中国农业银行

AGRICULTURAL BANK OF CHINA

Agricultural Bank of China Limited

(A joint stock company incorporated in the People's Republic of China with limited liability)
Stock Code: 1288

Joint Dedication to Build a Beautiful China

2016

Annual Report

Profile

The predecessor of the Bank was Agricultural Cooperative Bank established in 1951. Since the late 1970s, the Bank has evolved from a state-owned specialized bank to a wholly state-owned commercial bank and subsequently a state-controlled commercial bank. The Bank was restructured into a joint stock limited liability company in January 2009. In July 2010, the Bank was listed on both the Shanghai Stock Exchange and the Hong Kong Stock Exchange.

As one of the major integrated financial service providers in China, the Bank is committed to building an international first-class commercial banking group with featured operations, efficient and convenient services, diversified functions, as well as demonstrated value-creation capability. Capitalizing on its comprehensive business portfolio, extensive distribution network and advanced IT platform, the Bank provides a diverse portfolio of corporate and retail banking products and services for a broad range of customers, and conducts treasury operations and asset management. Our business scope also includes, among other things, investment banking, fund management, financial leasing and life insurance. At the end of 2016, the Bank had total assets of RMB19,570,061 million, loans and advances to customers of RMB9,719,639 million and deposits of RMB15,038,001 million. Our capital adequacy ratio was 13.04%. The Bank achieved a net profit of RMB184,060 million in 2016.

The Bank had a total of 23,682 domestic branch outlets at the end of 2016, including the Head Office, the Business Department of the Head Office, three specialized business units managed by the Head Office, 37 tier-1 branches (including branches directly managed by the Head Office), 365 tier-2 branches (including business departments of branches in provinces), 3,506 tier-1 sub-branches (including business departments in municipalities, business departments of branches directly managed by the Head Office and business departments of tier-2 branches), 19,714 foundation-level branch outlets, and 55 other establishments. Our overseas branch outlets consisted of ten overseas branches and three overseas representative offices. The Bank had fourteen major subsidiaries, including nine domestic subsidiaries and five overseas subsidiaries.

The Financial Stability Board has included the Bank into the list of Global Systemically Important Banks for three consecutive years since 2014. In 2016, the Bank ranked No. 29 in *Fortune's* Global 500, and ranked No. 5 in *The Banker's* "Top 1000 World Banks" list in terms of tier 1 capital. The Bank's issuer credit ratings assigned by Standard & Poor's were A/A-1, and the long-/short-term issuer default ratings assigned by Fitch Ratings were A/F1.

Contents

Definitions

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

1.	A Share(s)	Ordinary shares listed domestically which are subscribed and traded in Renminbi
2.	ABC/Agricultural Bank of China/the Bank/the Group/We	Agricultural Bank of China Limited, or Agricultural Bank of China Limited, and its subsidiaries
3.	Articles of Association	The Articles of Association of Agricultural Bank of China Limited approved by the China Banking Regulatory Commission on 14 August 2014
4.	Basis point(s)	A unit of measure related to the change in an interest rate or exchange rate, which is equivalent to 0.01%
5.	CASs/PRC GAAP	The Accounting Standards for Enterprises promulgated on 15 February 2006 by the Ministry of Finance of the People's Republic of China and other related rules and regulations subsequently issued
6.	CBRC	China Banking Regulatory Commission
7.	County Area Banking Business	We provide customers in the County Areas with a broad range of financial services through our branch outlets located in counties and county-level cities in the People's Republic of China. We refer to such banking business as the "County Area Banking Business" or "Sannong Banking Business"
8.	County Area Banking Division	An internal division with management mechanism adopted by the Bank for specialized operation of financial services provided to Sannong and the County Areas, as required under our restructuring into a joint stock limited liability company, which focuses on the County Area Banking Business with independence in aspects such as governance mechanism, operational decision making, financial accounting as well as incentive and constraint mechanism to a certain extent
9.	County Area(s)	The county-level regions (excluding the district-level areas in the cities) in China and the areas under their administration, including counties and county-level cities
10.	CSRC	China Securities Regulatory Commission

