts in millions of RMB unless otherwise stated)

17 Loans and advances to customers (continued)

17.1 Loans and advances to customers by type (continued)

(1) Loans and advances to customers measured at amortized cost

	As at June 30, 2023	As at December 31, 2022
Personal loans and advances		
Consumer loans	2,793,821	2,728,645
– Residential mortgage loans	2,324,062	2,261,763
– Other consumer loans	469,759	466,882
Personal small and micro loans	1,321,885	1,135,194
Credit cards overdrafts and others	193,388	182,266
Subtotal	4,309,094	4,046,105
Corporate loans and advances		
– Loans	2,797,863	2,448,646
– Discounted bills	4,243	113,315
Subtotal	2,802,106	2,561,961
Gross amount of loans and advances to customers measured at amortized cost	7,111,200	6,608,066
Less: Allowance for impairment loss of loans and advances to customers measured at amortized cost		
– Stage 1	173,654	169,911
– Stage 2	9,341	9,087
– Stage 3	56,505	53,725
Carrying amount of loans and advances to customers measured at amortized cost	6,871,700	6,375,343

(2) Loans and advances to customers measured at FVTOCI

	As at June 30, 2023	As at December 31, 2022
Corporate loans and advances		
– Loans	274,952	220,716
– Discounted bills	436,515	381,651
Loans and advances to customers measured at FVTOCI	711,467	602,367

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

17 Loans and advances to customers (continued)

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

17.3 Loans and advances to customers by allowance for impairment loss

	As at June 30, 2023			
	Stage 1	Stage 2	Stage 3	Total
Gross amount of loans and advances to customers measured at amortized cost	7,011,745	36,414	63,041	7,111,200
Allowance for impairment loss of loans and advances to customers measured at amortized cost	(173,654)	(9,341)	(56,505)	(239,500)
Carrying amount of loans and advances to customers measured at amortized cost	6,838,091	27,073	6,536	6,871,700
Loans and advances to customers measured at FVTOCI	710,565	902	–	711,467
Allowance for impairment loss of loans and advances to customers measured at FVTOCI	(665)	(6)	–	(671)

	As at December 31, 2022			
	Stage 1	Stage 2	Stage 3	Total
Gross amount of loans and advances to customers measured at amortized cost	6,511,299	36,102	60,665	6,608,066
Allowance for impairment loss of loans and advances to customers measured at amortized cost	(169,911)	(9,087)	(53,725)	(232,723)
Carrying amount of loans and advances to customers measured at amortized cost	6,341,388	27,015	6,940	6,375,343
Loans and advances to customers measured at FVTOCI	602,037	162	168	602,367
Allowance for impairment losses of loans and advances to customers measured at FVTOCI	(1,253)	(1)	(168)	(1,422)

(All amounts in millions of RMB unless otherwise stated)

17 Loans and advances to customers (continued)

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

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

	Six-month period ended June 30, 2023			
Personal loans and advances to customers measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross amount as at January 1, 2023	3,982,011	18,506	45,588	4,046,105
Transfers:				
Transfer to stage 1	6,780	(3,947)	(2,833)	–
Transfer to stage 2	(18,774)	19,035	(261)	–
Transfer to stage 3	(15,001)	(7,852)	22,853	–
Financial assets derecognized or settled during the period	(952,558)	(5,225)	(11,076)	(968,859)
New financial assets originated or purchased	1,239,233	–	–	1,239,233
Write-offs	–	–	(7,385)	(7,385)
Gross amount as at June 30, 2023	4,241,691	20,517	46,886	4,309,094

	Year ended December 31, 2022			
Personal loans and advances to customers measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross amount as at January 1, 2022	3,706,961	13,970	35,222	3,756,153
Transfers:				
Transfer to stage 1	2,956	(1,682)	(1,274)	–
Transfer to stage 2	(18,663)	18,709	(46)	–
Transfer to stage 3	(32,878)	(4,072)	36,950	–
Financial assets derecognized or settled during the year	(1,420,072)	(8,419)	(10,630)	(1,439,121)
New financial assets originated or purchased	1,743,707	–	–	1,743,707
Write-offs	–	–	(14,634)	(14,634)
Gross amount as at December 31, 2022	3,982,011	18,506	45,588	4,046,105

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

17 Loans and advances to customers (continued)

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

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

Corporate loans and advances to customers measured at amortized cost	Six-month period ended June 30, 2023			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross amount as at January 1, 2023	2,529,288	17,596	15,077	2,561,961
Transfers:				
Transfer to stage 1	1,685	(1,680)	(5)	–
Transfer to stage 2	(4,286)	5,340	(1,054)	–
Transfer to stage 3	(2,479)	(1,537)	4,016	–
Financial assets derecognized or settled during the period	(632,237)	(3,822)	(1,167)	(637,226)
New financial assets originated or purchased	878,083	–	168	878,251
Write-offs	–	–	(880)	(880)
Gross amount as at June 30, 2023	2,770,054	15,897	16,155	2,802,106

Corporate loans and advances to customers measured at amortized cost	Year ended December 31, 2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross amount as at January 1, 2022	2,068,445	17,653	17,441	2,103,539
Transfers:				
Transfer to stage 1	2,482	(2,482)	–	–
Transfer to stage 2	(7,773)	9,930	(2,157)	–
Transfer to stage 3	(7,011)	(1,549)	8,560	–
Financial assets derecognized or settled during the year	(847,719)	(5,956)	(6,624)	(860,299)
New financial assets originated or purchased	1,320,864	–	–	1,320,864
Write-offs	–	–	(2,143)	(2,143)
Gross amount as at December 31, 2022	2,529,288	17,596	15,077	2,561,961

(All amounts in millions of RMB unless otherwise stated)

17 Loans and advances to customers (continued)

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

(3) Loans and advances to customers measured at FVTOCI

Loans and advances to customers measured at FVTOCI	Six-month period ended June 30, 2023			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Carrying amount as at January 1, 2023	602,037	162	168	602,367
Transfers:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(886)	886	–	–
Transfer to stage 3	–	–	–	–
Financial assets derecognized or settled during the period	(408,471)	(146)	(168)	(408,785)
New financial assets originated or purchased	517,885	–	–	517,885
Write-offs	–	–	–	–
Carrying amount as at June 30, 2023	710,565	902	–	711,467

Loans and advances to customers measured at FVTOCI	Year ended December 31, 2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Carrying amount as at January 1, 2022	593,110	1,287	10	594,407
Transfers:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(162)	162	–	–
Transfer to stage 3	(168)	–	168	–
Financial assets derecognized or settled during the year	(593,110)	(1,287)	(8)	(594,405)
New financial assets originated or purchased	602,367	–	–	602,367
Write-offs	–	–	(2)	(2)
Carrying amount as at December 31, 2022	602,037	162	168	602,367

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

17 Loans and advances to customers (continued)

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

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

Personal loans and advances to customers measured at amortized cost	Six-month period ended June 30, 2023			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2023	82,428	6,449	39,726	128,603
Transfers:				
Transfer to stage 1	2,065	(1,237)	(828)	–
Transfer to stage 2	(1,314)	1,436	(122)	–
Transfer to stage 3	(1,417)	(3,410)	4,827	–
Changes of expected credit loss ("ECL") arising from transfer of stage	(1,408)	4,359	13,820	16,771
Financial assets derecognized or settled during the period	(23,544)	(1,416)	(9,160)	(34,120)
New financial assets originated or purchased	25,078	–	–	25,078
Remeasurement	(7,525)	(8)	1,379	(6,154)
Write-offs	–	–	(7,385)	(7,385)
Loss allowance as at June 30, 2023	74,363	6,173	42,257	122,793

Personal loans and advances to customers measured at amortized cost	Year ended December 31, 2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2022	72,900	4,153	30,502	107,555
Transfers:				
Transfer to stage 1	770	(440)	(330)	–
Transfer to stage 2	(2,394)	2,414	(20)	–
Transfer to stage 3	(5,624)	(1,368)	6,992	–
Changes of ECL arising from transfer of stage	(405)	3,889	22,601	26,085
Financial assets derecognized or settled during the year	(40,965)	(2,241)	(6,660)	(49,866)
New financial assets originated or purchased	47,360	–	–	47,360
Remeasurement	10,786	42	1,275	12,103
Write-offs	–	–	(14,634)	(14,634)
Loss allowance as at December 31, 2022	82,428	6,449	39,726	128,603

(All amounts in millions of RMB unless otherwise stated)

17 Loans and advances to customers (continued)

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

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

Corporate loans and advances to customers measured at amortized cost	Six-month period ended June 30, 2023			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2023	87,483	2,638	13,999	104,120
Transfers:				
Transfer to stage 1	337	(333)	(4)	–
Transfer to stage 2	(331)	1,307	(976)	–
Transfer to stage 3	(150)	(237)	387	–
Changes of ECL arising from transfer of stages	(162)	245	2,073	2,156
Financial assets derecognized or settled during the period	(21,275)	(430)	(652)	(22,357)
New financial assets originated or purchased	31,269	–	168	31,437
Remeasurement	2,120	(22)	133	2,231
Write-offs	–	–	(880)	(880)
Loss allowance as at June 30, 2023	99,291	3,168	14,248	116,707

Corporate loans and advances to customers measured at amortized cost	Year ended December 31, 2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2022	88,723	3,325	17,297	109,345
Transfers:				
Transfer to stage 1	449	(449)	–	–
Transfer to stage 2	(400)	2,406	(2,006)	–
Transfer to stage 3	(359)	(251)	610	–
Changes of ECL arising from transfer of stages	(283)	(1,089)	6,111	4,739
Financial assets derecognized or settled during the year	(47,446)	(1,054)	(5,801)	(54,301)
New financial assets originated or purchased	47,792	–	–	47,792
Remeasurement	(993)	(250)	(69)	(1,312)
Write-offs	–	–	(2,143)	(2,143)
Loss allowance as at December 31, 2022	87,483	2,638	13,999	104,120

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023
(All amounts in millions of RMB unless otherwise stated)

17 Loans and advances to customers (continued)

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

(3) Loans and advances to customers measured at FVTOCI

Loans and advances to customers measured at FVTOCI	Six-month period ended June 30, 2023 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2023	1,253	1	168	1,422
Transfers:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(4)	4	–	–
Transfer to stage 3	–	–	–	–
Changes of ECL arising from transfer of stage	–	3	–	3
Financial assets derecognized or settled during the period	(853)	(1)	(168)	(1,022)
New financial assets originated or purchased	466	–	–	466
Remeasurement	(197)	(1)	–	(198)
Write-offs	–	–	–	–
Loss allowance as at June 30, 2023	665	6	–	671

Loans and advances to customers measured at FVTOCI	Year ended December 31, 2022 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2022	3,477	156	10	3,643
Transfers:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(1)	1	–	–
Transfer to stage 3	(1)	–	1	–
Changes of ECL arising from transfer of stage	–	–	167	167
Financial assets derecognized or settled during the year	(3,477)	(156)	(8)	(3,641)
New financial assets originated or purchased	1,255	–	–	1,255
Remeasurement	–	–	–	–
Write-offs	–	–	(2)	(2)
Loss allowance as at December 31, 2022	1,253	1	168	1,422

(All amounts in millions of RMB unless otherwise stated)

18 Financial investments

18.1 Financial assets measured at fair value through profit or loss

	As at June 30, 2023	As at December 31, 2022
Debt securities		
– Listed outside Hong Kong	78,276	78,782
– Unlisted	339	10
Subtotal	78,615	78,792
Interbank certificates of deposits		
– Listed outside Hong Kong	111,918	111,980
– Unlisted	3,222	–
Subtotal	115,140	111,980
Asset-backed securities		
– Listed outside Hong Kong	576	52
Fund investments		
– Unlisted	603,452	616,591
Trust investment plans and asset management plans		
– Unlisted	54,308	54,191
Wealth management products issued by financial institutions		
– Unlisted	270	199
Equity instruments		
– Listed outside Hong Kong	832	954
– Unlisted	937	1,024
Subtotal	1,769	1,978
Total	854,130	863,783

The above investments listed outside Hong Kong Special Administrative Region ("SAR") are mainly traded in the Domestic Interbank Bond Market.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

18 Financial investments (continued)

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

Analyzed by types of issuers:	As at June 30, 2023	As at December 31, 2022
Debt securities		
– Government	3,432	3,660
– Financial institutions	48,069	53,772
– Corporates	27,114	21,360
Subtotal	78,615	78,792
Interbank certificates of deposits		
– Financial institutions	115,140	111,980
Asset-backed securities		
– Financial institutions	576	52
Fund investments		
– Financial institutions	603,452	616,591
Trust investment plans and asset management plans		
– Financial institutions	54,308	54,191
Wealth management products issued by financial institutions		
– Financial institutions	270	199
Equity instruments		
– Financial institutions	13	13
– Corporates	1,756	1,965
Subtotal	1,769	1,978
Total	854,130	863,783

(All amounts in millions of RMB unless otherwise stated)

18 Financial investments (continued)

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

	As at June 30, 2023	As at December 31, 2022
Debt securities		
– Listed in Hong Kong	2,450	3,715
– Listed outside Hong Kong	458,243	412,408
Subtotal	460,693	416,123
Interbank certificates of deposits		
– Listed outside Hong Kong	–	49
Total	460,693	416,172

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

Analyzed by types of issuers:	As at June 30, 2023	As at December 31, 2022
Debt securities		
– Government	162,222	121,902
– Financial institutions	205,214	212,772
– Corporates	93,257	81,449
Subtotal	460,693	416,123
Interbank certificates of deposits		
– Financial institutions	–	49
Total	460,693	416,172

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

18 Financial investments (continued)

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

For the six-month period ended June 30, 2023 and the year ended December 31, 2022, there was no significant change of loss allowance arising from transfer of stages for the Group's financial assets measured at FVTOCI – debt instruments. The main reasons for the movement in the loss allowance are originates or purchases, derecognition or settlement.

As at June 30, 2023, the allowance for impairment loss of the Group's financial assets measured at FVTOCI – debt instruments was RMB1,604 million (As at December 31, 2022: RMB1,006 million), which mainly represented the loss allowance for the financial assets measured at FVTOCI – debt instruments at stage 1.

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

	As at June 30, 2023	As at December 31, 2022
Equity instruments		
– Listed outside Hong Kong	4,580	5,421
– Unlisted	3,955	3,925
Total	8,535	9,346

Analyzed by types of issuers:	As at June 30, 2023	As at December 31, 2022
Equity instruments		
– Financial institutions	3,955	3,925
– Corporates	4,580	5,421
Total	8,535	9,346

The Group designates part of non-trading equity investments as financial assets measured at FVTOCI – equity instruments. During the six-month period ended June 30, 2023 and 2022, the Group did not recognize any dividend income for such equity investments.

For the six-month period ended June 30, 2023, the Group did not dispose of any equity instruments (For the six-month period ended June 30, 2022, the Group disposed part of the equity instruments of RMB939 million. A cumulative gain on disposal, net of tax, of RMB486 million has been transferred to retained earnings).

(All amounts in millions of RMB unless otherwise stated)

18 Financial investments (continued)

18.4 Financial assets measured at amortized cost

		As at June 30, 2023	As at December 31, 2022
Debt securities			
– Listed in Hong Kong		46,542	42,774
– Listed outside Hong Kong		2,954,563	2,794,473
– Unlisted	(1)	363,887	360,983
Subtotal		3,364,992	3,198,230
Interbank certificates of deposits			
– Listed outside Hong Kong		307,140	282,205
– Unlisted		47,165	10,562
Subtotal		354,305	292,767
Asset-backed securities			
– Listed outside Hong Kong		145,315	146,772
– Unlisted		1,037	2,569
Subtotal		146,352	149,341
Debt financing plans			
– Unlisted		11,223	12,289
Other debt instruments			
– Unlisted	(2)	41,061	45,137
Gross amount		3,917,933	3,697,764
Allowance for impairment loss		(28,780)	(28,166)
Carrying amount		3,889,153	3,669,598

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

(1) Unlisted debt securities included long term special financial bonds issued by China Development Bank and Agricultural Development Bank of China in 2015. As at June 30, 2023, the carrying amount of these special financial bonds was RMB323,721 million, with original maturity of 10 to 20 years (December 31, 2022: RMB341,495 million, with original maturity of 10 to 20 years).

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

18 Financial investments (continued)

18.4 Financial assets measured at amortized cost (continued)

Analyzed by types of issuers:	As at June 30, 2023	As at December 31, 2022
Debt securities		
– Government	1,456,479	1,413,809
– Financial institutions	1,784,282	1,673,179
– Corporates	124,231	111,242
Subtotal	3,364,992	3,198,230
Interbank certificates of deposits		
– Financial institutions	354,305	292,767
Asset-backed securities		
– Financial institutions	146,352	149,341
Debt financing plans		
– Corporates	11,223	12,289
Other debt instruments		
– Financial institutions	41,061	45,137
Gross amount	3,917,933	3,697,764
Allowance for impairment loss	(28,780)	(28,166)
Carrying amount	3,889,153	3,669,598

(All amounts in millions of RMB unless otherwise stated)

18 Financial investments (continued)

18.4 Financial assets measured at amortized cost (continued)

The following tables illustrate the changes in the gross amount of financial assets measured at amortized cost:

	Six-month period ended June 30, 2023			
Financial assets measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross amount as at January 1, 2023	3,669,511	8,095	20,158	3,697,764
Transfers:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	–	19	(19)	–
Transfer to stage 3	–	–	–	–
Financial assets derecognized or settled during the period	(409,392)	(12)	(656)	(410,060)
New financial assets originated or purchased	630,229	–	–	630,229
Gross amount as at June 30, 2023	3,890,348	8,102	19,483	3,917,933

	Year ended December 31, 2022			
Financial assets measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross amount as at January 1, 2022	3,281,086	9,041	21,917	3,312,044
Transfers:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	–	–	–	–
Transfer to stage 3	–	(250)	250	–
Financial assets derecognized or settled during the year	(738,075)	(696)	(2,009)	(740,780)
New financial assets originated or purchased	1,126,500	–	–	1,126,500
Gross amount as at December 31, 2022	3,669,511	8,095	20,158	3,697,764

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023
(All amounts in millions of RMB unless otherwise stated)

18 Financial investments (continued)

18.4 Financial assets measured at amortized cost (continued)

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

	Six-month period ended June 30, 2023			
Financial assets measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2023	4,633	3,424	20,109	28,166
Transfers:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	–	19	(19)	–
Transfer to stage 3	–	–	–	–
Changes of ECL arising from transfer of stage	–	(3)	–	(3)
Financial assets derecognized or settled during the period	(776)	(7)	(655)	(1,438)
New financial assets originated or purchased	1,347	–	–	1,347
Remeasurement	750	(60)	–	690
Exchange rate changes	18	–	–	18
Loss allowance as at June 30, 2023	5,972	3,373	19,435	28,780

	Year ended December 31, 2022			
Financial assets measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2022	5,885	4,257	21,899	32,041
Transfers:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	–	–	–	–
Transfer to stage 3	–	(54)	54	–
Changes of ECL arising from transfer of stage	–	–	160	160
Financial assets derecognized or settled during the year	(2,247)	(342)	(2,007)	(4,596)
New financial assets originated or purchased	1,871	–	–	1,871
Remeasurement	(896)	(437)	3	(1,330)
Exchange rate changes	20	–	–	20
Loss allowance as at December 31, 2022	4,633	3,424	20,109	28,166

(All amounts in millions of RMB unless otherwise stated)

19 Investment in subsidiaries

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

	As at June 30, 2023	As at December 31, 2022
Investment cost	15,115	15,115

Name of entities		Place of Incorporation/ registration and operations	Authorized/ paid-in capital RMB	Nature of business	Percentage of equity interest	Proportion of voting rights	Year of establishment
PSBC Consumer Finance Co., Ltd.*	(1)	Guangzhou, Guangdong Province, PRC	3 billion	Consumer finance	70.50%	70.50%	2015
PSBC Wealth Management Co., Ltd.*	(2)	Beijing, PRC	8 billion	Wealth management	100.00%	100.00%	2019
YOU+ BANK Co., Ltd.*	(3)	Shanghai, PRC	5 billion	Direct banking	100.00%	100.00%	2022

* These subsidiaries incorporated in PRC are all limited liability companies.

(1) On November 19, 2015, the Bank, together with other investors, jointly sponsored the establishment of PSBC Consumer Finance Co., Ltd. ("PSBC Consumer Finance"). PSBC Consumer Finance mainly engages in following RMB businesses: granting personal consumer loans; accepting deposits from domestic shareholders and their domestic subsidiaries; borrowing from domestic financial institutions; authorized issuance of financial bonds; placements with/from domestic banks and other financial institutions; consumer financing advisory and agency services; agency sales of consumer loans related insurance products, investments in fixed income securities; asset securitization business and other businesses as approved by the NAFR. As at June 30, 2023, the Bank owned 70.50% in the equity interest and voting rights of PSBC Consumer Finance (December 31, 2022: 70.50%).