11.	Duration	An approach to measure the weighted average term of cash flows of debt securities, which mainly reflects the sensitivity of the value of debt securities to interest rate movements
12.	Economic capital	Capital allocated to assets or businesses for the purpose of mitigating risks based on internal assessment of the management of commercial banks
13.	Global Systemically Important Banks	Banks recognized as key players in the financial market with global features as announced by the Financial Stability Board
14.	H Share(s)	Shares listed on The Stock Exchange of Hong Kong Limited and subscribed and traded in Hong Kong Dollars, the nominal value of which are denominated in Renminbi
15.	Hong Kong Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
16.	Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
17.	Huijin	Central Huijin Investment Ltd.
18.	Industries with high energy consumption, high pollution or overcapacity	Industries with high energy consumption, high pollution or overcapacity
19.	MOF	Ministry of Finance of the People's Republic of China
20.	PBOC	The People's Bank of China
21.	Sannong	Agriculture, rural areas and farmers
22.	SSF	National Council for Social Security Fund of the People's Republic of China

Basic Corporate Information and Major Financial Indicators

Legal name in Chinese	中國農業銀行股份有限公司
Abbreviation	中國農業銀行
Legal name in English	AGRICULTURAL BANK OF CHINA LIMITED
Abbreviation	AGRICULTURAL BANK OF CHINA (ABC)
Legal representative	ZHOU Mubing
Authorized representatives	ZHAO Huan ZHANG Keqiu
Board Secretary and Company Secretary	ZHANG Keqiu Address: No. 69, Jianguomen Nei Avenue, Dongcheng District, Beijing, PRC Tel: 86-10-85109619 (Investors Relations) Fax: 86-10-85108557 E-mail: ir@abchina.com
Registered office address	No. 69, Jianguomen Nei Avenue, Dongcheng District, Beijing, PRC
Postal code	100005
Hotline for customer service and compliant	95599
Internet website	www.abchina.com
Principal place of business in Hong Kong	25/F, Agricultural Bank of China Tower, 50 Connaught Road Central, Hong Kong
Selected media for information disclosure	China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily
Website of Shanghai Stock Exchange publishing the annual report (A Shares)	www.sse.com.cn
Website of Hong Kong Stock Exchange publishing the annual report (H Shares)	www.hkexnews.hk
Location where copies of the annual report are kept	Office of the Board of Directors of the Bank
Listing exchange of A Shares	Shanghai Stock Exchange
Stock name	農業銀行
Stock code	601288
Share registrar	China Securities Depository and Clearing Corporation Limited, Shanghai Branch (Address: 3/F, China Insurance Building, No. 166 Lujiazui East Road, New Pudong District, Shanghai, PRC)

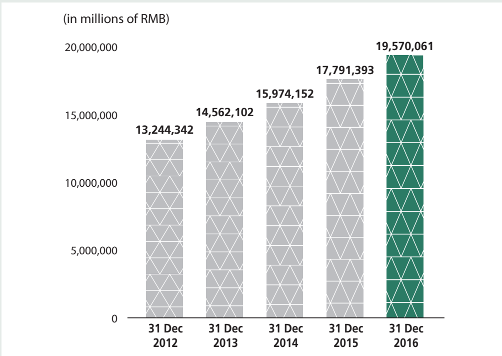
Basic Corporate Information and Major Financial Indicators