(2) On December 3, 2019, the Bank obtained formal approval issued by the former CBIRC《關於中郵理財有限責任公司開業的批覆》for the commencement of business operation of PSBC Wealth Management Co., Ltd. ("PSBC Wealth Management"). On December 18, 2019, PSBC Wealth Management was officially incorporated. PSBC Wealth Management mainly engages in following businesses: public issuing wealth management products to unspecified general investors, carrying out investment and management of properties entrusted by investors; non-public issuing wealth management products to eligible investors, carrying out investment and management of assets entrusted by investors; financial advising and consulting services in relation to wealth management; and other businesses as approved by the NAFR. As at June 30, 2023, the Bank owned 100.00% in the equity interest and voting rights of PSBC Wealth Management (December 31, 2022: 100.00%).

(3) On December 16, 2021, the Bank obtained formal approval issued by the former CBIRC《關於中郵郵惠萬家銀行有限責任公司開業的批覆》for the commencement of business operation of YOU+ BANK Co., Ltd. ("YOU+ BANK"). On January 7, 2022, YOU+ BANK was officially incorporated. YOU+ BANK mainly engages in following businesses: taking public deposits, mainly from individuals, small and micro enterprises; granting short-term, medium-term and long-term loans to individuals, small and micro enterprises; processing domestic and foreign settlement through electronic channels; processing electronic bill acceptance and discounting; issuance of financial bonds; buying and selling government bonds and financial bonds; conducting interbank placements; purchasing and selling foreign exchange, or acting as an agent thereof; operating bank card business; acting as an agent for receipts and payments and agency insurance business; other businesses as approved by the NAFR. As at June, 30, 2023, the Bank owned 100.00% in the equity interest and voting rights of YOU+ BANK (December 31, 2022: 100.00%).

(4) None of the subsidiaries had issued any debt securities at June 30, 2023 and December 31, 2022, respectively.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

20 Interests in associates

	As at June 30, 2023	As at December 31, 2022
Investment in an associate	660	653

On March 22, 2022, Guomin Pension Insurance Co., Ltd. (hereinafter referred to as "Guomin Pension") was incorporated with registered capital of RMB11.15 billion and the Bank's subsidiary, PSBC Wealth Management owned equity interest of Guomin Pension. The Group holds 5.83% of the equity interest and the voting rights, and could appoint directors and has right to participate in the financial and operational decisions of Guomin Pension. The directors of the Bank conclude that the Group has significant influence over Guomin Pension and therefore it is classified as an associate of the Group.

21 Property and equipment

	Buildings	Electronic equipment	Motor vehicles	Office equipment and others	Construction in progress	Total
Cost						
As at January 1, 2023	60,973	12,100	1,306	4,578	13,088	92,045
Increases	252	146	36	92	3,177	3,703
Transfer from investment properties	5	–	–	–	–	5
Transfer from construction in progress	1,389	266	–	144	(1,799)	–
Decreases	(40)	(345)	(66)	(137)	(719)	(1,307)
As at June 30, 2023	62,579	12,167	1,276	4,677	13,747	94,446
Accumulated depreciation						
As at January 1, 2023	(24,824)	(9,713)	(973)	(3,263)	–	(38,773)
Charge for the period	(1,542)	(767)	(67)	(214)	–	(2,590)
Transfer from investment properties	(3)	–	–	–	–	(3)
Disposals	25	314	63	129	–	531
As at June 30, 2023	(26,344)	(10,166)	(977)	(3,348)	–	(40,835)
Carrying amount						
As at January 1, 2023	36,149	2,387	333	1,315	13,088	53,272
As at June 30, 2023	36,235	2,001	299	1,329	13,747	53,611

(All amounts in millions of RMB unless otherwise stated)

21 Property and equipment (continued)

	Buildings	Electronic equipment	Motor vehicles	Office equipment and others	Construction in progress	Total
Cost						
As at January 1, 2022	58,132	10,266	1,308	4,390	15,192	89,288
Increases	168	558	75	264	7,265	8,330
Transfer from investment properties	44	–	–	–	–	44
Transfer from construction in progress	2,968	2,337	–	216	(5,521)	–
Decreases	(339)	(1,061)	(77)	(292)	(3,848)	(5,617)
As at December 31, 2022	60,973	12,100	1,306	4,578	13,088	92,045
Accumulated depreciation						
As at January 1, 2022	(22,031)	(8,558)	(922)	(3,108)	–	(34,619)
Charge for the year	(2,981)	(2,162)	(125)	(433)	–	(5,701)
Transfer from investment properties	(25)	–	–	–	–	(25)
Disposals	213	1,007	74	278	–	1,572
As at December 31, 2022	(24,824)	(9,713)	(973)	(3,263)	–	(38,773)
Carrying amount						
As at January 1, 2022	36,101	1,708	386	1,282	15,192	54,669
As at December 31, 2022	36,149	2,387	333	1,315	13,088	53,272

As at June 30, 2023, the Group was still in the process of obtaining ownership certificates of certain properties, with cost amounted to RMB3,488 million (December 31, 2022: RMB3,283 million), while carrying amount was RMB2,853 million (December 31, 2022: RMB2,706 million).

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

All buildings of the Group were located outside Hong Kong SAR.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023
(All amounts in millions of RMB unless otherwise stated)

22 Deferred taxes

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

	As at June 30, 2023	As at December 31, 2022
Deferred tax assets	64,947	63,955
Deferred tax liabilities	(14)	(11)
Total	64,933	63,944

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

	Allowance for Impairment loss	Staff cost accrued but not paid	Fair value changes of financial instruments	Provisions	Right-of-use assets	Leasing transactions and others	Total
As at January 1, 2023	62,214	3,007	(3,689)	1,758	(2,658)	3,312	63,944
Credit/(Charge) to profit or loss	2,551	145	(1,391)	(3)	92	(14)	1,380
Charge/(Credit) to other comprehensive income	38	–	(429)	–	–	–	(391)
As at June 30, 2023	64,803	3,152	(5,509)	1,755	(2,566)	3,298	64,933
As at January 1, 2022	56,485	2,499	(5,013)	1,771	(2,666)	3,232	56,308
Credit/(Charge) to profit or loss	5,138	508	(465)	(13)	8	80	5,256
Charge to other comprehensive income	591	–	1,789	–	–	–	2,380
As at December 31, 2022	62,214	3,007	(3,689)	1,758	(2,658)	3,312	63,944

(All amounts in millions of RMB unless otherwise stated)

22 Deferred taxes (continued)

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

	As at June 30, 2023		As at December 31, 2022	
	Deductible/ (Taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible/ (Taxable) temporary difference	Deferred tax assets/ (liabilities)
Deferred tax assets				
Allowance for impairment loss	261,435	64,803	248,856	62,214
Staff cost accrued but not paid	12,611	3,152	12,029	3,007
Provisions	7,020	1,755	7,031	1,758
Fair value changes of financial instruments	1,667	417	635	159
Lease liabilities and others	13,517	3,363	13,683	3,421
Total	296,250	73,490	282,234	70,559
Deferred tax liabilities				
Fair value changes of financial instruments	(23,703)	(5,926)	(15,391)	(3,848)
Right-of-use assets and others	(10,714)	(2,631)	(11,068)	(2,767)
Total	(34,417)	(8,557)	(26,459)	(6,615)
Net value	261,833	64,933	255,775	63,944

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

23 Other assets

		As at June 30, 2023	As at December 31, 2022
Right-of-use assets	(1)	12,091	12,475
Amounts pending for settlement and clearing		11,994	5,141
Receivable of fee and commission		6,463	3,460
Other accounts receivable		6,280	4,243
Deferred expenses	(2)	5,652	4,277
Intangible assets	(3)	5,459	5,408
Interest receivable		5,395	4,908
Continuing involvement assets (Note 39.3)		4,450	4,450
Prepaid expenses		3,228	2,099
Precious metals		1,621	3,040
Low-value consumables		394	480
Foreclosed assets		129	175
Investment properties		6	8
Others		4,407	3,322
Gross amount		67,569	53,486
Allowance for impairment loss		(1,712)	(1,677)
Net value		65,857	51,809

(1) Right-of-use assets

	Properties	Land use rights	Total
Cost			
As at January 1, 2023	18,637	2,614	21,251
Additions	1,857	–	1,857
Disposals	(1,639)	–	(1,639)
As at June 30, 2023	18,855	2,614	21,469
Accumulated depreciation/amortization			
As at January 1, 2023	(8,005)	(771)	(8,776)
Provided for the period	(1,887)	(31)	(1,918)
Disposals	1,316	–	1,316
As at June 30, 2023	(8,576)	(802)	(9,378)
Carrying amount			
As at January 1, 2023	10,632	1,843	12,475
As at June 30, 2023	10,279	1,812	12,091

(All amounts in millions of RMB unless otherwise stated)

23 Other assets (continued)

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

	Properties	Land use rights	Total
Cost			
As at January 1, 2022	17,832	2,614	20,446
Additions	4,316	1	4,317
Disposals	(3,511)	(1)	(3,512)
As at December 31, 2022	18,637	2,614	21,251
Accumulated depreciation/amortization			
As at January 1, 2022	(7,168)	(709)	(7,877)
Provided for the year	(3,789)	(63)	(3,852)
Disposals	2,952	1	2,953
As at December 31, 2022	(8,005)	(771)	(8,776)
Carrying amount			
As at January 1, 2022	10,664	1,905	12,569
As at December 31, 2022	10,632	1,843	12,475

(2) Deferred expenses mainly represent costs for improvement of property and equipment under operating leases.

(3) Intangible assets of the Group mainly include computer software which is amortized within 10 years.

24 Borrowings from central bank

	As at June 30, 2023	As at December 31, 2022
Borrowings from central bank	33,963	24,815

As at June 30, 2023 and December 31, 2022, borrowings from central bank were special central bank lendings and carbon reduction supporting tools, issued by the PBOC.

25 Deposits from banks and other financial institutions

	As at June 30, 2023	As at December 31, 2022
Deposits from domestic banks	41,900	28,882
Deposits from other domestic financial institutions	41,854	49,888
Total	83,754	78,770

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

26 Placements from banks and other financial institutions

	As at June 30, 2023	As at December 31, 2022
Placements from domestic banks	62,748	37,425
Placements from overseas banks	4,617	5,274
Total	67,365	42,699

27 Financial assets sold under repurchase agreements

Analyzed by type of collateral:	As at June 30, 2023	As at December 31, 2022
Debt securities	296,115	154,328
Bills	34,699	29,318
Total	330,814	183,646

The collateral pledged under repurchase agreement is disclosed in "Note 38.2 Contingent liabilities and commitments – Collateral".

28 Customer deposits

	As at June 30, 2023	As at December 31, 2022
Demand deposits		
Personal deposits	2,979,065	3,185,218
Corporate deposits	970,965	924,174
Subtotal	3,950,030	4,109,392
Time deposits		
Personal deposits	8,855,069	8,096,979
Corporate deposits	493,542	505,392
Subtotal	9,348,611	8,602,371
Other deposits	2,950	2,722
Total	13,301,591	12,714,485

As at June 30, 2023, customer deposits received by the Group included pledged deposits of RMB48,105 million (December 31, 2022: RMB42,570 million).

(All amounts in millions of RMB unless otherwise stated)

29 Debt securities issued

		As at June 30, 2023	As at December 31, 2022
Debt securities issued			
Including: 10-year tier 2 capital bonds at a fixed interest rate (issued in August, 2021)	(1)	51,466	50,612
15-year tier 2 capital bonds at a fixed interest rate (issued in August, 2021)	(2)	10,320	10,134
10-year tier 2 capital bonds at a fixed interest rate (issued in March, 2022)	(3)	35,386	36,011
15-year tier 2 capital bonds at a fixed interest rate (issued in March, 2022)	(4)	5,058	5,153
15-year tier 2 capital bonds at a fixed interest rate (issued in May, 2023)	(5)	20,087	–
Financial securities issued	(6)	10,004	–
Interbank certificates of deposits issued	(7)	165,938	–
Total		298,259	101,910

(1) In August 2021, upon the approval from the former CBIRC and the PBOC, the Group issued RMB50 billion of 10-year tier 2 capital bonds at a fixed coupon rate of 3.44%, with interests paid annually. The Group has an option to redeem part or all of the bonds at face value in August 2026 if specified redemption conditions as stipulated in the offering documents are met, subject to approval of the NAFR. If the Group does not exercise this redemption right, the annual coupon rate would remain at 3.44% from August 2026 onward.

(2) In August 2021, upon the approval from the former CBIRC and the PBOC, the Group issued RMB10 billion of 15-year tier 2 capital bonds at a fixed coupon rate of 3.75%, with interests paid annually. The Group has an option to redeem part or all of the bonds at face value in August 2031 if specified redemption conditions as stipulated in the offering documents are met, subject to approval of the NAFR. If the Group does not exercise this redemption right, the annual coupon rate would remain at 3.75% from August 2031 onward.

(3) In March 2022, upon the approval from the former CBIRC and the PBOC, the Group issued RMB35 billion of 10-year tier 2 capital bonds at a fixed coupon rate of 3.54%, with interests paid annually. The Group has an option to redeem part or all of the bonds at face value in March 2027 if specified redemption conditions as stipulated in the offering documents are met, subject to approval of the NAFR. If the Group does not exercise this redemption right, the annual coupon rate would remain at 3.54% from March 2027 onward.

(4) In March 2022, upon the approval from the former CBIRC and the PBOC, the Group issued RMB5 billion of 15-year tier 2 capital bonds at a fixed coupon rate of 3.74%, with interests paid annually. The Group has an option to redeem part or all of the bonds at face value in March 2032 if specified redemption conditions as stipulated in the offering documents are met, subject to approval of the NAFR. If the Group does not exercise this redemption right, the annual coupon rate would remain at 3.74% from March 2032 onward.

(5) In May 2023, upon the approval from the former CBIRC and the PBOC, the Group issued RMB20 billion of 15-year tier 2 capital bonds at a fixed coupon rate of 3.39%, with interests paid annually. The Group has an option to redeem part or all of the bonds at face value in May 2033 if specified redemption conditions as stipulated in the offering documents are met, subject to approval of the NAFR. If the Group does not exercise this redemption right, the annual coupon rate would remain at 3.39% from May 2032 onward.

The above-mentioned tier 2 capital bonds contain a write-down feature, which allows the Group to write down the entire principal of the bonds when a regulatory triggering event occurs as stipulated in the offering documents and not to pay any outstanding interests payable that have been accumulated. These tier 2 capital bonds meet the relevant criteria of the NAFR and are qualified as tier 2 capital instruments.

(6) In March 2023, upon the approval from the former CBIRC and the PBOC, the Group issued RMB5 billion of 3-year green financial bonds at a fixed coupon rate of 2.79%, with interests paid annually, and RMB5 billion of 3-year special bonds for small and micro enterprises loans at a fixed coupon rate of 2.80%, with interests paid annually.

(7) For the six-month period ended June 30, 2023, the Group issued interbank certificates of deposit with the total face value amount of RMB181.53 billion at a fixed coupon rate of 1.98% – 2.50% with an original maturity of 1 month to 1 year. As at June 30, 2023, the total face value of outstanding interbank certificates of deposit amounted to RMB166.89 billion.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

30 Other liabilities

		As at June 30, 2023	As at December 31, 2022
Dividend payable		25,574	–
Employee benefits payable	(1)	20,247	22,860
Provisions	(2)	13,499	13,664
Payables for agency services		10,768	13,666
Lease liabilities	(3)	9,649	9,852
VAT and other taxes payable		4,594	4,372
Continuing involved liabilities (Note 39.3)		4,450	4,450
Amount pending for settlement and clearing		4,423	3,558
Payables to China Post Group and other related parties (Note 36.3.1(4))		2,312	2,284
Contract liabilities		2,147	1,976
Dormant accounts		2,127	1,905
Payable for construction cost		892	943
Exchange transaction payables		755	881
Others		7,518	9,388
Total		108,955	89,799

(All amounts in millions of RMB unless otherwise stated)

30 Other liabilities (continued)

(1) Employee benefits payable

		Six-month period ended June 30, 2023			
		Balance at the beginning of the period	Increase in current period	Decrease in current period	Balance at at the end of the period
Wages and salaries, bonus, allowance and subsidies		19,928	19,114	(22,075)	16,967
Staff welfare		74	1,028	(1,098)	4
Social security contributions		222	1,758	(1,676)	304
Including: Medical insurance		219	1,686	(1,605)	300
Maternity insurance		2	31	(31)	2
Work injury insurance		1	41	(40)	2
Housing funds		25	2,165	(2,159)	31
Labour union funds and employee education funds		1,281	560	(557)	1,284
Defined contribution benefits		669	4,161	(3,850)	980
Including: Basic pensions		116	2,597	(2,560)	153
Unemployment insurance		5	86	(86)	5
Annuity scheme		548	1,478	(1,204)	822
Supplementary retirement benefits and early retirement benefits	(i)	661	32	(16)	677
Others		–	7	(7)	–
Total		22,860	28,825	(31,438)	20,247

		Year ended December 31, 2022			
		Balance at the beginning of the year	Increase in current year	Decrease in current year	Balance at at the end of the year
Wages and salaries, bonus, allowance and subsidies		16,142	43,946	(40,160)	19,928
Staff welfare		–	2,698	(2,624)	74
Social security contributions		162	3,336	(3,276)	222
Including: Medical insurance		159	3,194	(3,134)	219
Maternity insurance		2	63	(63)	2
Work injury insurance		1	79	(79)	1
Housing funds		18	4,200	(4,193)	25
Labour union funds and employee education funds		1,353	1,089	(1,161)	1,281
Defined contribution benefits		758	7,680	(7,769)	669
Including: Basic pensions		118	5,049	(5,051)	116
Unemployment insurance		5	89	(89)	5
Annuity scheme		635	2,542	(2,629)	548
Supplementary retirement benefits and early retirement benefits	(i)	638	55	(32)	661
Others		–	39	(39)	–
Total		19,071	63,043	(59,254)	22,860

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

30 Other liabilities (continued)

(1) Employee benefits payable (continued)

(i) Supplementary retirement benefits and early retirement benefits

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

	Six-month period ended June 30, 2023	Year ended December 31, 2022
Balance at the beginning of period/year	661	638
Interest expenses	10	20
Gain or loss from actuarial calculation	22	35
– Credit to profit or loss	–	38
– Credit/(Charge) to other comprehensive income	22	(3)
Benefits paid	(16)	(32)
Balance at the end of period/year	677	661

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

	As at June 30, 2023	As at December 31, 2022
Discount rate used for retirement benefit plan	2.75%	3.00%
Discount rate used for early retirement benefit plan	2.25%	2.50%
Annual growth rates of average medical expenses	8.00%	8.00%
Annual growth rates of retiree expenses	3% and 0%	3% and 0%
Annual growth rates of early-retiree expenses	6%, 3% and 0%	6%, 3% and 0%
Normal retirement age		
– Male	60	60
– Female	55, 50	55, 50

As at June 30, 2023 and December 31, 2022, the future mortality rate assumption was based on the China Life Insurance Mortality Table (2010-2013) issued on December 28, 2016, which was the statistical information publicly available in China.

(All amounts in millions of RMB unless otherwise stated)

30 Other liabilities (continued)

(2) Provisions

		January 1, 2023	Current period reversal	Current period payment	June 30, 2023
ECL provisions on guarantee and commitments	(i)	6,633	(154)	–	6,479
Litigation and others	(ii)	7,031	(2)	(9)	7,020
Total		13,664	(156)	(9)	13,499

		January 1, 2022	Current year reversal	Current year payment	December 31, 2022
ECL provisions on guarantee and commitments	(i)	8,171	(1,538)	–	6,633
Litigation and others	(ii)	7,083	–	(52)	7,031
Total		15,254	(1,538)	(52)	13,664

(i) ECL provisions on guarantee and commitments

	As at June 30, 2023			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Provision as at June 30, 2023	6,413	56	10	6,479

	As at December 31, 2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Provision as at December 31, 2022	6,604	28	1	6,633

(ii) As at June 30, 2023 and December 31, 2022, the Group established accruals for unsettled litigations according to the best estimation for a variety of risk events and outflow of economic benefits.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023
(All amounts in millions of RMB unless otherwise stated)

30 Other liabilities (continued)

(3) Lease liabilities

Analyzed by residual maturity:	As at June 30, 2023	As at December 31, 2022
Within 1 month	247	317
1 to 3 months	550	456
3 to 12 months	2,080	2,328
1 to 2 years	2,887	2,904
2 to 5 years	3,129	3,671
Over 5 years	1,521	1,409
Contractual undiscounted cash flows of lease liabilities	10,414	11,085
Carrying amount of lease liabilities	9,649	9,852

31 Share capital and other equity instruments

31.1 Share capital

	As at June 30, 2023		As at December 31, 2022	
	Number of shares (million shares)	Face value	Number of shares (million shares)	Face value
Domestically listed (A shares)	79,305	79,305	72,528	72,528
Listed overseas (H shares)	19,856	19,856	19,856	19,856
Total	99,161	99,161	92,384	92,384

A shares refer to ordinary shares that are subscribed and traded in RMB, and H shares are shares that are approved to be listed in Hong Kong and denominated in RMB, but subscribed and traded in Hong Kong dollars. All H shares and A shares issued by the Bank are ordinary shares with a face value of RMB1.00 per share and enjoy equal rights.

On December 23, 2011, in accordance with the Approval by the MOF on the *State-owned Equity Management Plan of Postal Savings Bank Co., Ltd. (Cai Jin [2011] No. 181)*, China Post Group was the exclusive promoter of the Bank. 45 billion promoter's shares were established and paid-in capital of the Bank amounted to RMB45 billion. In December 2013 and December 2014, China Post Group increased the capital of the Bank by RMB2 billion and RMB10 billion respectively.

31 Share capital and other equity instruments (continued)

31.1 Share capital (continued)

On December 8, 2015, in accordance with the Approval of the former CBIRC on Capital Increase and the Introduction of Strategic Investors by the Postal Savings Bank of China, the former CBIRC agreed the Bank's non-public offering of no more than 11,604 million shares to 10 institutional investors, including UBS Limited, China Life Insurance Company Ltd., China Telecommunications Corporation, Canada Pension Fund Investment Corporation, Zhejiang Ant Small and Micro Financial Services Group Co., Ltd., JPMorgan Bank China Investment Second Investment, Futun Management, International Finance Corporation, DBS Bank Co., Ltd. and Shenzhen Tencent Domain Calculator Network (hereinafter referred to as "Strategic Investors"). After the capital increase, the Bank's total shares increased to 68,604 million.

On September 28, 2016, the Bank was listed on The Stock Exchange of Hong Kong Limited. In the same year, the over-allotment option was exercised and the total shares of the Bank increased to 81,031 million.

Approved by the former CBIRC through *the Initial Public Offering of A Shares by the Postal Savings Bank of China Co., Ltd and amendment of the Articles of Association (Yinbaojianfu [2019] No.565)* 《中國銀保監會關於郵儲銀行首次公開發行 A 股股票並上市和修改公司章程的批覆》(銀保監覆[2019]565 號)) and approved by the China Securities Regulatory Commission through *the Approval of Postal Savings Bank of China 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 was RMB1.00 per share, and the issue price was RMB5.50 per share. The net proceeds raised were RMB28,001 million, of which the share capital was RMB5,172 million and the capital reserve was RMB22,829 million. After initial public offering of A shares, the total shares of the Bank increased to 86,203 million.

The joint lead underwriters exercised the over-allotment option in January 2020. The over-allotment issued 776 million A shares at a face value of RMB1.00 and the issue price was RMB5.50 per share. The net proceeds raised were RMB4,205 million, of which the share capital was RMB776 million and the capital reserve was RMB3,429 million. After execution of the over-allotment, the total shares of the Bank increased to 86,979 million.

The Bank completed the private offering of 5,405 million of A shares in March 2021 to its controlling shareholders. The face value of A shares was RMB1.00, and the issue price was RMB5.55 per share. The net proceeds raised were RMB29,985 million, of which the share capital was RMB5,405 million and capital reserve was of RMB24,580 million. After the private offering of A shares, the total shares of the Bank increased to 92,384 million.

The Bank completed the private offerings of 6,777 million of A shares in March 2023 to China Mobile Communications Group Co., Ltd. The face value of A shares was RMB1.00, and the issue price was RMB6.64 per share. The net proceeds raised were RMB44,980 million, of which the share capital was RMB6,777 million and capital reserve was of RMB38,203 million. After the private offering of A shares, the total shares of the Bank increased to 99,161 million.

As at June 30, 2023, the total number of ordinary shares of the Bank was 99,161 million, of which 12,182 million shares were restricted for sales and 86,979 million shares were unrestricted shares (As at December 31, 2022, the total number of ordinary shares of the Bank was 92,384 million, of which 61,253 million shares were restricted for sales and 31,131 million shares were unrestricted shares).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

31 Share capital and other equity instruments (continued)

31.2 Other equity instruments

(1) Perpetual bonds outstanding as at the end of the period

Outstanding financial instruments	Issue date	Classification	Initial interest rate	Issue price	Quantity (million)	Currency	Amount (million)	Maturity date	Redemption/ impairment
Undated additional tier 1 capital bonds	March 16, 2020	Equity instrument	3.69%	100	800	RMB	80,000	No maturity date	No
Undated additional tier 1 capital bonds	March 19, 2021	Equity instrument	4.42%	100	300	RMB	30,000	No maturity date	No
Undated additional tier 1 capital bonds	January 14, 2022	Equity instrument	3.46%	100	300	RMB	30,000	No maturity date	No
Total proceeds raised							140,000		

The carrying amount of perpetual bonds issued by the Bank, net of related issuance fees, was RMB139,986 million as at June 30, 2023 (As at December 31, 2022: RMB139,986 million).

The key terms are set out below:

(a) Conditional redemption rights

From the fifth anniversary since the issuance of the undated additional tier 1 capital bonds (the "Bonds"), the Bank may redeem full or part of the Bonds on each distribution payment date (including the fifth distribution payment date since the issuance). After the issuance, if the event that the Bonds no longer qualify as additional tier 1 capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the full but not part of the Bonds.

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

(b) Subordination

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

31 Share capital and other equity instruments (continued)

31.2 Other equity instruments (continued)

(1) Perpetual bonds outstanding as at the end of the period (continued)

(c) Write-down/write-off clauses

Upon the occurrence of a non-viability trigger event, the Bank has the right to write down/write off in full or in part, without the need for consent from the holders of the Bonds, the principal amount of the Bonds. The amount of the write-down/write-off shall be determined by the ratio of the outstanding principal amount of the Bonds to the aggregate principal amount of all additional tier 1 capital instruments with the identical trigger event. A non-viability trigger event refers to the earlier of the following events: (1) the NAFR 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 NAFR or the relevant authority has decided a trigger event occurs, and has informed the Bank together with a public announcement of such trigger event.

Within two business days after the occurrence of the trigger event, the Bank shall make a public announcement and give notice to the holders of the Bonds on the amount, the calculation method thereof, together with the implementation date and procedures, of such write-down/write-off.

(d) Distribution rate

The distribution rate of the Bonds will be adjusted at defined intervals, with a distribution rate adjustment period every 5 years since the payment settlement date. In any distribution rate adjusted period, the distribution payments on the Bonds will be made at a prescribed fixed distribution rate. The distribution rate at the time of issuance will be determined by bookkeeping and centralized allocation. The distribution rate is determined by a benchmark rate plus a fixed spread.

(e) Distribution payment

The Bank shall have the right to cancel, in full or in part, distributions on the Bonds and any such cancellation shall not constitute an event of default. When exercising such right, the Bank will take into full consideration the interest of the holders of the Bonds. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the Bonds regardless in full or in part, will not impose any restrictions on the Bank, except in relation to dividend distributions on ordinary shares. Any cancellation of distributions on the Bonds regardless in full or in part, will require the deliberation by and approval from the general shareholders meeting. The Bank shall give notice to the investors on such cancellation in a timely manner.

In the event a distribution cancellation of the Bonds, regardless in full or in part, the Bank shall not make any distribution to the ordinary shareholders from the next date following the resolution being approved in the general shareholders meeting, until its decision to resume the distribution payments in full to the holders of the Bonds. The dividend stopper on ordinary shares will not compromise the Bank’s discretion to cancel distributions, and will not impede the Bank from replenishing its capital.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

31 Share capital and other equity instruments (continued)

31.2 Other equity instruments (continued)

(2) Changes in outstanding perpetual bonds

Outstanding financial Instruments	January 1, 2023		Increase in current period		June 30, 2023	
	Units of the Bonds (million)	Carrying amount (RMB million)	Units of the Bonds (million)	Carrying amount (RMB million)	Units of the Bonds (million)	Carrying amount (RMB million)
Undated additional tier 1 capital bonds	1,400	140,000	–	–	1,400	140,000

(3) Equity attributable to the holders of equity instruments

Items	As at June 30, 2023	As at December 31, 2022
1. Total equity attributable to equity holders of the Bank	889,028	824,225
(1) Equity attributable to ordinary shareholders of the Bank	749,042	684,239
(2) Equity attributable to other equity holders of the Bank	139,986	139,986
Including: Net profit	5,316	6,708
Dividends/interests distributed	(5,316)	(6,708)
2. Total equity attributable to non-controlling interests	1,663	1,589
(1) Equity attributable to non-controlling interests of ordinary shares	1,663	1,589
(2) Equity attributable to non-controlling interests of other equity instruments	–	–

32 Capital reserve

	As at June 30, 2023	As at December 31, 2022
Net asset revaluation appreciation from the Bank's joint stock restructuring	3,448	3,448
Share premium arising from strategic investors	33,536	33,536
Share premium arising from the Bank's initial public offering of H shares	37,675	37,675
Change of equity interest in a subsidiary	(11)	(11)
Share premium arising from the Bank's initial public offering of A shares	26,258	26,258
Share premium arising from the Bank's private offering of A shares (Note 31.1)	62,783	24,580
Other capital reserve	(1,007)	(1,007)
Total	162,682	124,479

(All amounts in millions of RMB unless otherwise stated)

33 Other reserves

33.1 Surplus reserve

In accordance with *The Company Law of the People's Republic of China* (中華人民共和國公司法), and the Bank's Articles of Association, the Bank shall appropriate 10% of its net profit under Accounting Standards for Business Enterprises and relevant requirements for the current year to the statutory surplus reserve, and can cease appropriation when the statutory surplus reserve accumulates to more than 50% of the registered capital of the Bank.

33.2 General reserve

	Six-month period ended June 30, 2023	Year ended December 31, 2022
At the beginning of period/year	178,784	157,367
Appropriations in current period/year	80	21,417
At the end of period/year	178,864	178,784

In accordance with *the Administrative Measures for Provisioning of Financial Enterprises* (金融企業準備金計提管理辦法) (Cai Jin [2012] No.20) issued by the MOF, the Bank shall appropriate general reserve from its net profit for the purpose to recover any unidentified potential losses. The balance of general reserve shall be no less than 1.5% of risk assets at the end of each year.

Pursuant to the relevant regulatory requirements in Mainland of China, the Bank's subsidiaries also appropriate a certain amount of net profit as general reserve.

33.3 Other comprehensive income

(1) Other comprehensive income attributable to equity holders of the Bank in the condensed consolidated statement of financial position

	Net gains/(losses) on investments in financial assets measured at FVTOCI	Remeasurement of retirement benefit obligations	Total
January 1, 2022	12,343	(289)	12,054
Movement during the year	(7,139)	3	(7,136)
December 31, 2022 and January 1, 2023	5,204	(286)	4,918
Movement during the period	1,163	(22)	1,141
June 30, 2023	6,367	(308)	6,059

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

33 Other reserves (continued)

33.3 Other comprehensive income (continued)

(2) Other comprehensive income in the condensed consolidated statement of profit or loss and other comprehensive income

	Six-month period ended June 30	
	2023	2022
Items that will not be reclassified to profit or loss:		
Remeasurement of retirement benefit obligations	(22)	–
Changes in fair value of equity instruments designated as at FVTOCI	(800)	(1,436)
Less: Income tax effect	(200)	(359)
Item that may be reclassified subsequently to profit or loss:		
Changes in fair value of debt instruments measured at FVTOCI	2,487	(681)
Less: Amount transferred to profit or loss from other comprehensive income	(27)	92
Income tax effect	629	(193)
Credit losses of debt instruments measured at FVTOCI	(89)	76
Less: Amount transferred to profit or loss from other comprehensive income	63	419
Income tax effect	(38)	(86)
Net amount	1,149	(1,914)

34 Dividends and interests distribution

Upon the approval obtained in the 2022 Annual General Meeting, the Bank distributed RMB25,574 million (tax inclusive) of cash dividends for the year ended December 31, 2022 to all the ordinary shareholders whose names appeared on the register with RMB2.579 per ten shares (tax inclusive). The Bank distributed the A shares cash dividends on July 13, 2023 and the H shares cash dividends on August 10, 2023 respectively.

Upon the approval obtained in the 2021 Annual General Meeting, the Bank distributed RMB22,856 million (tax inclusive) of cash dividends for the year ended December 31, 2021 to all the ordinary shareholders whose names appeared on the register with RMB2.474 per ten shares (tax inclusive). The Bank distributed the A shares cash dividends on July 12, 2022 and the H shares cash dividends on August 10, 2022 respectively.

In Jan 2023, the Bank paid RMB1,038 million interests to holders of perpetual bonds issued in the year 2022, the interest rate of which equalled to 3.46%. In March 2023, the Bank paid RMB4,278 million interests to holders of perpetual bonds issued in the year 2020 and 2021, the interest rates of which equalled to 3.69% and 4.42%, respectively. The interests were calculated by the initial interest rates before the first reset date which were determined in accordance with the terms and conditions of the perpetual bonds.

In March 2022, the Bank paid RMB4,278 million interests to holders of perpetual bonds issued in the year 2020 and 2021, respectively. The interest rates equalled to 3.69% and 4.42%, respectively, which were calculated by the initial interest rates before the first reset date which were determined in accordance with the terms and conditions of the perpetual bonds.

(All amounts in millions of RMB unless otherwise stated)

35 Cash and cash equivalents

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

	As at June 30, 2023	As at June 30, 2022
Cash	46,273	46,255
Surplus reserve with central bank	12,021	11,953
Deposits with banks and other financial institutions	9,012	16,942
Placements with banks and other financial institutions	7,039	23,457
Financial assets held under resale agreements	306,847	248,109
Short-term debt securities	29,067	200
Total	410,259	346,916

36 Relationship and transactions with related parties

36.1 Information of the parent company

	Place of registration	Nature of business
China Post Group	Beijing, PRC	Domestic and international mail delivery, distribution of publications such as newspapers and journals, stamp issuance, postal remittance, operation of postal savings business in accordance with laws and regulations, 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 government.

China Post Group is managed and supervised by the MOF on behalf of the State Council.

As at June 30, 2023 and December 31, 2022, the registered capital of China Post Group were RMB137,600 million.

As at June 30, 2023, China Post Group directly held 62.78% of both the equity shares and voting rights in the Bank (As at December 31, 2022: 67.39%).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

36 Relationship and transactions with related parties (continued)

36.2 Information of major related parties

Name of enterprise	Relationship with the Bank
Shanghai International Port (Group) Co., Ltd.	Major shareholder of the Bank
China State Shipbuilding Corporation Limited	Major shareholder of the Bank
China Mobile Limited	Major shareholder of the Bank
China Postal Express & Logistics Co., Ltd.	Company under the common control of China Post Group
China Post Life Insurance Co., Ltd.	Company under the common control of China Post Group
China Post Securities Co., Ltd.	Company under the common control of China Post Group
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
Ningxia China Post Logistics Co., Ltd.	Company under the common control of China Post Group
Jiangsu Post and Telecommunication Printing 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 arising from the major shareholder of the Bank
China National Shipbuilding Equipment & Materials (South China) Company Limited	Related party arising from the major shareholder of the Bank
Xianghuangqi Shengshi Xinyuan Wind Power Co., Ltd.	Related party arising from the major shareholder of the Bank
Anhui Haima Cloud Technology Co., Ltd.	Related party arising from the major shareholder of the Bank
China UnionPay Co., Ltd.	Related party arising from connected persons of the Bank
Overseas Chinese Town Group Co., Ltd.	Related party arising from connected persons of the Bank

The Group's connected person include the Bank's directors, supervisors, senior executives and their direct relatives, as well as the Bank's controlling shareholders' directors, supervisors, senior executives and their direct relatives and other connected persons. The Group's other related parties include other related parties of China Post Group, other related parties of major shareholders of the Bank and other related parties arising from connected persons.

36.3 Related party transactions

For transactions between the Group and related parties in accordance with general commercial terms during normal business operations, the pricing principle is the same as that of independent third party transactions. For transactions other than normal banking business between the Group and related parties, the pricing principle shall be determined by both parties through negotiation in accordance with general commercial terms.

36 Relationship and transactions with related parties (continued)

36.3 Related party transactions (continued)

36.3.1 Transactions with China Post Group, its subsidiaries, joint ventures and associates

(1) Agency banking services from China Post Group

In addition to conducting commercial banking services at its owned business locations, the Bank also engages China Post Group and its provincial branches as agents to provide certain commercial banking services at China Post Group's business locations where financial service licenses have been obtained. These commercial banking services mainly include: deposits taking; bank card (debit card) services, credit cards repayment processing services; electronic banking business, agency issuance, underwriting and redemption of government bonds; certification of personal deposits; agency sales of fund products and personal wealth management products, and other agency services.

In accordance with *the Interim Administrative Measures for Institutional Agency of Postal Savings Bank of China* Co., Ltd（中國郵政儲蓄銀行代理營業機構管理暫行辦法）issued by the former 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，the "Framework Agreement"）entered into between the Bank and China Post Group and its provincial branches.

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

Monthly deposit agency fee costs at the relevant branch =Σ(aggregate amount of deposit for each type of deposit at the branch for the month multiplied by the number of days of deposit × the respective deposit agency fee rate of the relevant type of deposit/365) - aggregate cash (including that in transit) multiplied by the number of days at the relevant branch for the month× 1.5%/365.

The Bank pays deposit agency fee for agency RMB savings deposits received, net of cash reserves held by agency outlets and deposits in transit. The agency fee rates range from 0.00% to 2.33%.

To effectively manage the interest expenses and maintain a stable growth in the deposit scale, the Bank has established relevant mechanisms to boost the deposit-taking, including the arrangements of cost sharing for floating interest rates of deposits as well as incentives for deposit-taking. The Bank and China Post Group have agreed that the amount of deposit incentive shall not be higher than the payment by China Post Group under the cost sharing mechanism for floating interest rates of deposits in any circumstances.

The agency foreign currency deposit-taking business is insignificant, as such the Bank and China Post Group apply market rates such as the composite interest rate of the China Interbank Foreign Currency Market to determine the agency fee.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

36 Relationship and transactions with related parties (continued)

36.3 Related party transactions (continued)

36.3.1 Transactions with China Post Group, its subsidiaries, joint ventures and associates (continued)

(1) Agency banking services from China Post Group (continued)

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.

		Six-month period ended June 30	
		2023	2022
Deposit agency fee and others	(i)	56,076	49,667
Fees for agency sales and other commissions	(ii)	10,754	7,099
Fees for agency savings settlement		3,461	3,555
Total		70,291	60,321

(i) For the six-month period ended June 30, 2023, deposit agency fee (including RMB and foreign currency deposit-taking business) cost amounted to RMB56,403 million (for the six-month period ended June 30, 2022: RMB50,971 million). The offsetting settlement amount of the Bank's relevant mechanisms to boost deposit increase was RMB-327 million (for the six-month period ended June 30, 2022: RMB-1,304 million). According to the netting arrangement between the Bank and China Post Group, deposit agency fee and other are settled and disclosed on a net basis.

(ii) Fees for agency sales and other commissions include agency income generated from sales of insurance products of China Post Life Insurance Co., Ltd. by agency outlets. The Bank firstly recognizes relevant fee and commission income (Note 4) in the consolidated statement of profit or loss and other comprehensive income, and the same amount of the fee and commission will be payable by the Bank to China Post Group following the principle of "fee payable to the entity providing the service（誰辦理誰受益）". The remaining agency income generated from sales for other insurance companies are settled with the Bank or directly with China Post Group according to the contract.

(All amounts in millions of RMB unless otherwise stated)

36 Relationship and transactions with related parties (continued)

36.3 Related party transactions (continued)

36.3.1 Transactions with China Post Group, its subsidiaries, joint ventures and associates (continued)

(2) Operating lease with China Post Group and its related parties

(a) Lease buildings, ancillary equipment and other properties

	Six-month period ended June 30	
As lessor	2023	2022
Buildings and other	27	37

	Six-month period ended June 30	
As lessee	2023	2022
Buildings and other	418	478

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

	As at June 30, 2023	As at December 31, 2022
Right-of-use assets	1,077	1,045
Lease liabilities	1,017	1,011

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

36 Relationship and transactions with related parties (continued)

36.3 Related party transactions (continued)

36.3.1 Transactions with China Post Group, its subsidiaries, joint ventures and associates (continued)

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

(a) Revenue from rendering other comprehensive services to China Post Group and its related parties

		Six-month period ended June 30	
		2023	2022
Agency sales of insurance products	(i)	2,476	1,168
Comprehensive services rendered	(ii)	48	47
General office materials sold		23	26
Agency sales of precious metals		10	12
Total		2,557	1,253

(i) Agency sales of insurance products are income generated from agency service for China Post Life Insurance Co., Ltd. by directly-operated outlets of the Bank.