Listing exchange of H Shares	The Stock Exchange of Hong Kong Limited
Stock name	ABC
Stock code	1288
Share registrar	Computershare Hong Kong Investor Services Limited (Address: Shops 1712–1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong)
Trading exchange and platform of preference shares	The Integrated Business Platform of Shanghai Stock Exchange
Stock name (stock code)	農行優1 (360001), 農行優2 (360009)
Share registrar	China Securities Depository and Clearing Corporation Limited, Shanghai Branch (Address: 3/F, China Insurance Building, No. 166 Lujiazui East Road, New Pudong District, Shanghai, PRC)
Name of domestic legal advisors	King & Wood Mallesons Lawyers
Address	40/F, Office Tower A Beijing Fortune Plaza 7 East 3rd Ring Middle Road Chaoyang District, Beijing
Name of Hong Kong legal advisors	Freshfields Bruckhaus Deringer
Address	11th Floor Two Exchange Square Hong Kong
Name of domestic auditor	PricewaterhouseCoopers Zhong Tian LLP
Address	11/F, PricewaterhouseCoopers Center 2 Corporate Avenue 202 Hu Bin Road Huangpu District, Shanghai
Name of the undersigned Accountants	WANG Wei, HAN Dan
Name of international auditor	PricewaterhouseCoopers
Address	22/F, Prince's Building, Central, Hong Kong
Name of sponsor for continuous supervision	CITIC Securities Co., Ltd.
Address	North Tower Times Square Excellence II No. 8 Zhongxin San Road Futian District, Shenzhen, Guangdong Province
Names of the undersigned representatives of the sponsor	ZHOU Yu, SHAO Xianghui
Duration of continuous supervision	From 14 November 2014 to 31 December 2016

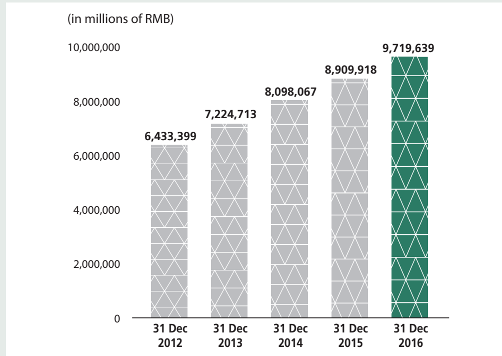
Basic Corporate Information and Major Financial Indicators

Financial data and indicators recorded in this annual report are prepared in accordance with the International Financial Reporting Standards (the "IFRSs") and denominated in RMB, unless otherwise stated.