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

(b) Expenditure from receiving other comprehensive services from China Post Group and its related parties

		Six-month period ended June 30	
		2023	2022
Comprehensive services received	(i)	480	460
Marketing services received		447	344
Goods purchased		205	153
Philatelic items purchased and mailing services received		37	50
Payment of precious metals		9	2
Total		1,178	1,009

(i) Comprehensive services received from China Post Group and its related parties include cash escort, equipment maintenance, advertisement, real estate management, training and other services.

(All amounts in millions of RMB unless otherwise stated)

36 Relationship and transactions with related parties (continued)

36.3 Related party transactions (continued)

36.3.1 Transactions with China Post Group, its subsidiaries, joint ventures and associates (continued)

(4) Other transactions with China Post Group and its related parties

Balances		As at June 30, 2023	As at December 31, 2022
Assets			
Loans and advances to customers	(i)	5,000	2
Financial assets measured at FVTPL	(ii)	8,058	8,132
Financial assets measured at FVTOCI – debt instruments	(iii)	91	1,318
Financial assets measured at amortized cost	(iii)	200	189
Other assets		1,839	310
Liabilities			
Deposits from banks and other financial institutions	(i)	2,447	2,455
Customer deposits	(iv)	12,741	6,381
Other liabilities (Note 30)		2,312	2,284

	Six-month period ended June 30	
Transactions	2023	2022
Interest income	42	100
Interest expense	126	122
Fee and commission income	30	34
Fee and commission expense	7	4

(i) As at June 30, 2023, loans and advances to customers were mainly with China Post Group, deposits from banks and other financial institutions were mainly with companies under the common control of China Post Group (December 31, 2022, loans and advances to customers and deposits from banks and other financial institutions were mainly with companies under the common control of China Post Group).

(ii) As at June 30, 2023 and December 31, 2022, financial assets measured at FVTPL were mainly with China Post & Capital Fund Management Co., Ltd.

(iii) As at June 30, 2023, financial assets measured at amortized cost and debt instruments measured at FVTOCI were mainly with China Post Securities Co., Ltd. (December 31, 2022, financial assets measured at amortized cost were mainly with China Post Securities Co., Ltd., debt instruments measured at FVTOCI were mainly with China Post Group and China Post Securities Co., Ltd.)

(iv) As at June 30, 2023, RMB7,201 million of customer deposits were mainly with China Post Group (December 31, 2022: RMB3,531 million) while RMB5,540 million of customer deposits were mainly with associate and companies under the common control of China Post Group (December 31, 2022: RMB2,850 million). The interest rates of such customer deposits range from 0.20% to 2.025% as at June 30, 2023 (December 31, 2022, 0.25% to 2.75%).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

36 Relationship and transactions with related parties (continued)

36.3 Related party transactions (continued)

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

Balances	As at June 30, 2023	As at December 31, 2022
Assets		
Loans and advances to customers	1,231	1,108
Other assets	3	–
Liabilities		
Customer deposits	2,972	85
Other liabilities	7	1

	Six-month period ended June 30	
Transactions	2023	2022
Interest income	20	19
Interest expense	32	–
Fee and commission income	4	–
Fee and commission expense	11	–
Operating expenses	123	–

As at June 30, 2023, loans and advances to customers were mainly with Mulei Tongyuan Hongshen New Energy Development Co., Ltd., Xianghuangqi Shengshi Xinyuan Wind Power Co., Ltd and Anhui Haima Cloud Technology Co., Ltd. As at December 31, 2022, loans and advances to customers were mainly with Mulei Tongyuan Hongshen New Energy Development Co., Ltd. and Xianghuangqi Shengshi Xinyuan Wind Power Co., Ltd.

(All amounts in millions of RMB unless otherwise stated)

36 Relationship and transactions with related parties (continued)

36.3 Related party transactions (continued)

36.3.3 Transactions with related parties arising from the connected persons of the Bank

Balances		As at June 30, 2023	As at December 31, 2022
Assets			
Loans and advances to customers	(1)	4,625	–
Financial assets measured at FVTPL	(1)	152	–
Financial assets measured at FVTOCI-equity instruments	(2)	468	451
Other assets		35	31
Liabilities			
Customer deposits	(3)	5,181	4,620
Other liabilities		1	10

Transactions		Six-month period ended June 30	
		2023	2022
Interest income		89	–
Interest expense		61	60
Fee and commission income	(4)	2,422	2,254
Fee and commission expense	(4)	656	575
Operating expenses		40	17

(1) As at June 30, 2023, loans and advances to customers and Financial assets measured at FVTPL are mainly the balance of transactions with Overseas Chinese Town Group Co. Ltd.

(2) As at June 30, 2023 and December 31, 2022, financial assets measured at fair value through other comprehensive income-equity instruments were mainly with China UnionPay Co., Ltd.

(3) As at June 30, 2023 and December 31, 2022, customer deposits were mainly with China UnionPay Co., Ltd.

(4) The net fee and commission income was mainly arising from the settlement and clearing with China UnionPay Co., Ltd. both during the six-month period ended June 30, 2023 and 2022.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

36 Relationship and transactions with related parties (continued)

36.3 Related party transactions (continued)

36.3.4 Transactions with connected persons of the Bank

Balances	As at June 30, 2023	As at December 31, 2022
Assets		
Loans and advances to customers	85	94
Liabilities		
Customer deposits	195	174

Transactions	Six-month period ended June 30	
	2023	2022
Interest income	1	3
Interest expense	1	2

36.3.5 The Group and other government related entities

Other than related party transactions disclosed above and also in other relevant notes, a significant part of the Group's banking transactions are entered into with government authorities, agencies, subsidiaries and other entities under control of state. These transactions are entered into under normal commercial terms and conditions and mainly include provision of credit and guarantee, deposits, foreign exchange transactions, derivative product transactions, agency services, underwriting and distribution of bonds issued by government authorities, purchase, sales and redemption of securities issued by government authorities.

The Group considers that these transactions are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government authorities, agencies, subsidiaries and other entities under control of state.

(All amounts in millions of RMB unless otherwise stated)

36 Relationship and transactions with related parties (continued)

36.4 Key management personnel compensation

Key management personnel are those persons having authorities and responsibilities for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and senior executives.

	Six-month period ended June 30	
	2023	2022
Key management personnel compensation	4	5

Part of the remuneration for key management personnel for the six-month period ended June 30, 2023 and 2022 is subject to strategic performance assessment and has not yet been paid.

37 Structured entities

37.1 Unconsolidated structured entities managed by the Group

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

As at June 30, 2023 and December 31, 2022, the non-principal guaranteed WMPs issued and managed by the Group amounted to RMB752,447 million and RMB830,062 million, respectively. The net fee and commission income from such activities was disclosed in Note 4.

As at June 30, 2023, the Group held RMB270 million of non-principal guaranteed WMPs issued and managed by the Group (December 31, 2022: RMB199 million).

As at June 30, 2023, the Group did not enter into any repurchase agreements with the non-principal-guaranteed wealth management products sponsored by the Group. (December 31, 2022: amounts held under resale agreements transacted between the Group and the non-principal-guaranteed wealth management products sponsored by the Group were RMB17,482 million). The above transactions were conducted in accordance with normal business terms and conditions.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

37 Structured entities (continued)

37.2 Unconsolidated structured entities invested by the Group

The Group invests in unconsolidated structured entities issued and managed by other institutions, and records interest income, net trading gains and net gains on investment securities therefrom. These structured entities mainly comprise fund investments, trust investment plans, asset management plans, asset-backed securities and other debt instruments, etc. The nature and purpose of the structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issuance of investment products to investors.

As at June 30, 2023 and December 31, 2022, the Group's maximum exposure to these unconsolidated structured entities was summarized in the table below:

	As at June 30, 2023		
	Financial assets measured at FVTPL	Financial assets measured at amortized cost	Total
Fund investments	603,452	–	603,452
Trust investment plans and asset management plans	54,308	–	54,308
Asset-backed securities	576	144,892	145,468
Other debt instruments	–	24,356	24,356
Total	658,336	169,248	827,584

(All amounts in millions of RMB unless otherwise stated)

37 Structured entities (continued)

37.2 Unconsolidated structured entities invested by the Group (continued)

	As at December 31, 2022		
	Financial assets measured at FVTPL	Financial assets measured at amortized cost	Total
Fund investments	616,591	–	616,591
Trust investment plans and asset management plans	54,191	–	54,191
Asset-backed securities	52	147,816	147,868
Other debt instruments	–	28,339	28,339
Total	670,834	176,155	846,989

No open market information was readily available for the overall scale of those unconsolidated structured entities mentioned above.

For the six-month period ended June 30, 2023 and 2022, the income from these unconsolidated structured entities earned by the Group was as follows:

	Six-month period ended June 30	
	2023	2022
Interest income	3,190	3,519
Net gains on investment securities	11,731	9,334
Net trading gains	1	–
Total	14,922	12,853

37.3 Consolidated structured entities held by the Group

The consolidated structured entities issued and managed by the Group consist of special purpose trusts founded by third party trust companies for conducting asset securitization business by the Group. For the six-month period ended June 30, 2023 and for the year ended December 31, 2022, the Group did not provide any financial support to these special purpose trusts.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

38 Contingent liabilities and commitments

38.1 Capital commitments

	As at June 30, 2023	As at December 31, 2022
Contracts signed but not executed	6,177	4,031

The Group's capital commitments are contracts signed but not executed, which mainly include purchase of property and equipment, and decoration projects.

38.2 Collateral

Assets pledged as collaterals

Certain of assets held by the Group were pledged as collaterals under repurchase agreements. Such transactions were conducted in accordance with normal business terms and conditions.

	As at June 30, 2023	As at December 31, 2022
Debt securities	310,589	159,816
Bills	34,812	29,418
Total	345,401	189,234

In addition, due to other business needs, some of the debt securities held by the Group were pledged as collaterals. As at June 30, 2023, the carrying amount of debt securities pledged as collaterals amounted to RMB152,065 million (December 31, 2022: RMB103,396 million).

Collaterals received

Collaterals under loans and advances to customers mainly include land use rights and buildings. The Group has not resold or re-pledged these collaterals which the owners of the pledged properties have not breached the contracts. As at June 30, 2023, the Group's exposure to credit-impaired loans and advances to customers covered by corresponding collateral was RMB31,392 million (December 31, 2022: RMB31,269 million).

Collaterals under certain deposits with banks mainly include bonds issued by Chinese government or policy banks. The Group has not resold or re-pledged these collaterals which the owners of the pledged properties have not breached the contracts.

Financial assets held under resale agreements are mainly collateralized by debt securities and bills. As part of certain resale agreements, the Group obtains debt securities or bills from counterparts which could be resold or re-pledged as collaterals during the business operation of financial assets held under resale agreements from banks. As at June 30, 2023, the Group obtained the debt securities as collaterals from counterparts under the business with a carrying amount of RMB1,117 million (December 31, 2022: Nil). The principal amount of the bills accepted by the Group that can be resold or re-pledged was RMB45,107 million (December 31, 2022: RMB42,024 million).

(All amounts in millions of RMB unless otherwise stated)

38 Contingent liabilities and commitments (continued)

38.3 Redemption commitment for government bonds

The Group is entrusted by the MOF to underwrite certain treasury bonds. The investors of the treasury bonds have the right to redeem the bonds at any time prior to maturity and the Group is committed to honor such redemption requests. The MOF will not provide funding for the early redemption of these bonds on a back-to-back basis, but will settle the principal and interest upon maturity or regular settlement. The redemption price is the face value of the treasury bonds underwritten and sold plus unpaid interest in accordance with the terms of the early redemption arrangement.

As at June 30, 2023, the nominal value of treasury bonds the Group was obligated to redeem was RMB125,987 million (December 31, 2022: RMB119,616 million). The original maturities of these bonds range from 1 to 5 years. Management of the Group expects the amount of redemption before the maturity dates of these bonds will not be material.

38.4 Lawsuits and claims

The Group was involved in a number of lawsuits and claims during its normal course of business. Provisions for losses from cases and lawsuits are disclosed in Note 30 (2).

38.5 Credit risk-weighted amounts for financial guarantees and credit commitments

	As at June 30, 2023	As at December 31, 2022
Financial guarantees and credit commitments	273,247	207,332

The credit risk-weighted figures are amounts calculated in accordance with the former CBIRC's guidance, and also based on positions of the counterparties and the specifics of remaining maturities.

38.6 Credit commitments

	As at June 30, 2023	As at December 31, 2022
Loan commitments		
– With an original maturity of less than 1 year	2,147	1,998
– With an original maturity of 1 year or above	71,439	89,595
Subtotal	73,586	91,593
Bank acceptances	98,199	95,218
Guarantees and letters of guarantee	68,123	56,229
Letters of credit	91,662	65,535
Unused credit card commitments	441,042	390,287
Total	772,612	698,862

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.

As at June 30, 2023 and December 31, 2022, the credit risk exposure of the credit commitments was mainly in Stage 1.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

39 Transfers of financial assets

The Group enters into transactions during the normal course of business by which it transfers recognized financial assets to third parties or to special purpose trusts. In some cases these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognize the transferred assets.

39.1 Outright repurchase agreements

The Group does not derecognize financial assets transferred as collateral in connection with repurchase agreements. As at June 30, 2023 and December 31, 2022, the Group did not have such agreements with counterparties.

39.2 Securities lending transactions

Counterparties are allowed to sell or repledge securities lent under securities lending agreements in the absence of any default by the Group, but at the same time, they have an obligation to return such securities upon the maturity of the securities lending agreements. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. As at June 30, 2023, the carrying amount of debt securities lent to counterparties was RMB40,864 million (December 31, 2022: RMB44,180 million).

39.3 Credit assets securitization transactions

The Group enters into securitization transactions during the normal course of business by which it transfers credit assets to special purpose trusts which in turn issues asset-backed securities to investors. The Group may acquire some asset-backed securities and fund shares at the senior and subordinated tranche level. Accordingly, the Group may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognize the associated credit assets by evaluating the extent to which it transfers the risks and rewards of the assets.

With respect to the credit assets that are securitized and qualified for derecognition, the Group derecognizes the transferred credit assets in their entirety. For the six-month ended June 30, 2023, the face value at the date of transfer of the original credit assets was RMB5,473 million (for the six-month ended June 30, 2022: RMB1,618 million). As the Bank substantially transferred all the risks and rewards of these credit assets, the full amount of such securitized credit assets were derecognized.

In the cases that the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and for which the Group retains control, the Group recognizes an asset in the condensed consolidated statement of financial position to the extent of the Group's continuing involvement in the transferred assets. The extent of the Group's continuing involvement is the extent of the risks and rewards exposed by the Group to the value changes of the transferred assets. For the six-month ended June 30, 2023, there were no new securitised credit assets in which the Group retained the continuing involvement (for the six-month ended June 30, 2022: the face value at the date of transfer was RMB3,346 million). The carrying amount of the continuing involvement assets and the corresponding continuing involvement liabilities, which were recognized in other assets and other liabilities in the condensed consolidated statement of financial position, are both RMB4,450 million as at June 30, 2023 (December 31, 2022: RMB4,450 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 six-month period ended June 30, 2023 and the year 2022, the Group did not provide any financial support to these special purpose trusts.

40 Segment analysis

40.1 Operating segment

The Group manages the business from both a business and geographic perspective. From the business perspective, the Group provides services through four main operating segments listed below:

Personal banking

The personal banking segment covers the provision of financial products and services to individual customers. The products and services include savings deposit-taking, personal loans, credit cards and debit cards, payments and settlements, wealth management products and funds, insurance agency services, etc.

Corporate banking

The corporate banking segment covers the provision of financial products and services to corporations, government agencies and financial institutions. The products and services include current account settlement, deposits, overdrafts, loans, trade related products and other credit facilities, foreign currency, and wealth management products, etc.

Treasury

This segment covers businesses including deposits and placements with banks and other financial institutions, interbank borrowings and lendings, repurchase and resale transactions, various debt instrument investments and equity instrument investment, etc. The issuance of bond securities also falls into this segment.

Others

This segment includes items that are not attributed to the above segments or cannot be allocated on a reasonable basis.

The management of the Group monitors operating results of each segment for the purposes of resource allocation and assessment of segment performance. The accounting policies of the operating segments are the same as the Group's accounting policies when preparing segment financial information. Since 2023 the Group has made segment adjustments for bond underwriting and other business based on actual management and restated the comparative period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023
(All amounts in millions of RMB unless otherwise stated)

40 Segment analysis (continued)

40.1 Operating segment (continued)

	Six-month period ended June 30, 2023				
	Personal banking	Corporate banking	Treasury	Others	Total
Interest income from external customers	104,954	57,190	83,166	–	245,310
Interest expense to external customers	(90,069)	(9,543)	(5,393)	–	(105,005)
Intersegment net interest income/(expense)	98,743	(22,621)	(76,122)	–	–
Net interest income	113,628	25,026	1,651	–	140,305
Net fee and commission income	13,493	3,256	1,454	–	18,203
Net trading gains	–	–	2,253	–	2,253
Net gains on investment securities	–	–	13,677	–	13,677
Net gains on derecognition of financial assets measured at amortized cost	–	–	1,325	–	1,325
Net other operating gains	705	187	260	235	1,387
Share of results of associates	–	–	–	7	7
Operating expenses	(80,747)	(11,639)	(10,544)	(179)	(103,109)
Credit impairment losses	(5,097)	(12,256)	(1,963)	–	(19,316)
Impairment losses on other assets	(1)	–	–	–	(1)
Profit before income tax	41,981	4,574	8,113	63	54,731
Supplementary information					
Depreciation and amortization	4,338	991	118	–	5,447
Capital expenditures	4,479	1,035	56	–	5,570

	As at June 30, 2023				
	Personal banking	Corporate banking	Treasury	Others	Total
Segment assets	4,703,130	3,722,046	6,632,324	660	15,058,160
Deferred tax assets					64,947
Total assets					15,123,107
Segment liabilities	(11,936,333)	(1,488,865)	(807,173)	(31)	(14,232,402)
Deferred tax liabilities					(14)
Total liabilities					(14,232,416)
Supplementary information					
Credit commitments	441,042	331,570	–	–	772,612

(All amounts in millions of RMB unless otherwise stated)

40 Segment analysis (continued)

40.1 Operating segment (continued)

	Six-month period ended June 30, 2022				
	Personal banking	Corporate banking	Treasury	Others	Total
Interest income from external customers	104,780	51,866	78,801	–	235,447
Interest expense to external customers	(85,785)	(8,558)	(3,987)	–	(98,330)
Intersegment net interest income/(expense)	93,768	(18,046)	(75,722)	–	–
Net interest income	112,763	25,262	(908)	–	137,117
Net fee and commission income	11,089	1,896	4,895	–	17,880
Net trading gains	–	–	2,188	–	2,188
Net gains on investment securities	–	–	10,913	–	10,913
Net gains on derecognition of financial assets measured at amortized cost	–	–	195	–	195
Net other operating gains	746	168	4,202	226	5,342
Operating expenses	(74,120)	(10,132)	(9,442)	(140)	(93,834)
Credit impairment losses	(19,626)	(6,924)	(549)	–	(27,099)
Impairment losses on other assets	(9)	–	–	–	(9)
Profit before income tax	30,843	10,270	11,494	86	52,693
Supplementary information					
Depreciation and amortization	4,027	858	102	–	4,987
Capital expenditures	3,306	711	43	–	4,060

	As at December 31, 2022				
	Personal banking	Corporate banking	Treasury	Others	Total
Segment assets	4,424,365	3,369,946	6,208,363	653	14,003,327
Deferred tax assets					63,955
Total assets					14,067,282
Segment liabilities	(11,368,137)	(1,450,284)	(423,036)	–	(13,241,457)
Deferred tax liabilities					(11)
Total liabilities					(13,241,468)
Supplementary information					
Credit commitments	390,287	308,575	–	–	698,862

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

40 Segment analysis (continued)

40.2 Geographical segment

Geographical segments, as defined for management reporting purposes, are as follows:

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

40 Segment analysis (continued)

40.2 Geographical segment (continued)

	Six-month period ended June 30, 2023							
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Total
Interest income from external customers	91,220	30,949	23,863	22,785	40,170	28,124	8,199	245,310
Interest expense to external customers	(4,237)	(17,892)	(8,210)	(15,870)	(31,257)	(20,626)	(6,913)	(105,005)
Intersegment net interest (expense)/income	(108,099)	13,204	5,477	17,428	37,695	24,872	9,423	–
Net interest income	(21,116)	26,261	21,130	24,343	46,608	32,370	10,709	140,305
Net fee and commission income	(31)	3,000	2,663	3,584	4,743	3,127	1,117	18,203
Net trading gains	2,253	–	–	–	–	–	–	2,253
Net gains on investment securities	13,032	269	73	125	141	106	(69)	13,677
Net gains on derecognition of financial assets measured at amortized cost	526	103	122	104	192	191	87	1,325
Net other operating gains	373	146	178	107	108	428	47	1,387
Share of results of associates	–	–	–	7	–	–	–	7
Operating expenses	(6,718)	(14,286)	(11,004)	(14,110)	(28,232)	(21,035)	(7,724)	(103,109)
Credit impairment losses	(2,840)	(3,312)	(3,862)	(1,717)	(3,844)	(3,206)	(535)	(19,316)
Impairment losses on other assets	(1)	–	–	–	–	–	–	(1)
Profit before income tax	(14,522)	12,181	9,300	12,443	19,716	11,981	3,632	54,731
Supplementary information								
Depreciation and amortization	1,170	742	551	766	933	978	307	5,447
Capital expenditures	1,739	432	504	675	1,337	665	218	5,570

	As at June 30, 2023								
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	Total
Segment assets	10,505,603	2,552,182	1,667,906	2,566,879	4,813,365	3,216,394	1,142,820	(11,406,989)	15,058,160
Deferred tax assets									64,947
Total assets									15,123,107
Segment liabilities	(9,808,545)	(2,529,623)	(1,649,684)	(2,536,469)	(4,783,646)	(3,195,028)	(1,137,301)	11,407,894	(14,232,402)
Deferred tax liabilities									(14)
Total liabilities									(14,232,416)
Supplementary information									
Credit commitments	441,042	75,090	57,356	84,949	46,542	55,715	11,918	–	772,612

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

40 Segment analysis (continued)

40.2 Geographical segment (continued)

	Six-month period ended June 30, 2022							
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Total
Interest income from external customers	84,694	30,788	22,317	22,154	39,774	27,679	8,041	235,447
Interest expense to external customers	(2,239)	(16,496)	(8,305)	(15,148)	(29,940)	(19,661)	(6,541)	(98,330)
Intersegment net interest (expense)/income	(91,554)	9,862	5,146	14,754	32,294	21,499	7,999	–
Net interest income	(9,099)	24,154	19,158	21,760	42,128	29,517	9,499	137,117
Net fee and commission income	3,451	2,046	2,198	3,273	3,575	2,490	847	17,880
Net trading gains	2,188	–	–	–	–	–	–	2,188
Net gains on investment securities	10,034	343	82	139	201	58	56	10,913
Net gains on derecognition of financial assets measured at amortized cost	195	–	–	–	–	–	–	195
Net other operating gains	4,661	60	60	119	90	331	21	5,342
Operating expenses	(6,074)	(12,688)	(10,327)	(12,907)	(25,299)	(19,500)	(7,039)	(93,834)
Credit impairment losses	(6,055)	(5,821)	(4,806)	(1,823)	(4,199)	(3,434)	(961)	(27,099)
Impairment losses on other assets	–	–	–	–	–	(5)	(4)	(9)
Profit before income tax	(699)	8,094	6,365	10,561	16,496	9,457	2,419	52,693
Supplementary information								
Depreciation and amortization	914	715	509	720	883	932	314	4,987
Capital expenditures	896	362	343	728	1,020	591	120	4,060

	As at December 31, 2022								
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	Total
Segment assets	10,103,690	2,408,977	1,575,657	2,420,624	4,569,518	3,069,031	1,099,094	(11,243,264)	14,003,327
Deferred tax assets									63,955
Total assets									14,067,282
Segment liabilities	(9,450,421)	(2,388,890)	(1,560,747)	(2,393,121)	(4,544,397)	(3,051,838)	(1,096,072)	11,244,029	(13,241,457)
Deferred tax liabilities									(11)
Total liabilities									(13,241,468)
Supplementary information									
Credit commitments	390,287	74,625	56,510	77,356	41,699	52,088	6,297	–	698,862

41 Financial risk management

41.1 Overview

To ensure an appropriate level of risk-adjusted return and sufficient capital adequacy, the Group adheres to a prudent risk management strategy, and achieves a decent return through appropriate risk-taking with consideration of size, growth and quality of its businesses.

The Group is mainly exposed to credit risk, market risk, liquidity risk and operational risk. Market risk includes interest rate risk and exchange rate risk (including gold).

This section describes the Group's position with respect to the above risk exposures, and the Group's objectives, policies and procedures in managing those risk exposures, as well as the Group's capital management.

41.2 Framework of financial risk management

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

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

The Group's senior management assumes the responsibilities for implementation of comprehensive risk management and carrying out decisions of the Board of Directors, which includes setting up the operation and management structure in line with comprehensive risk management framework, clarifying division of responsibilities among functional departments, business departments and other departments under comprehensive risk management framework, establishing coordination mechanism with effective balance of power across departments, formulating clear implementation and accountability mechanism to ensure adequate communication and effective implementation of risk management strategies, risk appetites and risk limits, setting up risk limits according to risk appetite determined by the Board of Directors, including but not limited to levels such as industry, region, customer, and product. The Group's senior management is also responsible for formulating risk management policies and procedures, regular assessments, with adjustments when necessary, and assessing conditions of comprehensive risks and various important risk management with reports to the Board of Directors. In addition, it is the Group's senior management's responsibility to establish sound management information system and data quality control mechanism, and oversee violation of risk appetite, risk limits, and risk management policies and procedures, and deal with them under authorization of the Board of Directors, and assume other responsibilities from risk management perspective.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Credit risk

Credit risk refers to the risk of loss caused by the default or the deterioration of credit rating and repayment ability of the debtor or the counterparty.

The main sources of the Group's credit risk include: credit business, treasury business (including deposits and placements, resale agreement, debt securities issued by corporates and financial institutions, inter-bank investment, etc.), off-balance sheet credit business (including guarantee, commitment, etc.).

The organizational structure of the Group on credit risk management is as follows: the Board of Directors takes the ultimate responsibilities for credit risk management, the Board of Supervisors takes the supervisory responsibilities for credit risk management, while the senior management undertaking the responsibilities for implementation of credit risk management, and for the implementation of resolutions approved by the Board of Directors on credit risk; the Risk Management Committee is responsible for credit risk management; and the Credit Business Approval Committee is responsible for approving credit lines within the scope of authorization; each business department shall bear the primary responsibility for credit risk mitigation, and implementation of policies, standards and procedures of credit risk management in its own field of business in accordance with the segregation of duties among different functions; departments of credit management, risk management, credit approval, internal control and compliance, legal affairs and others are responsible for the overall planning, supervision and review of credit risk management and mitigation, of which the Credit Management Department is the leading department of credit risk management, and the Internal Audit Department supervises each department's performance of duties in credit risk management independently and objectively.

(1) Loans and advances to customers, loan commitments and financial guarantees

The risk on loan portfolio refers to the risk of uncertain income or loan losses due to failure of a borrower to repay the principal and interest in full upon maturity of a loan. Given the loan portfolio is a major component of the Group's assets, risk on the loan portfolio is considered as a principal credit risk.

(2) Debt securities and other debt instruments

Credit risks on debt securities and other debt instruments arising from changes in credit spreads, default rates, loss ratios and credit quality of underlying assets.

The Group adopts a prudent approach in making debt security investments by focusing on low-risk debt securities, including government bonds and bonds issued by financial institutions. Other debt instruments are mainly trust investment plans and assets management plans.

The Group established a risk evaluation system on the issuers of corporate bonds and other debt instruments, and performs ongoing post-lending monitoring on a timely basis.

(3) Interbank financing business

The Group manages the credit quality by considering the size, financial position and the internal and external credit rating of those banks and financial institutions.

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.1 Expected credit loss measurement

The Group has applied ECL models to measure the impairment of debt instruments measured at amortized cost and at FVTOCI, as well as credit commitments.

Based on whether a significant increase in credit risk has occurred since initial recognition of a financial instrument or becoming credit impaired, the Group will classify credit risk exposures into three stages to calculate the ECL.

Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition.

Stage 2 includes financial instruments 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 end of the reporting period and at the date of initial recognition.

Stage 3 includes financial instruments that are credit-impaired.

The Group could assesses impairment allowance through either the ECL models or discounted cash flow method.

The Group has incorporated forward-looking information for measuring ECL and constructed complicated models involving substantial management judgements and assumptions, mainly including the following:

– Grouping of risks;

– Significant increase in credit risk;

– Definition of default and credit-impaired;

– Descriptions of parameters, assumptions and estimation techniques;

– Forward-looking information;

– Management overlay;

– The estimated future cash flows for loans and advances to customers and financial investments which applied discounted cash flow method.

(1) Grouping of risks

For measurement of ECL, the credit risk exposures will be segmented based on similar credit risk characteristics. In determination of the portfolio segmentation of credit assets, the Group considers the type of borrower, type of product, and industry etc. The segmentation of portfolio is regularly monitored and reviewed to ensure the appropriateness and reliability of credit risk segmentation.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.1 Expected credit loss measurement (continued)

(2) Significant Increase in credit risk (SICR)

At the end of each reporting period, the Group evaluates whether a significant increase in credit risk of related financial instruments has occurred since initial recognition, which mainly includes: impacts of regulation and operating environment, changes in internal and external credit rating, insolvency, business performance, loan contractual terms, etc. Based on individual financial instrument or financial instrument portfolios with similar credit risk characteristics, the Group determines changes of the default risk by comparing the risk at the end of each reporting period with that at the date of initial recognition.

The Group has set up both quantitative and qualitative standards according to the different features of credit risk associated with the financial assets as well as the current status of risk management initiatives. In determining whether a SICR of financial assets has occurred, the Group mainly considers whether the internal credit rating has been downgraded by more than a certain scale and has reached a certain threshold since initial recognition, whether there has been an adverse change of risk classification, and whether principal or interest has been more than 30 days past due, etc.

(3) Definition of default and credit-impaired

The Group considers a financial instrument as in default or being credit-impaired when it meets one or more of the following criteria, including whether principal or interest has been more than 90 days, and whether the risk classification of the credit risk exposure has been downgraded below a certain category or the internal credit rating has been downgraded below a certain threshold, etc.

(4) Description of parameters, assumptions, and estimation techniques

ECL is measured on either a 12-month (12M) or lifetime basis depending on whether a SICR has occurred since initial recognition and whether an asset is considered being credit-impaired. ECL derived from the discounted value of the multiplication of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD).

Related definitions are as follows:

The PD represents the likelihood of a borrower breaching the contractual terms or defaulting on its financial obligation over a specific time, either the next 12 months, or the remaining lifetime of the obligation. The Group's PD has adopted the results of internal rating model, or for financial asset that does not use this model, historical analysis is adopted, where the historical default records are calculated by historical data of asset portfolios with similar credit risk characteristics, incorporating forward-looking information, to reflect the PD at a specific point in time under the current macroeconomic environment.

LGD refers to the ratio of the expected loss in the total amount of the loan portfolios, which is the extent of loss on a default. The Group's LGD is calculated by internal rating model. For financial asset that does not use this model, historical analysis is adopted, where the loss of default has been calculated over the next 12 months or over the remaining lifetime from the time of default. The assessment is on an individual basis by customer type, guarantee method, and historical non-performing loan collection experience, etc.

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.1 Expected credit loss measurement (continued)

(4) Description of parameters, assumptions, and estimation techniques (continued)

EAD refers to the total amount of on-and-off balance sheet exposures in the event of default.

The Group estimates PD, LGD and EAD of each portfolio in the future to calculate the ECL. The Group multiples the three and adjusts their expected life (such as default), and discount and aggregate the calculation result of each period to determine the ECL. The discount rate used in the ECL calculation is the effective rate or its approximate value.

The Group periodically monitors the related assumptions concerning the calculation of ECL and makes necessary updates and adjustments.

(5) Forward-looking information

The calculation of ECL incorporates forward-looking information. The Group performs historical analysis and has identified the key economic variables impacting credit risk and ECL for each portfolio, mainly including Gross Domestic Product（"GDP"）, Consumer Price Index, Consumer Confidence Index, etc.

These economic variables and their associated impacts on PD vary by segmentation of portfolios. Expert judgement has also been applied in this process. Forecasts of these economic variables (the "basic economic scenario"）are made by the Group regularly, and the relationship between these economic variables and PD is identified through performing statistical regression analysis with the purpose of understanding the impact that the historical changes of these variables that might have on PD.

The Group has adopted three economic scenarios (Base, Upside and Downside) and applied weightings for them respectively, on the basis of a combination of the macroeconomic information, statistical analysis and expert judgement. For the period ended June 30, 2023, the highest weighting is assigned to Base scenario, while weightings of Upside and Downside were not higher than 30% respectively.

As at June 30, 2023, the Group considers the macroeconomy by referring to the prediction of internal and external authoritative experts to determine the base scenario. Under the base scenario, the growth rate of GDP is predicted to ranges from 5% to 6%.

The Group periodically reviews and monitors the appropriateness of the above assumptions, and makes necessary updates and adjustments.

Relatively substantial management judgements are involved in the weighting scheme of macroeconomic scenarios, macroeconomic forecasts, and significant increase in credit risk in ECL models. The variation of key inputs above will inevitably lead to changes in ECL as a result of model's inherent complexity. The Group has analyzed sensitivity of ECL model by considering the fluctuation of macroeconomic forecasts.

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 June 30, 2023 would be no more than 5%.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.1 Expected credit loss measurement (continued)

(6) Management Overlay

Taking into account inherent limitations of ECL models and temporary systematic risk factors, the Group has accrued additional loss allowance in response to potential risk and improved its risk compensation capability. The amount of management overlay adjustments was not material as compared to the total balance of loss allowance as at June 30, 2023.

(7) The estimated future cash flows for loans and advances to customers as well as financial investments which applied discounted cash flow method

At each measurement date, the Group projects the future cash inflows of each future period related to the financial assets. The cash flows are discounted and aggregated to determine the present value of the assets' future cash flows.

(8) Write-off policy

The Group writes off financial assets, in full or in part, when it has taken all necessary recovery efforts and is still not capable of reasonably expecting to recover partial or all the financial assets. The Group may write-off financial assets that are still subject to enforcement activities. The outstanding amounts of such assets written off during the six-month period ended June 30, 2023 were RMB8,265 million (for the six-month period ended June 30, 2022: RMB5,239 million).

(9) The modification of contractual cash flows

In order to minimize the credit loss, the Group may renegotiate the terms of the contract with borrowers that have deteriorated in financial position, or are unable to meet their original repayment schedule, which include concessions given by the Group that would not otherwise be granted to these borrowers for economic or legal reasons relating to their financial difficulties. Such contract modifications may include terms of loan, repayment schedule or interest rate. Based on the management's judgement 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. As at June 30, 2023 and December 31, 2022, the amount of the credit-impaired rescheduled loans and advances to customers of the Group was not material.

41.3.2 Credit risk limit control and mitigation policy

In accordance with risk policies and limits, the risk management and business departments of the Group enhanced risk management policies and procedures to optimize business processes and monitor the implementation of risk control indicators.

To mitigate risks, the Group requires customers to provide collateral or guarantees when appropriate. The Group has established guidelines for the acceptability of specific types of collateral, and set up a collateral management system to standardize the collateral operation process. At the same time, the value, structure and legal documents of the collateral are regularly reviewed to ensure its validity and conform to market practices.

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.3 Credit risk exposures

(1) Maximum credit risk exposures

The table below presents the Group's maximum credit risk exposures before considering any collaterals or other credit enhancements as at June 30, 2023 and December 31, 2022 respectively. For on-balance sheet assets, the maximum credit risk exposures are presented at their net carrying amounts on the condensed consolidated statement of financial position.

	As at June 30, 2023	As at December 31, 2022
Deposits with central bank	1,229,991	1,213,802
Deposits with banks and other financial institutions	175,650	161,422
Placements with banks and other financial institutions	309,456	303,836
Derivative financial assets	4,060	1,905
Financial assets held under resale agreements	376,924	229,870
Loans and advances to customers	7,583,167	6,977,710
Financial investments		
Financial assets measured at FVTPL – debt instruments	852,361	861,805
Financial assets measured at FVTOCI – debt instruments	460,693	416,172
Financial assets measured at amortized cost	3,889,153	3,669,598
Other financial assets	34,861	23,922
Subtotal	14,916,316	13,860,042
Credit commitments	772,612	698,862
Total	15,688,928	14,558,904

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023
(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.4 Loans and advances to customers

(1) Loans and advances to customers by geographical region:

	As at June 30, 2023		As at December 31, 2022	
	Amount	Proportion	Amount	Proportion
Head Office	341,488	4%	351,522	5%
Central China	1,939,032	25%	1,772,273	25%
Yangtze River Delta	1,605,897	21%	1,464,429	20%
Western China	1,329,655	17%	1,217,601	17%
Bohai Rim	1,177,686	15%	1,079,811	15%
Pearl River Delta	1,014,947	13%	946,038	13%
Northeastern China	413,962	5%	378,759	5%
Total	7,822,667	100%	7,210,433	100%

(2) Loans and advances to customers by types:

	As at June 30, 2023		As at December 31, 2022	
	Amount	Proportion	Amount	Proportion
Personal loans and advances	4,309,094	55%	4,046,105	56%
Corporate loans and advances				
Including:				
Corporate loans	3,072,815	39%	2,669,362	37%
Discounted bills	440,758	6%	494,966	7%
Total	7,822,667	100%	7,210,433	100%

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.4 Loans and advances to customers (continued)

(3) Loans and advances to customers by industry:

	As at June 30, 2023		As at December 31, 2022	
	Amount	Proportion	Amount	Proportion
Personal loans and advances				
Consumer loans				
– Residential mortgage loans	2,324,062	30%	2,261,763	31%
– Other consumer loans	469,759	6%	466,882	6%
Personal small and micro loans	1,321,885	17%	1,135,194	16%
Credit overdrafts and others	193,388	2%	182,266	3%
Subtotal	4,309,094	55%	4,046,105	56%
Corporate loans and advances				
Transportation, storage and postal services	835,823	11%	780,283	11%
Manufacturing	495,732	6%	409,673	6%
Financial services	283,028	4%	254,629	4%
Production and supply of electricity, heating, gas and water	267,490	4%	254,075	4%
Real estate	243,966	3%	211,525	3%
Wholesale and retail	224,259	3%	179,418	2%
Construction	195,398	2%	154,868	2%
Leasing and business services	185,598	2%	148,482	2%
Management of water conservancy, environmental and public facilities	157,056	2%	128,776	1%
Mining	83,737	1%	70,036	1%
Other industries	100,728	1%	77,597	1%
Subtotal	3,072,815	39%	2,669,362	37%
Discounted bills	440,758	6%	494,966	7%
Total	7,822,667	100%	7,210,433	100%

As at June 30, 2023, the balance of loans and advances to customers in relation to transportation, storage and postal services included loans to China State Railway Group Co., Ltd. of RMB160,819 million (December 31, 2022: RMB165,659 million).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.4 Loans and advances to customers (continued)

(4) Loans and advances to customers by types of collateral:

	As at June 30, 2023		As at December 31, 2022	
	Amount	Proportion	Amount	Proportion
Unsecured loans	2,197,547	28%	1,924,623	26%
Guaranteed loans	609,409	8%	507,223	7%
Loans secured by mortgages	3,809,881	48%	3,576,468	50%
Loans secured by pledges	765,072	10%	707,153	10%
Discounted bills	440,758	6%	494,966	7%
Total	7,822,667	100%	7,210,433	100%

(5) Overdue loans and advances to customers

Overdue loans and advances to customers by security types and overdue status are as follows:

	As at June 30, 2023				
	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	7,891	11,798	5,129	1,175	25,993
Guaranteed loans	1,965	2,162	2,203	1,217	7,547
Loans secured by mortgages	16,602	13,558	6,940	2,726	39,826
Loans secured by pledges	144	44	113	1,203	1,504
Total	26,602	27,562	14,385	6,321	74,870

	As at December 31, 2022				
	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	8,945	10,601	3,492	1,144	24,182
Guaranteed loans	1,993	1,526	2,661	814	6,994
Loans secured by mortgages	14,330	12,175	6,308	2,869	35,682
Loans secured by pledges	28	29	119	1,204	1,380
Total	25,296	24,331	12,580	6,031	68,238

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.5 Debt instruments

(1) Credit quality of debt instruments

The table below represents the carrying amounts of financial assets at amortized cost and financial assets measured at FVTOCI – debt instruments:

	As at June 30, 2023			
	Stage 1(i)	Stage 2	Stage 3	Total
Financial assets measured at amortized cost	3,884,376	4,729	48	3,889,153
Financial assets measured at FVTOCI – debt instruments	460,693	–	–	460,693
Total	4,345,069	4,729	48	4,349,846

	As at December 31, 2022			
	Stage 1(i)	Stage 2	Stage 3	Total
Financial assets measured at amortized cost	3,664,878	4,671	49	3,669,598
Financial assets measured at FVTOCI – debt instruments	416,172	–	–	416,172
Total	4,081,050	4,671	49	4,085,770

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.5 Debt instruments (continued)