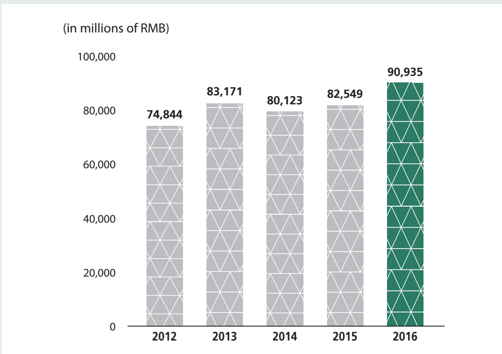
Total assets



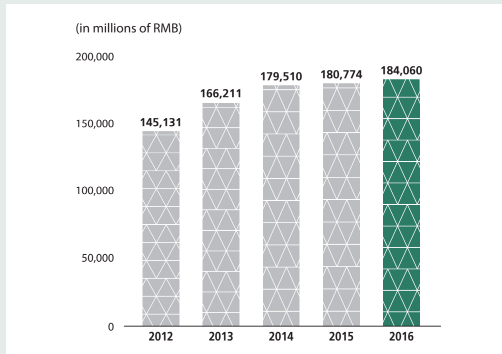
Total loans and advances to customers



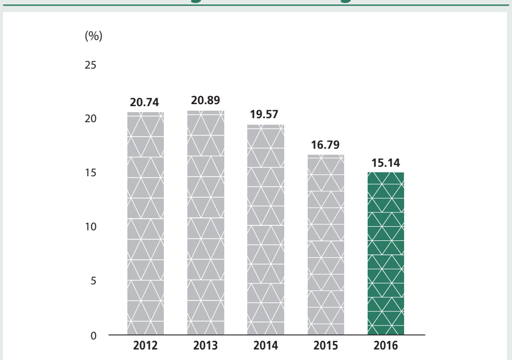
Net fee and commission income



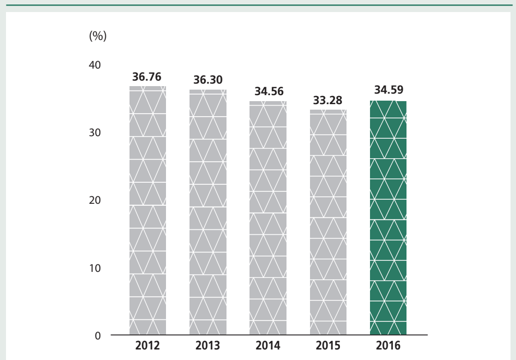
Net profit



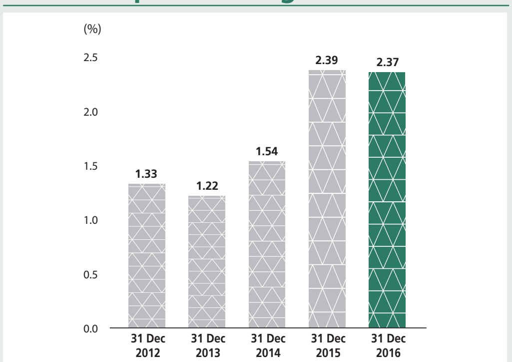
Return on weighted average net assets



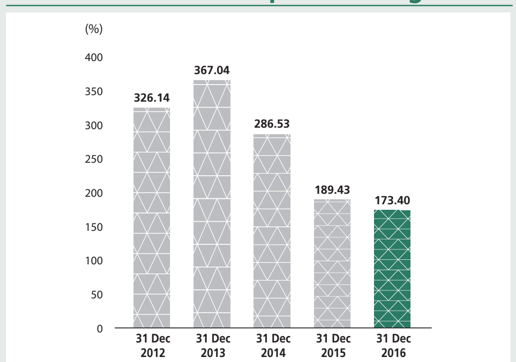
Cost-to-income ratio



Non-performing loan ratio



Allowance to non-performing loans



Basic Corporate Information and Major Financial Indicators

Financial Data

	31 December 2016	31 December 2015	31 December 2014	31 December 2013	31 December 2012
At the end of the reporting period (in millions of RMB)					
Total assets	**19,570,061**	17,791,393	15,974,152	14,562,102	13,244,342
Total loans and advances to customers	**9,719,639**	8,909,918	8,098,067	7,224,713	6,433,399
Corporate loans	**5,368,250**	5,378,404	5,147,410	4,728,857	4,427,989
Discounted bills	**569,948**	356,992	157,349	92,823	107,601
Retail loans	**3,340,879**	2,727,890	2,396,639	2,093,305	1,707,323
Overseas and others	**440,562**	446,632	396,669	309,728	190,486
Allowance for impairment losses on loans	**400,275**	403,243	358,071	322,191	279,988
Loans and advances to customers, net	**9,319,364**	8,506,675	7,739,996	6,902,522	6,153,411
Investment in securities and other financial assets, net	**5,333,535**	4,512,047	3,575,630	3,220,098	2,856,148
Cash and balances with central banks	**2,811,653**	2,587,057	2,743,065	2,603,802	2,613,111
Deposits and placements with and loans to banks and other financial institutions	**1,203,614**	1,202,175	979,867	706,333	485,613
Financial assets held under resale agreements	**323,051**	471,809	509,418	737,052	814,620
Total liabilities	**18,248,470**	16,579,508	14,941,533	13,717,565	12,492,988
Deposits from customers	**15,038,001**	13,538,360	12,533,397	11,811,411	10,862,935
Corporate deposits	**5,599,743**	4,821,751	4,437,283	4,311,407	3,980,483
Retail deposits	**8,815,148**	8,065,556	7,422,318	6,923,647	6,421,876
Overseas and others	**623,110**	651,053	673,796	576,357	460,576