(1) Credit quality of debt instruments (continued)

(i) Debt instruments of stage 1

The types of debt instruments	As at June 30, 2023 Financial assets at amortized cost	Financial assets at FVTOCI	Total
Debt securities-by types of issuers			
Government	1,456,479	162,222	1,618,701
Financial institutions	1,782,887	205,214	1,988,101
Corporates	119,732	93,257	212,989
Interbank certificates of deposits	354,305	–	354,305
Asset-backed securities	145,325	–	145,325
Other debt instruments	20,397	–	20,397
Debt financing plans	11,223	–	11,223
Gross amount	3,890,348	460,693	4,351,041
Less: Allowance for impairment loss	5,972	–	5,972
Carrying amount of debt instruments at stage 1	3,884,376	460,693	4,345,069

The types of debt instruments	As at December 31, 2022 Financial assets at amortized cost	Financial assets at FVTOCI	Total
Debt securities-by types of issuers			
Government	1,413,809	121,902	1,535,711
Financial institutions	1,671,779	212,772	1,884,551
Corporates	106,093	81,449	187,542
Interbank certificates of deposits	292,767	49	292,816
Asset-backed securities	148,314	–	148,314
Other debt instruments	24,460	–	24,460
Debt financing plans	12,289	–	12,289
Gross amount	3,669,511	416,172	4,085,683
Less: Allowance for impairment loss	4,633	–	4,633
Carrying amount of debt instruments at stage 1	3,664,878	416,172	4,081,050

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.5 Debt instruments (continued)

(2) Debt instruments analyzed by credit rating

The Group adopts a credit rating approach to manage the credit risk of the debts instruments held. The ratings are based on the ratings from major rating agencies where the issuers of the debt instruments are located. The amounts of debts instruments analyzed by rating as at the end of the reporting period are as follows:

	As at June 30, 2023					
	Unrated	AAA	AA	A	Below A	Total
Government bonds	808,314	810,609	3,000	210	–	1,622,133
Bonds issued by financial institutions	1,855,242	156,443	1,653	9,737	14,490	2,037,565
Corporate bonds	68,786	154,249	1,551	14,849	5,167	244,602
Interbank certificates of deposits	357,528	109,386	2,531	–	–	469,445
Asset-backed securities	10,298	136,630	–	–	–	146,928
Debt financing plans	11,223	–	–	–	–	11,223
Fund investments	603,452	–	–	–	–	603,452
Trust investment plans and asset management plans	54,308	–	–	–	–	54,308
Wealth management products issued by financial institutions	270	–	–	–	–	270
Other debt instruments	41,061	–	–	–	–	41,061
Total	3,810,482	1,367,317	8,735	24,796	19,657	5,230,987

	As at December 31, 2022					
	Unrated	AAA	AA	A	Below A	Total
Government bonds	740,511	798,653	–	207	–	1,539,371
Bonds issued by financial institutions	1,784,439	134,212	1,606	4,504	14,962	1,939,723
Corporate bonds	70,127	121,865	–	16,278	5,781	214,051
Interbank certificates of deposits	404,796	–	–	–	–	404,796
Asset-backed securities	2,813	146,580	–	–	–	149,393
Debt financing plans	12,289	–	–	–	–	12,289
Fund investments	616,591	–	–	–	–	616,591
Trust investment plans and asset management plans	54,191	–	–	–	–	54,191
Wealth management products issued by financial institutions	199	–	–	–	–	199
Other debt instruments	45,137	–	–	–	–	45,137
Total	3,731,093	1,201,310	1,606	20,989	20,743	4,975,741

Unrated debt instruments held by the Group are bonds issued by the Chinese government, policy banks, China Development Bank, interbank certificates of deposits, fund investments and other debt instruments such as trust investment plans and asset management plans issued by financial institutions, the principal and income of which are mainly guaranteed by financial institutions or third party companies, or secured by bills and other financial assets as collateral.

41.3.6 Concentration of credit risk

The credit risk exposure of financial assets mainly concentrates in Mainland of China.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.4 Market risk

Market risk refers to the risk of loss to the Group's on– and off-balance sheet business operations arising from unfavorable changes on market prices (including interest rates, exchange rates, stock prices and commodity prices). The Group is primarily exposed to interest rate risk and exchange rate risk (including gold).

The Group adopts a centralized approach during the market risk management process, including identification, measurement, monitoring and mitigation of the market risk. The Group has established basic policies and procedures for the management of market risk, separation of banking and trading books, and valuation of financial assets. The Group applies such policies and procedures to, identify, measure, monitor and mitigate market risks on both banking book and trading book respectively.

The Group is also exposed to market risk on its derivative investments on behalf of customers that are hedged through back-to-back transactions with other financial institutions.

Measurement techniques and limit setting for market risks

Trading book

Market risk on the trading book mainly arises from losses in valuation of financial instruments in the trading book due to adverse changes of market interest rates and exchange rates.

The Group uses limit management, sensitivity analysis, exposure analysis, stress test and other methods to manage the market risk of trading book and control the risk exposure within an acceptable range.

Banking book

The interest rate risk of the Group includes the risk of the adverse changes in the interest rate and term structure that may affect the economic value and overall operating income of the Group. It mainly includes the mismatch risk and the prime interest rate risk of assets and liabilities.

The Group measures the gap between assets and liabilities caused by repricing dates and maturity dates mismatch through monitoring the interest rate sensitivity gap using 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, prime interest rates or any prepayment options on debt securities into consideration. On the assumption that the RMB yield and foreign currency yield move in parallel, the Group calculates changes of net interest income in the coming year.

The table below shows the potential impact on the Group's net interest income by an upward or a downward parallel shift of interest rates by 100 basis points. The actual circumstances may differ from the assumptions so that the impact on the net interest income as shown in the following analysis may be different from the actual outcome.

	(Decrease)/Increase in net interest income	
	As at June 30, 2023	As at December 31, 2022
Upward parallel shift of 100 bps for yield curves	(23,983)	(13,143)
Downward parallel shift of 100 bps for yield curves	23,983	13,143

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.4 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 were stated at their carrying amounts based on the earlier of their repricing date or contractual maturity date.

	As at June 30, 2023						
	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	1,223,494	–	–	–	–	52,770	1,276,264
Deposits with banks and other financial institutions	23,069	22,727	128,754	–	–	1,100	175,650
Placements with banks and other financial institutions	12,215	40,419	163,703	92,505	–	614	309,456
Derivative financial assets	–	–	–	–	–	4,060	4,060
Financial assets held under resale agreements	312,950	30,098	33,167	–	–	709	376,924
Loans and advances to customers	402,006	744,456	5,876,944	460,005	79,751	20,005	7,583,167
Financial assets measured at FVTPL	19,323	45,120	82,009	10,396	35,217	662,065	854,130
Financial assets measured at FVTOCI-debt instruments	26,964	46,398	64,082	310,887	6,345	6,017	460,693
Financial assets measured at FVTOCI-equity instruments	–	–	–	–	–	8,535	8,535
Financial assets measured at amortized cost	135,284	416,942	478,187	1,151,071	1,660,871	46,798	3,889,153
Other financial assets	–	–	–	–	–	34,861	34,861
Total financial assets	2,155,305	1,346,160	6,826,846	2,024,864	1,782,184	837,534	14,972,893
Borrowings from central bank	–	2,976	30,737	–	–	250	33,963
Deposits from banks and other financial institutions	82,919	–	501	100	–	234	83,754
Placements from banks and other financial institutions	25,024	12,960	28,812	50	–	519	67,365
Derivative financial liabilities	–	–	–	–	–	5,662	5,662
Financial assets sold under repurchase agreements	300,823	16,229	13,621	–	–	141	330,814
Customer deposits	4,579,044	992,650	6,240,566	1,352,149	–	137,182	13,301,591
Debt securities issued	43,609	36,725	85,604	10,000	119,991	2,330	298,259
Other financial liabilities	229	510	1,927	5,574	1,409	58,817	68,466
Total financial liabilities	5,031,648	1,062,050	6,401,768	1,367,873	121,400	205,135	14,189,874
Interest rate risk gap	(2,876,343)	284,110	425,078	656,991	1,660,784	632,399	783,019

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.4 Market risk (continued)

Interest rate risk (continued)

	As at December 31, 2022						
	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	1,205,140	–	–	–	–	58,811	1,263,951
Deposits with banks and other financial institutions	12,683	26,107	121,533	–	–	1,099	161,422
Placements with banks and other financial institutions	34,699	31,118	162,363	75,275	–	381	303,836
Derivative financial assets	–	–	–	–	–	1,905	1,905
Financial assets held under resale agreements	122,921	37,820	68,650	–	–	479	229,870
Loans and advances to customers	3,521,115	754,780	2,213,020	387,710	81,028	20,057	6,977,710
Financial assets measured at FVTPL	10,148	33,364	92,877	13,451	38,841	675,102	863,783
Financial assets measured at FVTOCI-debt instruments	5,905	21,764	45,376	318,290	18,381	6,456	416,172
Financial assets measured at FVTOCI-equity instruments	–	–	–	–	–	9,346	9,346
Financial assets measured at amortized cost	186,736	397,740	463,779	1,045,067	1,522,004	54,272	3,669,598
Other financial assets	–	–	–	–	–	23,922	23,922
Total financial assets	5,099,347	1,302,693	3,167,598	1,839,793	1,660,254	851,830	13,921,515
Borrowings from central bank	5,699	49	19,028	–	–	39	24,815
Deposits from banks and other financial institutions	69,455	5	8,710	101	–	499	78,770
Placements from banks and other financial institutions	10,898	6,089	25,368	–	–	344	42,699
Derivative financial liabilities	–	–	–	–	–	2,465	2,465
Financial assets sold under repurchase agreements	164,305	10,322	8,864	–	–	155	183,646
Customer deposits	5,182,388	2,081,575	3,934,770	1,360,779	–	154,973	12,714,485
Debt securities issued	–	–	–	–	99,990	1,920	101,910
Other financial liabilities	282	405	2,069	5,844	1,252	37,073	46,925
Total financial liabilities	5,433,027	2,098,445	3,998,809	1,366,724	101,242	197,468	13,195,715
Interest rate risk gap	(333,680)	(795,752)	(831,211)	473,069	1,559,012	654,362	725,800

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.4 Market risk (continued)

Foreign exchange rate risk

The tables below present the Group's exposures that were subject to changes in exchange rates as at June 30, 2023 and December 31, 2022, respectively. The Group's RMB exposures were included in the table for comparison. The financial assets and liabilities and off-balance sheet credit commitments were stated at their carrying amounts in RMB equivalent.

The major currency of the Group for daily operation is RMB. Other currencies used by the Group include United States Dollars (USD), Euro (EUR), Hong Kong Dollars (HKD) and U.K. Pound Sterling (GBP), etc.

	As at June 30, 2023			
	RMB	USD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash and deposits with central bank	1,274,178	1,882	204	1,276,264
Deposits with banks and other financial institutions	171,863	2,857	930	175,650
Placements with banks and other financial institutions	309,167	289	–	309,456
Derivative financial assets	1,289	2,729	42	4,060
Financial assets held under resale agreements	376,924	–	–	376,924
Loans and advances to customers	7,564,732	15,804	2,631	7,583,167
Financial assets measured at FVTPL	850,578	3,552	–	854,130
Financial assets measured at FVTOCI-debt instruments	458,243	2,450	–	460,693
Financial assets measured at FVTOCI-equity instruments	8,535	–	–	8,535
Financial assets measured at amortized cost	3,828,815	59,601	737	3,889,153
Other financial assets	33,604	1,257	–	34,861
Total financial assets	14,877,928	90,421	4,544	14,972,893
Borrowings from central bank	33,963	–	–	33,963
Deposits from banks and other financial institutions	83,754	–	–	83,754
Placements from banks and other financial institutions	48,558	18,807	–	67,365
Derivative financial liabilities	1,322	4,023	317	5,662
Financial assets sold under repurchase agreements	330,814	–	–	330,814
Customer deposits	13,256,833	41,566	3,192	13,301,591
Debt securities issued	298,259	–	–	298,259
Other financial liabilities	68,333	130	3	68,466
Total financial liabilities	14,121,836	64,526	3,512	14,189,874
Net on-balance sheet position	756,092	25,895	1,032	783,019
Net notional amount of derivative financial instruments	33,031	(28,794)	(6,213)	(1,976)
Credit commitments	756,057	11,977	4,578	772,612

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.4 Market risk (continued)

Foreign exchange rate risk (continued)

	As at December 31, 2022			
	RMB	USD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash and deposits with central bank	1,261,936	1,964	51	1,263,951
Deposits with banks and other financial institutions	155,749	4,598	1,075	161,422
Placements with banks and other financial institutions	302,516	1,320	–	303,836
Derivative financial assets	876	973	56	1,905
Financial assets held under resale agreements	229,870	–	–	229,870
Loans and advances to customers	6,961,053	14,138	2,519	6,977,710
Financial assets measured at FVTPL	863,783	–	–	863,783
Financial assets measured at FVTOCI-debt instruments	412,408	3,764	–	416,172
Financial assets measured at FVTOCI-equity instruments	9,346	–	–	9,346
Financial assets measured at amortized cost	3,618,216	51,239	143	3,669,598
Other financial assets	23,080	839	3	23,922
Total financial assets	13,838,833	78,835	3,847	13,921,515
Borrowings from central bank	24,815	–	–	24,815
Deposits from banks and other financial institutions	78,769	1	–	78,770
Placements from banks and other financial institutions	35,417	7,282	–	42,699
Derivative financial liabilities	890	1,558	17	2,465
Financial assets sold under repurchase agreements	183,646	–	–	183,646
Customer deposits	12,681,321	32,661	503	12,714,485
Debt securities issued	101,910	–	–	101,910
Other financial liabilities	45,983	937	5	46,925
Total financial liabilities	13,152,751	42,439	525	13,195,715
Net on-balance sheet position	686,082	36,396	3,322	725,800
Net notional amount of derivative financial instruments	17,537	(12,411)	(5,779)	(653)
Credit commitments	686,747	7,650	4,465	698,862

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.4 Market risk (continued)

Foreign exchange rate risk (continued)

Exchange rate sensitivity analysis

The table below indicates the potential effect of appreciation or depreciation of USD spot and forward exchange rate against RMB by 5% on net profit of the Group.

Exchange rate changes	As at June 30, 2023	As at December 31, 2022
5% of appreciation of USD against RMB	(558)	613
5% of depreciation of USD against RMB	558	(613)

The impact on the net profit arises from the effects of fluctuation 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 fluctuation. Therefore the above sensitivity analysis may differ from the actual situation.

41.5 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 during normal business operation. Events or factors that cause the Group's liquidity risk include: deposit customers withdrawing deposits, loan customers withdrawing credit facilities, debtors failing to repay principal and interest, excessive mismatch of maturity of assets and liabilities, difficulty in disposal assets, deterioration in financing capability, 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 mitigated. The Group adheres to prudent liquidity risk management strategy and effectively balances the rhythm and structure of capital source and utilization.

The Group conducts liquidity risk stress tests on a quarterly basis to identify potential liquidity risks and continually improve stress testing methods based on regulatory and internal management requirements. The stress test results show that under the various pressure scenario assumptions, the Group can pass the minimum life expectancy test.

The Group is mainly funded by personal deposits, which is considered a stable source of funding. On the other hand, the Group primarily invests in assets with high liquidity such as deposits with banks, and government bonds. During the reporting period, the Group's liquidity regulatory indicators were functioning normally, with sufficient liquidity as a whole and safe and controllable.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.5 Liquidity risk (continued)

Analysis of the remaining contractual maturity of financial assets and financial liabilities

	As at June 30, 2023								
	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	–	58,294	–	551	743	–	–	1,216,676	1,276,264
Deposits with banks and other financial institutions	–	9,024	14,218	22,953	129,455	–	–	–	175,650
Placements with banks and other financial institutions	–	–	12,237	40,718	163,996	92,505	–	–	309,456
Derivative financial assets	–	–	398	710	1,862	1,090	–	–	4,060
Financial assets held under resale agreements	–	–	313,157	30,317	33,450	–	–	–	376,924
Loans and advances to customers	16,469	–	331,615	496,227	2,333,471	1,708,593	2,696,792	–	7,583,167
Financial assets measured at FVTPL	10	130,705	21,700	75,754	218,365	244,509	161,318	1,769	854,130
Financial assets measured at FVTOCI-debt instruments	–	–	27,929	47,977	65,032	313,250	6,505	–	460,693
Financial assets measured at FVTOCI-equity instruments	–	–	–	–	–	–	–	8,535	8,535
Financial assets measured at amortized cost	36	–	51,803	161,008	492,591	1,367,096	1,816,619	–	3,889,153
Other financial assets	2,001	20,762	578	5,860	215	479	4,652	314	34,861
Total financial assets	18,516	218,785	773,635	882,075	3,439,180	3,727,522	4,685,886	1,227,294	14,972,893
Borrowings from central bank	–	–	–	3,005	30,958	–	–	–	33,963
Deposits from banks and other financial institutions	–	77,950	5,183	–	509	112	–	–	83,754
Placements from banks and other financial institutions	–	–	25,079	13,161	29,075	50	–	–	67,365
Derivative financial liabilities	–	–	1,271	1,054	2,226	1,111	–	–	5,662
Financial assets sold under repurchase agreements	–	–	300,904	16,276	13,634	–	–	–	330,814
Customer deposits	–	4,007,350	586,821	1,010,483	6,309,404	1,387,533	–	–	13,301,591
Debt securities issued	–	–	43,609	38,516	86,143	10,000	119,991	–	298,259
Other financial liabilities	–	10,309	11,435	32,345	2,243	6,234	5,900	–	68,466
Total financial liabilities	–	4,095,609	974,302	1,114,840	6,474,192	1,405,040	125,891	–	14,189,874
Net liquidity	18,516	(3,876,824)	(200,667)	(232,765)	(3,035,012)	2,322,482	4,559,995	1,227,294	783,019

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.5 Liquidity risk (continued)

Analysis of the remaining contractual maturity of financial assets and financial liabilities (continued)

	As at December 31, 2022								
	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	–	67,821	–	592	–	–	–	1,195,538	1,263,951
Deposits with banks and other financial institutions	–	9,578	3,138	26,385	122,321	–	–	–	161,422
Placements with banks and other financial institutions	–	–	34,731	31,376	162,454	75,275	–	–	303,836
Derivative financial assets	–	–	235	328	593	749	–	–	1,905
Financial assets held under resale agreements	–	–	123,030	38,000	68,840	–	–	–	229,870
Loans and advances to customers	13,634	–	384,087	539,989	1,972,629	1,509,579	2,557,792	–	6,977,710
Financial assets measured at FVTPL	10	184,201	10,290	66,613	230,897	202,103	167,691	1,978	863,783
Financial assets measured at FVTOCI-debt instruments	–	–	6,913	23,319	47,432	320,127	18,381	–	416,172
Financial assets measured at FVTOCI-equity instruments	–	–	–	–	–	–	–	9,346	9,346
Financial assets measured at amortized cost	36	–	100,396	101,914	508,944	1,243,711	1,714,597	–	3,669,598
Other financial assets	1,906	13,232	338	2,812	194	475	4,651	314	23,922
Total financial assets	15,586	274,832	663,158	831,328	3,114,304	3,352,019	4,463,112	1,207,176	13,921,515
Borrowings from central bank	–	–	5,702	51	19,062	–	–	–	24,815
Deposits from banks and other financial institutions	–	69,547	283	6	8,823	111	–	–	78,770
Placements from banks and other financial institutions	–	–	11,005	6,158	25,536	–	–	–	42,699
Derivative financial liabilities	–	–	377	401	912	775	–	–	2,465
Financial assets sold under repurchase agreements	–	–	164,407	10,358	8,881	–	–	–	183,646
Customer deposits	–	4,200,104	1,008,742	2,125,488	3,983,662	1,396,489	–	–	12,714,485
Debt securities issued	–	–	–	1,168	752	–	99,990	–	101,910
Other financial liabilities	–	10,862	14,353	7,100	2,230	6,642	5,738	–	46,925
Total financial liabilities	–	4,280,513	1,204,869	2,150,730	4,049,858	1,404,017	105,728	–	13,195,715
Net liquidity	15,586	(4,005,681)	(541,711)	(1,319,402)	(935,554)	1,948,002	4,357,384	1,207,176	725,800

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.5 Liquidity risk (continued)

Analysis of the undiscounted contractual cash flows of non-derivative financial assets and financial liabilities by remaining maturities

The Group manages its inherent liquidity risk in the short term based on the expected undiscounted cash flows.

	As at June 30, 2023								
	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	–	58,294	–	551	743	–	–	1,216,676	1,276,264
Deposits with banks and other financial institutions	–	9,024	14,231	23,329	131,422	–	–	–	178,006
Placements with banks and other financial institutions	–	–	12,250	42,759	168,580	94,341	–	–	317,930
Financial assets held under resale agreements	–	–	313,271	30,466	33,844	–	–	–	377,581
Loans and advances to customers	18,470	–	352,821	537,090	2,525,103	2,331,381	3,839,977	–	9,604,842
Financial assets measured at FVTPL	10	130,705	22,423	76,419	220,476	248,464	165,107	1,769	865,373
Financial assets measured at FVTOCI-debt instruments	–	–	27,978	48,436	70,210	327,992	6,781	–	481,397
Financial assets measured at FVTOCI-equity instruments	–	–	–	–	–	–	–	8,535	8,535
Financial assets measured at amortized cost	36	–	52,793	168,277	568,465	1,728,748	2,086,311	–	4,604,630
Other financial assets	–	20,762	578	5,860	215	479	4,652	314	32,860
Total non-derivative financial assets	18,516	218,785	796,345	933,187	3,719,058	4,731,405	6,102,828	1,227,294	17,747,418
Non-derivative financial liabilities									
Borrowings from central bank	–	–	–	3,013	31,260	–	–	–	34,273
Deposits from banks and other financial institutions	–	77,950	5,242	1	515	118	–	–	83,826
Placements from banks and other financial institutions	–	–	25,099	13,296	29,642	53	–	–	68,090
Financial assets sold under repurchase agreements	–	–	300,954	16,327	13,821	–	–	–	331,102
Customer deposits	–	4,007,350	587,278	1,013,958	6,391,092	1,459,104	–	–	13,458,782
Debt securities issued	–	–	43,720	39,255	88,394	27,355	143,674	–	342,398
Other financial liabilities	–	10,309	11,453	32,385	2,396	6,676	6,012	–	69,231
Total non-derivative financial liabilities	–	4,095,609	973,746	1,118,235	6,557,120	1,493,306	149,686	–	14,387,702
Net liquidity	18,516	(3,876,824)	(177,401)	(185,048)	(2,838,062)	3,238,099	5,953,142	1,227,294	3,359,716

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.5 Liquidity risk (continued)

Analysis of the undiscounted contractual cash flows of non-derivative financial assets and financial liabilities by remaining maturities (continued)

	As at December 31, 2022								
	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	–	67,821	–	592	–	–	–	1,195,538	1,263,951
Deposits with banks and other financial institutions	–	9,578	3,142	26,696	123,939	–	–	–	163,355
Placements with banks and other financial institutions	–	–	34,758	33,174	166,471	76,855	–	–	311,258
Financial assets held under resale agreements	–	–	123,072	38,199	69,900	–	–	–	231,171
Loans and advances to customers	15,540	–	408,001	588,739	2,155,307	2,134,029	3,747,764	–	9,049,380
Financial assets measured at FVTPL	10	184,201	10,299	66,774	233,171	208,374	174,155	1,978	878,962
Financial assets measured at FVTOCI-debt instruments	–	–	7,175	23,942	52,646	346,284	20,302	–	450,349
Financial assets measured at FVTOCI-equity instruments	–	–	–	–	–	–	–	9,346	9,346
Financial assets measured at amortized cost	36	–	102,508	108,288	572,361	1,592,057	1,999,448	–	4,374,698
Other financial assets	–	13,232	338	2,812	194	475	4,651	314	22,016
Total non-derivative financial assets	15,586	274,832	689,293	889,216	3,373,989	4,358,074	5,946,320	1,207,176	16,754,486
Non-derivative financial liabilities									
Borrowings from central bank	–	–	5,709	70	19,349	–	–	–	25,128
Deposits from banks and other financial institutions	–	69,547	284	6	9,307	119	–	–	79,263
Placements from banks and other financial institutions	–	–	11,011	6,233	26,004	–	–	–	43,248
Financial assets sold under repurchase agreements	–	–	164,440	10,391	8,940	–	–	–	183,771
Customer deposits	–	4,200,104	1,009,622	2,132,547	4,033,889	1,470,643	–	–	12,846,805
Debt securities issued	–	–	–	1,426	2,095	14,084	118,320	–	135,925
Other financial liabilities	–	10,862	14,388	7,151	2,489	7,373	5,895	–	48,158
Total non-derivative financial liabilities	–	4,280,513	1,205,454	2,157,824	4,102,073	1,492,219	124,215	–	13,362,298
Net liquidity	15,586	(4,005,681)	(516,161)	(1,268,608)	(728,084)	2,865,855	5,822,105	1,207,176	3,392,188

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.5 Liquidity risk (continued)

Analysis of the undiscounted contractual cash flows of derivative financial instruments by remaining maturities

Derivative financial instruments settled on a net basis

The fair values of the Group's derivative financial instruments that will be settled on a net basis are primarily related to changes in interest rates. The tables below present the undiscounted contractual cash flows of the Group's net derivative positions based on their remaining contractual maturities:

	As at June 30, 2023					
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest rate derivative financial instruments	(5)	396	(12)	(23)	–	356

	As at December 31, 2022					
	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)	8	9	(30)	–	(16)

Derivative financial instruments settled on a gross basis

The fair values of the Group's derivative financial instruments that will be settled on a gross basis are primarily related to changes in foreign exchange rates and interest rates. The tables below present the undiscounted contractual cash flows of the Group's gross derivative positions based on their remaining contractual maturities:

	As at June 30, 2023					
	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	64,640	39,046	79,331	–	–	183,017
– Cash outflow	(65,440)	(39,358)	(80,111)	–	–	(184,909)
Total	(800)	(312)	(780)	–	–	(1,892)

	As at December 31, 2022					
	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	23,653	15,888	42,951	2	–	82,494
– Cash outflow	(23,816)	(15,979)	(43,350)	(2)	–	(83,147)
Total	(163)	(91)	(399)	–	–	(653)

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.5 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 notional amount according to the earliest contract expiration date:

	As at June 30, 2023			
	Within 1 year	1 to 5 years	Over 5 years	Total
Loan commitments	36,097	32,154	5,335	73,586
Bank acceptances	98,199	–	–	98,199
Guarantees and letters of guarantee	38,491	24,950	4,682	68,123
Letters of credit	91,662	–	–	91,662
Unused credit card commitments	441,042	–	–	441,042
Total	705,491	57,104	10,017	772,612

	As at December 31, 2022			
	Within 1 year	1 to 5 years	Over 5 years	Total
Loan commitments	32,187	51,181	8,225	91,593
Bank acceptances	95,218	–	–	95,218
Guarantees and letters of guarantee	28,382	23,370	4,477	56,229
Letters of credit	65,535	–	–	65,535
Unused credit card commitments	390,287	–	–	390,287
Total	611,609	74,551	12,702	698,862

41.6 Operational risk

Operational risk refers to risks caused by inadequate or problematic internal procedures, employee misconduct and IT system failures, and external events. The types of operational risks that the Group may face include seven categories: internal fraud, external fraud, employment systems and workplace safety, customers, products and business activities, damage to physical assets, information technology system failures, execution, delivery and process management.

Guided by the operational risk appetite approved by the Board of Directors, the Group's senior management is mainly responsible for establishing and implementing the operational risk management policies and limits. The policies aim to continuously improve the internal control mechanism, reinforce the supervision and inspection framework, improve the information technology capability, enrich the basis of operation management, intensify monitoring reports, regulate staff behaviour, foster risk management culture and initiative awareness to regulations and ensure the security of business operation.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023
(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.7 Fair value of financial instruments

Most of the balance sheet items of the Group are financial assets and financial liabilities. The fair value measurement of non-financial assets and non-financial liabilities will not have a significant impact on the Group's overall financial performance.

During the six-month period ended June 30, 2023 and the year ended December 31, 2022, there were no assets or liabilities which were discontinued being measured at fair value by the Group.

(1) Valuation techniques, parameters and processes

The fair value of financial assets and financial liabilities is determined according to the following methods:

– The fair value of financial assets and financial liabilities with standard terms and conditions and traded in an active market is determined by reference to the market price.

– For non-option derivative financial instruments, the fair value is determined by discounted cash flow analysis using the applicable yield curve within the term of the instrument.

– The fair value of other financial assets and financial liabilities is determined according to the generally accepted pricing model or the current market price observable for similar instruments based on the discounted cash flow analysis. If there is no observable market transaction price for similar instruments, the net assets are used for valuation, and the price is analyzed by the management.

The Group has established an independent valuation process for financial assets and financial liabilities to satisfy segregation of duties and relevant departments are respectively responsible for valuation, model validation and accounting treatment.

(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.

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.7 Fair value of financial instruments (continued)

(3) Financial assets and financial liabilities not measured at fair value on the statement of financial position

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, loans and advances to customers measured at amortized cost, financial assets measured at amortized cost, borrowings from central bank, deposits from banks and other financial institutions, placements from banks and other financial institutions, financial assets sold under repurchase agreements, customer deposits and debt securities issued.

The tables below summarize the carrying amounts and the fair values of the financial assets measured at amortized cost and debt securities issued which are not set out in the statement of financial position.

	As at June 30, 2023				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Financial assets measured at amortized cost	3,889,153	3,983,684	–	3,582,269	401,415
Financial liabilities					
Debt securities issued	298,259	300,244	–	300,244	–

	As at December 31, 2022				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Financial assets measured at amortized cost	3,669,598	3,820,801	–	3,410,676	410,125
Financial liabilities					
Debt securities issued	101,910	101,537	–	101,537	–

Except for the financial assets and liabilities above, the fair value of other financial assets and financial liabilities not measured at fair value in the statement of financial position are determined using discounted future cash flows. There is no significant difference between their carrying amounts and fair value.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.7 Fair value of financial instruments (continued)

(4) Financial assets and financial liabilities measured at fair value on the statement of financial position

The tables below summarize the fair values of the financial assets and financial liabilities measured at their fair value on the statement of financial position.

	As at June 30, 2023			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and advances to customers				
– Measured at FVTOCI	–	711,467	–	711,467
Subtotal	–	711,467	–	711,467
Financial assets measured at FVTPL				
– Debt securities	–	78,615	–	78,615
– Interbank certificates of deposits	–	115,140	–	115,140
– Asset-backed securities	–	576	–	576
– Fund investments	–	505,933	97,519	603,452
– Trust investment plans and asset management plans	–	–	54,308	54,308
– Wealth management products issued by financial institutions	–	270	–	270
– Equity instruments	832	–	937	1,769
Subtotal	832	700,534	152,764	854,130
Derivative financial assets				
– Exchange rate derivatives	–	2,765	–	2,765
– Interest rate derivatives	–	1,289	–	1,289
– Precious metal derivatives	–	6	–	6
Subtotal	–	4,060	–	4,060
Financial assets measured at FVTOCI – debt instruments				
– Debt securities	–	460,693	–	460,693
Subtotal	–	460,693	–	460,693
Financial assets measured at FVTOCI – equity instruments				
– Equity instruments	4,580	1,425	2,530	8,535
Subtotal	4,580	1,425	2,530	8,535
Total financial assets	5,412	1,878,179	155,294	2,038,885
Financial liabilities				
Derivative financial liabilities				
– Exchange rate derivatives	–	(4,056)	–	(4,056)
– Interest rate derivatives	–	(1,322)	–	(1,322)
– Precious metal derivatives	–	(284)	–	(284)
Total financial liabilities	–	(5,662)	–	(5,662)

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.7 Fair value of financial instruments (continued)

(4) Financial assets and financial liabilities measured at fair value on the statement of financial position (continued)

	As at December 31, 2022			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and advances to customers				
– Measured at FVTOCI	–	602,367	–	602,367
Subtotal	–	602,367	–	602,367
Financial assets measured at FVTPL				
– Debt securities	–	78,792	–	78,792
– Interbank certificates of deposits	–	111,980	–	111,980
– Asset-backed securities	–	52	–	52
– Fund investments	–	523,775	92,816	616,591
– Trust investment plans and asset management plans	–	–	54,191	54,191
– Wealth management products issued by financial institutions	–	199	–	199
– Equity instruments	954	–	1,024	1,978
Subtotal	954	714,798	148,031	863,783
Derivative financial assets				
– Exchange rate derivatives	–	986	–	986
– Interest rate derivatives	–	876	–	876
– Precious metal derivatives	–	43	–	43
Subtotal	–	1,905	–	1,905
Financial assets measured at FVTOCI – debt instruments				
– Debt securities	–	416,123	–	416,123
– Interbank certificates of deposits	–	49	–	49
Subtotal	–	416,172	–	416,172
Financial assets measured at FVTOCI – equity instruments				
– Equity instruments	5,421	1,412	2,513	9,346
Subtotal	5,421	1,412	2,513	9,346
Total financial assets	6,375	1,736,654	150,544	1,893,573
Financial liabilities				
Derivative financial liabilities				
– Exchange rate derivatives	–	(1,569)	–	(1,569)
– Interest rate derivatives	–	(890)	–	(890)
– Precious metal derivatives	–	(6)	–	(6)
Total financial liabilities	–	(2,465)	–	(2,465)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023
(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.7 Fair value of financial instruments (continued)

(4) Financial assets and financial liabilities measured at fair value on the statement of financial position (continued)

For financial instruments traded in active markets, the determination of fair values 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 mainly include debt securities prices, interest rates, exchange rates, equity prices, volatility level, correlation, pre-payment rate and counterparties' credit spread.

(a) Basis of determining the market price for recurring fair value measurements categorized within Level 1

Quoted prices are used for financial instruments with quoted prices in an active market.

(b) Valuation techniques, key parameters used for recurring fair value measurement categorized within Level 2

Financial investments

Financial investments using valuation techniques mainly consist of debt securities, interbank certificates of deposits, investment fund and equity instruments, etc. The fair value of RMB bonds and interbank certificates of deposits is determined based on the valuation results provided by China Central Depository & Clearing Co., Ltd. The fair value of foreign currency bonds and interbank certificates of deposits is determined based on the valuation results of Bloomberg. The fair value of these bonds and interbank certificates of deposits is determined based on a valuation technique for which all significant inputs are observable market data. The fair value of the investment fund classified as Level 2 derived from the observable quoted price in market. The fair value of the equity instruments classified as Level 2 is measured by discounted cash flow method.

Derivatives

Derivatives using valuation techniques with market observable inputs are mainly foreign exchange forwards and swaps, interest rate swaps, cross currency interest rate swaps, and precious metals swaps, etc. The most frequently applied valuation techniques include discounted cash flow method and Black-Scholes model. The models incorporate various inputs including foreign exchange spot and forward rates, foreign exchange rate volatility, interest rate yield curves, etc.

Loans and advances to customers

The loans and advances to customers involving valuation techniques are mainly forfaiting and discounted bills. The fair value of these forfaiting and discounted bills is measured by discounted cash flow method.

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.7 Fair value of financial instruments (continued)

(4) Financial assets and financial liabilities measured at fair value on the statement of financial position (continued)

(c) Quantitative information about the significant unobservable inputs used in Level 3 fair value measurements is summarized below:

June 30, 2023	Fair Value	Valuation technique	Unobservable inputs: Inputs	Unobservable inputs: Relationship of unobservable inputs to fair value
Financial assets				
Financial assets measured at FVTPL				
– Fund investments	97,519	(i)	Net assets	Positive correlation
– Trust investment plans and asset management plans	54,308	(i)	Net assets	Positive correlation
– Equity instruments	937	(i)	Net assets	Positive correlation
Subtotal	152,764			
Financial assets measured at FVTOCI – equity instruments	2,530	(i)	Net assets	Positive correlation
Total	155,294			

December 31, 2022	Fair Value	Valuation technique	Unobservable inputs: Inputs	Unobservable inputs: Relationship of unobservable inputs to fair value
Financial assets				
Financial assets measured at FVTPL				
– Fund investments	92,816	(i)	Net assets	Positive correlation
– Trust investment plans and asset management plans	54,191	(i)	Net assets	Positive correlation
– Equity instruments	1,024	(i)	Net assets	Positive correlation
Subtotal	148,031			
Financial assets measured at FVTOCI – equity instruments	2,513	(i)	Net assets	Positive correlation
Total	150,544			

(i) The fair value of fund investments, trust investment plans and asset management plans, equity instruments measured at FVTPL, and equity instruments measured at FVTOCI are mainly determined using net asset method, where the significant unobservable inputs are the net assets. The fair value of certain trust investment plans and asset management plans are determined by reference to current market condition.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.7 Fair value of financial instruments (continued)

(4) Financial assets and financial liabilities measured at fair value on the statement of financial position (continued)

(c) Quantitative information about the significant unobservable inputs used in Level 3 fair value measurements is summarized below: (continued)

Changes in Level 3 are analyzed below:

	Six-month period ended June 30, 2023	
	Financial assets measured at FVTPL	Financial assets measured at FVTOCI –equity instruments
Balance at the beginning of the period	148,031	2,513
Increased	3,076	–
Settled	(819)	–
Total gains or losses recognized in		
– Profit or loss	2,476	–
– Other comprehensive income	–	17
Balance at the end of the period	152,764	2,530
Total unrealized gains in profit or loss	2,511	–

	Year ended December 31, 2022		
	Financial assets measured at FVTPL	Financial assets measured at FVTOCI –debt instruments	Financial assets measured at FVTOCI –equity instruments
Balance at the beginning of the year	109,569	3,497	2,397
Increased	39,451	–	–
Settled	(6,441)	(3,497)	–
Total gains or losses recognized in			
– Profit or loss	5,452	–	–
– Other comprehensive income	–	–	116
Balance at the end of the year	148,031	–	2,513
Total unrealized gains in profit or loss	5,715	–	–

41 Financial risk management (continued)

41.7 Fair value of financial instruments (continued)

(4) Financial assets and financial liabilities measured at fair value on the statement of financial position (continued)

(d) Transfers between Levels

During the period ended June 30, 2023 and the year ended December 31, 2022, there were no changes of fair value hierarchies.

41.8 Capital management

The Group's capital management aims at meeting regulatory requirements, continuously improving the ability to mitigate risks and increasing returns on capital. Accordingly, the Group has set its capital adequacy objectives and employed various means and methods to meet its management objectives, including performance assessment against plans and budgets, and limit management; to ensure its capital management meets external regulatory, credit rating, risk compensation and shareholders' value requirements; help drive risk management across the Group; ensure a disciplinary expansion of its assets; and continually improve its business structure and operating models.

The Group has maintained a relatively fast pace of development in terms of business scale in recent years with an increase in the demand of capital accordingly. In order to ensure that the Group meets regulatory capital adequacy requirements and maximises returns to shareholders without compromising its risk management, the Group makes strong efforts to promote the establishment of capital constraints system, enhances the management of both total amount and structure of risk assets, and promotes the transformation of its business model towards a capital efficient one through the comprehensive use of several measurement tools such as capital planning, limit management, economic capital management and estimation of internal capital adequacy, in order to ensure that the capital adequacy ratios meet the risk coverage and regulatory requirements continuously.

In accordance with the *Capital Rules for Commercial Banks (Provisional)* 《商業銀行資本管理辦法(試行)》 and the related provisions promulgated by the former CBIRC, and *Additional Regulations Supervision on Systemically Important Banks (for Trial Implementation)* 《系統重要性銀行附加監管規定(試行)》 issued by the PBOC and the former CBIRC, as at June 30, 2023, the Group's core tier 1 capital adequacy ratio should be 8.00%, tier 1 capital adequacy ratio should be 9.00%, and capital adequacy ratio should be 11.00% (as at December 31, 2022: 8.00%, 9.00% and 11.00%, respectively). During the six-month period ended June 30, 2023, the Group continuously intensified the monitoring, analyzing and reporting of capital adequacy ratios, constantly optimized the risk asset structure, increases internal capital accumulation, and promoted the supplement of external capital, in order to ensure that the Group's capital adequacy ratio meets regulatory requirements and internal management needs.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2023
(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.8 Capital management (continued)

The Group's regulatory capital as calculated according to the *Capital Rules for Commercial Banks (Provisional)* (商業銀行資本管理辦法(試行)) promulgated by the former CBIRC at June 30, 2023 and December 31, 2022 is as follows:

		As at June 30, 2023	As at December 31, 2022
Core tier 1 capital adequacy ratio	(1)	9.42%	9.36%
Tier 1 capital adequacy ratio	(1)	11.19%	11.29%
Capital adequacy ratio	(1)	13.87%	13.82%
Core tier 1 capital		750,167	685,295
Deductions of core tier 1 capital	(2)	(5,459)	(5,408)
Core tier 1 capital – net		744,708	679,887
Additional tier 1 capital		140,135	140,126
Tier 1 capital – net		884,843	820,013
Tier 2 capital			
Directly issued qualifying tier 2 instruments including related premium		119,991	99,990
Excess provision for loan loss		91,614	83,702
Non-controlling interests recognized in tier 2 capital		300	282
Net capital	(3)	1,096,748	1,003,987
Risk-weighted assets	(4)	7,909,618	7,266,134

(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 (not including land use rights).

(3) Net capital is equal to total capital net of deductions from total capital.

(4) Risk-weighted assets include credit risk-weighted assets measured using the risk-weighted method, market risk-weighted assets measured using the standardized method, and operational risk-weighted assets measured using the basic indicator approach.

42 Reclassification of comparative figures

Certain comparative figures have been reclassified to conform to the current period presentation.

Leverage ratio

In millions of RMB, except for percentages

Item	As at June 30, 2023	As at March 31, 2023	As at December 31, 2022	As at September 30, 2022
Tier 1 capital – net	884,843	885,811	820,013	815,023
On- and off-balance sheet assets after adjustments	15,894,704	15,343,174	14,623,664	14,071,223
Leverage ratio (%)	5.57	5.77	5.61	5.79

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 June 30, 2023
1	Consolidated total assets	15,123,107
2	Consolidation adjustments	–
3	Customer assets adjustments	–
4	Derivatives adjustments	(318)
5	Securities financing transactions adjustments	42,370
6	Off-balance sheet items adjustments	735,004
7	Other adjustments	(5,459)
8	On- and off-balance sheet assets after adjustments	15,894,704

Leverage ratio, Tier 1 capital – net, On- and off-balance sheet assets after adjustments and relevant details

In millions of RMB, except for percentages

No.	Item	As at June 30, 2023
1	On-balance sheet assets (excluding derivatives and securities financing transactions)	14,742,123
2	Less: Deduction from tier 1 capital	5,459
3	On-balance sheet assets after adjustments (excluding derivatives and securities financing transactions)	14,736,664
4	Replacement costs of various derivatives (excluding eligible margin)	1,706
5	Potential risk exposures of various derivatives	2,036
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	3,742
12	Accounting assets arising from securities financing transactions	376,924
13	Less: Deductible assets arising from securities financing transactions	–
14	Counter-party credit risk exposures arising from securities financing transactions	42,370
15	Assets arising from agency services in connection with securities financing transactions	–
16	Securities financing transactions assets	419,294
17	Off-balance sheet assets	2,714,241
18	Less: Decrease in off-balance sheet items due to credit conversion	1,979,237
19	Off-balance sheet items after adjustments	735,004
20	Tier 1 capital – net	884,843
21	On- and off-balance sheet assets after adjustments	15,894,704
22	Leverage ratio (%)	5.57

International Claims

The Bank regards all claims on third parties outside the mainland of China and claims denominated in foreign currencies on third parties in the mainland of China as international claims.

International claims include loans and advances to customers, deposits with the central bank, deposits and placements with banks and other financial institutions, investments in debt securities and others.

A country or geographical region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

In millions of RMB

	As at June 30, 2023			
	Public sector	Banks and other financial institutions	Non-bank private sectors	Total
Asia Pacific	5,067	73,553	45,078	123,698
– of which attributed to Hong Kong, China	3,000	18,778	12,038	33,816
Europe	–	13,849	8,056	21,905
North and South America	4,787	3,243	1,222	9,252
Other areas	232	–	–	232
Total	10,086	90,645	54,356	155,087

In millions of RMB

	As at December 31, 2022			
	Public sector	Banks and other financial institutions	Non-bank private sectors	Total
Asia Pacific	2,009	36,113	42,209	80,331
– of which attributed to Hong Kong, China	–	4,125	12,616	16,741
Europe	–	2,219	6,116	8,335
North and South America	2,760	2,344	1,227	6,331
Other areas	204	–	–	204
Total	4,973	40,676	49,552	95,201

Gross Amount of Overdue Loans to Customers

In millions of RMB, except for percentages

	As at June 30, 2023	As at December 31, 2022
Total loans to customers which have been overdue with respect to either principal or interest for periods		
Within 3 months (inclusive)	26,535	25,237
Between 3 months and 6 months (inclusive)	12,257	11,744
Between 6 months and 12 months (inclusive)	15,286	12,566
Over 12 months	20,700	18,605
Total	74,778	68,152
As a percentage of total loans to customers[1] (%)		
Within 3 months (inclusive)	0.34	0.35
Between 3 months and 6 months (inclusive)	0.16	0.16
Between 6 months and 12 months (inclusive)	0.20	0.18
Over 12 months	0.26	0.26
Total	0.96	0.95

Note (1) When calculating percentage, total loans to customers does not include accrued interest.

APPENDIX II: COMPOSITION OF CAPITAL

Composition of Capital

In millions of RMB, except for percentages

Item		As at June 30, 2023
Core tier 1 capital:		
1	Paid-in capital	99,161
2	Retained earnings	481,140
2a	Surplus reserve	58,478
2b	General reserve	178,864
2c	Undistributed profits	243,798
3	Accumulated other comprehensive income and disclosed reserve	168,741
3a	Capital reserve	162,682
3b	Others	6,059
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	1,125
6	Core tier 1 capital before regulatory adjustments	750,167
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)	5,459
10	Net deferred tax assets that rely on future profitability and arise from operating losses	–
11	Reserves that relate to the cash flow hedging of items that are not measured at fair value	–
12	Shortfall of provision for loan impairment	–
13	Gain on sale related to asset securitization	–
14	Unrealized gains and losses resulted from changes in the fair value of liabilities due to changes in own credit risk	–
15	Defined-benefit pension fund net assets (net of deferred tax liabilities)	–
16	Direct or indirect holding in own ordinary shares	–
17	Reciprocal cross-holdings in core tier 1 capital between banks or between banks and other financial institutions	–
18	Deductible amount of insignificant minority investments in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	–
19	Deductible amount of significant minority investments in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	–
20	Mortgage servicing rights	–
21	Deductible amount in net deferred tax assets that rely on the bank's future profitability	–
22	Deductible amount exceeding the 15% threshold for significant minority capital investments in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation and undeducted portion of net deferred tax assets that rely on the bank's future profitability	–
23	Including: Deductible amount of significant minority investments in capital instruments issued by financial institutions	–
24	Including: Deductible amount of mortgage servicing rights	–
25	Including: Deductible amount in net deferred tax assets that rely on the bank's future profitability	–
26a	Investments in core tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	–
26b	Shortfall in core tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	–
26c	Other items that should be deducted from core tier 1 capital	–
27	Undeducted shortfall that should be deducted from additional tier 1 capital and tier 2 capital	–
28	Total regulatory adjustments to core tier 1 capital	5,459
29	Core tier 1 capital	744,708

Item		As at June 30, 2023
Additional tier 1 capital:		
30	Additional tier 1 capital instruments and related premium	139,986
31	Including: Portion classified as equity	139,986
32	Including: Portion classified as liabilities	–
33	Invalid instruments to additional tier 1 capital after the transition period	–
34	Valid portion of minority interests	149
35	Including: Invalid portion to additional tier 1 capital after the transition period	–
36	Additional tier 1 capital before regulatory adjustments	140,135
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	140,135
45	Tier 1 capital (core tier 1 capital + additional tier 1 capital)	884,843
Tier 2 capital:		
46	Tier 2 capital instruments and related premium	119,991
47	Invalid instruments to tier 2 capital after the transition period	–
48	Valid portion of minority interests	300
49	Including: Invalid portion to tier 2 capital after the transition period	–
50	Valid portion of surplus provision for loan impairment	
51	Tier 2 capital before regulatory adjustments	91,614
Tier 2 capital: Regulatory adjustments		211,905
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	211,905
59	Total capital (tier 1 capital + tier 2 capital)	1,096,748
60	Total risk-weighted assets	7,909,618

APPENDIX II: COMPOSITION OF CAPITAL

Item		As at June 30, 2023
Requirements for capital adequacy ratio and reserve capital (%)		
61	Core tier 1 capital adequacy ratio	9.42
62	Tier 1 capital adequacy ratio	11.19
63	Capital adequacy ratio	13.87
64	Institution specific capital requirements	3.00
65	Including: Capital conservation buffer requirement	2.50
66	Including: Countercyclical buffer requirement	–
67	Including: SIB buffer requirement	0.50
68	Percentage of core tier 1 capital meeting buffers to risk-weighted assets	4.42
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
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	58,964
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)	64,947
Valid caps of surplus provision for loan impairment to tier 2 capital		
76	Provision for loan impairment under the weighted approach	240,171
77	Valid cap of surplus provision for loan impairment in tier 2 capital under the weighted approach	91,614
78	Surplus provision for loan impairment under the internal ratings-based approach	–
79	Valid cap of surplus provision for loan impairment in tier 2 capital under the internal ratings-based approach	–
Capital instruments subject to phase-out arrangements		
80	Valid cap to core tier 1 capital for the current period due to phase-out arrangements	–
81	Excluded from core tier 1 capital due to phase-out arrangements	–
82	Valid cap to additional tier 1 capital for the current period due to phase-out arrangements	–
83	Excluded from additional tier 1 capital due to phase-out arrangements	–
84	Valid cap to tier 2 capital for the current period due to phase-out arrangements	–
85	Excluded from tier 2 capital for the current period due to phase-out arrangements	–

Detailed description of related items

In millions of RMB

Item	Balance sheet under regulatory scope of consolidation	Code
Goodwill	–	a
Intangible assets	7,271	b
Including: Land use rights	1,812	c
Deferred income tax liabilities	–	
Including: Deferred tax liabilities related to goodwill	–	d
Including: Deferred tax liabilities related to other intangible assets other than land use rights	–	e
Paid-in capital	99,161	
Including: Amount included in core tier 1 capital	99,161	f
Other equity instruments	139,986	g
Including: Preference shares	–	
Including: Perpetual bonds	139,986	
Capital reserve	162,682	h
Others	6,059	i
Surplus reserve	58,478	j
General reserve	178,864	k
Undistributed profits	243,798	l

APPENDIX II: COMPOSITION OF CAPITAL

Correspondence between all the items disclosed in the second step and items in the disclosure template of capital composition

In millions of RMB

Item		As at June 30, 2023	Code
Core tier 1 capital:			
1	Paid-in capital	99,161	f
2	Retained earnings	481,140	j+k+l
2a	Surplus reserve	58,478	j
2b	General reserve	178,864	k
2c	Undistributed profits	243,798	l
3	Accumulated other comprehensive income and disclosed reserve	168,741	h+i
3a	Capital reserve	162,682	h
3b	Others	6,059	i
4	Valid portion to core tier 1 capital during the transition period (only applicable to non-joint stock companies. Fill in 0 for joint stock banks)	–	
5	Valid portion of minority interests	1,125	
6	Core tier 1 capital before regulatory adjustments	750,167	
Core tier 1 capital: Regulatory adjustments			
7	Prudential valuation adjustments	–	
8	Goodwill (net of deferred tax liabilities)	–	a-d
9	Other intangible assets other than land use rights (net of deferred tax liabilities)	5,459	b-c-e
10	Net deferred tax assets that rely on future profitability and arise from operating losses	–	
11	Reserves that relate to the cash flow hedging of items that are not measured at fair value	–	
12	Shortfall of provision for loan impairment	–	
13	Gain on sale related to asset securitization	–	
14	Unrealized gains and losses resulted from changes in the fair value of liabilities due to changes in own credit risk	–	
15	Defined-benefit pension fund net assets (net of deferred tax liabilities)	–	
16	Direct or indirect holding in own ordinary shares	–	
17	Reciprocal cross-holdings in core tier 1 capital between banks or between banks and other financial institutions	–	
18	Deductible amount of insignificant minority investments in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	–	
19	Deductible amount of significant minority investments in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	–	
20	Mortgage servicing rights	–	
Additional tier 1 capital:			
21	Additional tier 1 capital instruments and related premium	139,986	
22	Including: Portion classified as equity	139,986	g

Main Features of Regulatory Capital Instruments

No.	Item	Ordinary shares (A shares)	Ordinary shares (H shares)	Undated capital bonds	Undated capital bonds	Undated capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds
1	Issuer	Postal Savings Bank of China Co., Ltd.	Postal Savings Bank of China Co., Ltd.	Postal Savings Bank of China Co., Ltd.	Postal Savings Bank of China Co., Ltd.	Postal Savings Bank of China Co., Ltd.	Postal Savings Bank of China Co., Ltd.	Postal Savings Bank of China Co., Ltd.	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	2028006. IB	2128011. IB	2228001. IB	2128028. IB	2128029. IB	2228017. IB	2228018. IB	232300009.IB
3	Applicable laws	PRC laws	PRC laws/laws of Hong Kong, PRC	PRC laws	PRC laws	PRC laws	PRC laws	PRC laws	PRC laws	PRC laws	PRC laws
4	Including: Applicable to rules for the transitional period of the Capital Rules for Commercial Banks (Provisional)	Core tier 1 capital	Core tier 1 capital	Additional tier 1 capital	Additional tier 1 capital	Additional tier 1 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital
5	Including: Applicable to the rules after expiration of the transitional period of the Capital Rules for Commercial Banks (Provisional)	Core tier 1 capital	Core tier 1 capital	Additional tier 1 capital	Additional tier 1 capital	Additional tier 1 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital
6	Including: Applicable to bank/group level	Bank and group level	Bank and group level	Bank and group level	Bank and group level	Bank and group level	Bank and group level	Bank and group level	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	Additional tier 1 capital instruments	Additional tier 1 capital instruments	Additional tier 1 capital instruments	Tier 2 capital instruments	Tier 2 capital instruments	Tier 2 capital instruments	Tier 2 capital instruments	Tier 2 capital instruments
8	Amount that can be included in regulatory capital (in millions; on the latest reporting date)	RMB186,237	RMB75,606	RMB79,989	RMB29,997	RMB30,000	RMB49,996	RMB9,999	RMB34,997	RMB4,999	RMB20,000
9	Par value of instrument (in millions)	RMB79,305	RMB19,856	RMB80,000	RMB30,000	RMB30,000	RMB50,000	RMB10,000	RMB35,000	RMB5,000	RMB20,000

APPENDIX II: COMPOSITION OF CAPITAL

No.	Item	Ordinary shares (A shares)	Ordinary shares (H shares)	Undated capital bonds	Undated capital bonds	Undated capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds
10	Accounting treatment	Share capital, capital reserve	Share capital, capital reserve	Other equity instruments	Other equity instruments	Other equity instruments	Bonds payable	Bonds payable	Bonds payable	Bonds payable	Bonds payable
11	Initial issuance date	November 28, 2019	September 20, 2016	March 16, 2020	March 19, 2021	January 14, 2022	August 19, 2021	August 19, 2021	March 4, 2022	March 4, 2022	May 11, 2023
12	Dated or perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Dated	Dated	Dated	Dated	Dated
13	Including: Original maturity date	No maturity date	No maturity date	No maturity date	No maturity date	No maturity date	August 23, 2031	August 23, 2036	March 8, 2032	March 8, 2037	May 15, 2038
14	Issuer's redemption (subject to regulatory approval)	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
15	Including: Redemption date (or contingent redemption date) and amount	Not applicable	Not applicable	The first redemption date is March 18, 2025, full or part	The first redemption date is March 23, 2026, full or part	The first redemption date is January 18, 2027, full or part	August 23, 2026 redemption in part or full	August 23, 2031 redemption in part or full	March 8, 2027 redemption in part or full	March 8, 2032 redemption in part or full	May 15, 2033 redemption in part or full
16	Including: Subsequent redemption date (if any)	Not applicable	Not applicable	March 18 each year after the first redemption date	March 23 each year after the first redemption date	January 18 each year after the first redemption date	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
17	Including: Fixed or floating interest payment or dividend	Floating	Floating	Floating: The coupon rate is fixed in a single coupon rate adjustment cycle (5 years) and is reset every 5 years	Floating: The coupon rate is fixed in a single coupon rate adjustment cycle (5 years) and is reset every 5 years	Floating: The coupon rate is fixed in a single coupon rate adjustment cycle (5 years) and is reset every 5 years	Fixed	Fixed	Fixed	Fixed	Fixed

No.	Item	Ordinary shares (A shares)	Ordinary shares (H shares)	Undated capital bonds	Undated capital bonds	Undated capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds
18	Including: Coupon rate and relevant indicators	Not applicable	Not applicable	The coupon rate in the first 5 years is 3.69% and is reset every 5 years based on the arithmetic average of the yield to maturity of the 5-year product of the yield to maturity curve of China Bonds published on ChinaBond.com (or other websites approved by China Central Depository & Clearing Co., Ltd.) (rounded to 0.01%) plus 125 basis points to reset the coupon rate 5 trading days (excluding the day) before the adjustment date of the benchmark interest rate	The coupon rate in the first 5 years is 4.42% and is reset every 5 years based on the arithmetic average of the yield to maturity of the 5-year product of the yield to maturity curve of China Bonds published on ChinaBond.com (or other websites approved by China Central Depository & Clearing Co., Ltd.) (rounded to 0.01%) plus 133 basis points to reset the coupon rate 5 trading days (excluding the day) before the adjustment date of the benchmark interest rate	The coupon rate in the first 5 years is 3.46% and is reset every 5 years based on the arithmetic average of the yield to maturity of the 5-year product of the yield to maturity curve of China Bonds published on ChinaBond.com (or other websites approved by China Central Depository & Clearing Co., Ltd.) (rounded to 0.01%) plus 83 basis points to reset the coupon rate 5 trading days (excluding the day) before the adjustment date of the benchmark interest rate	3.44%	3.75%	3.54%	3.74%	3.39%
19	Including: Existence of dividend brake mechanism	Not applicable	Not applicable	Yes	Yes	Yes	No	No	No	No	No
20	Including: Discretion to cancel dividend or interest payment	Full discretion	Full discretion	Full discretion	Full discretion	Full discretion	No	No	No	No	No
21	Including: Existence of redemption incentive mechanism	No	No	No	No	No	No	No	No	No	No

APPENDIX II: COMPOSITION OF CAPITAL

No.	Item	Ordinary shares (A shares)	Ordinary shares (H shares)	Undated capital bonds	Undated capital bonds	Undated capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds
22	Including: Cumulative or non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
23	Conversion into shares	No	No	No	No	No	No	No	No	No	No
24	Including: Please specify the trigger condition for share conversion, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
25	Including: Please specify share conversion in whole or in part, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
26	Including: Please specify the method to determine the conversion price, if share conversion is allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
27	Including: Please specify share conversion is mandatory or not, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
28	Including: Please specify the instrument type after conversion, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
29	Including: Please specify the issuer of the instrument after conversion, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
30	Write-down or not	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

No.	Item	Ordinary shares (A shares)	Ordinary shares (H shares)	Undated capital bonds	Undated capital bonds	Undated capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds
31	Including: Please specify the trigger point of write-down, if allowed	Not applicable	Not applicable	Trigger events refer to either of the following circumstances (whichever is earlier): 1. the NAFR having concluded that a write-off is necessary without which the issuer 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 issuer would become non-viable	Trigger events refer to either of the following circumstances (whichever is earlier): 1. the NAFR having concluded that a write-off is necessary without which the issuer 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 issuer would become non-viable	Trigger events refer to either of the following circumstances (whichever is earlier): 1. the NAFR having concluded that a write-off is necessary without which the issuer 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 issuer would become non-viable	Non-viability trigger events refer to either of the following circumstances (whichever is earlier): 1. the NAFR having concluded that a write-off is necessary without which the issuer 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 issuer would become non-viable	Non-viability trigger events refer to either of the following circumstances (whichever is earlier): 1. the NAFR having concluded that a write-off is necessary without which the issuer 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 issuer would become non-viable	Non-viability trigger events refer to either of the following circumstances (whichever is earlier): 1. the NAFR having concluded that a write-off is necessary without which the issuer 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 issuer would become non-viable	Non-viability trigger events refer to either of the following circumstances (whichever is earlier): 1. the NAFR having concluded that a write-off is necessary without which the issuer 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 issuer would become non-viable	Non-viability trigger events refer to either of the following circumstances (whichever is earlier): 1. the NAFR having concluded that a write-off is necessary without which the issuer 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 issuer would become non-viable
32	Including: Please specify write-down in part or in full, if allowed	Not applicable	Not applicable	Part or full	Part or full	Part or full	Part or full	Part or full	Part or full	Part or full	Part or full
33	Including: Please specify the write-down is perpetual or temporary, if allowed	Not applicable	Not applicable	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual
34	Including: Please specify the book entry value recovery mechanism, if temporary write-down is allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

APPENDIX II: COMPOSITION OF CAPITAL

No.	Item	Ordinary shares (A shares)	Ordinary shares (H shares)	Undated capital bonds	Undated capital bonds	Undated capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 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	After depositors, general creditors, and holders of subordinated debts that are senior to the current bonds and before all classes of shares held by shareholders of the issuer; the current bonds are in the same priority as additional tier 1 capital instruments of the issuer with the same repayment order	After depositors, general creditors, and holders of subordinated debts that are senior to the current bonds and before all classes of shares held by shareholders of the issuer; the current bonds are in the same priority as additional tier 1 capital instruments of the issuer with the same repayment order	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	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	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	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
36	Does the instrument contain temporary illegible attribute?	No	No	No	No	No	No	No	No	No	No
37	Including: If yes, please specify such attribute	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable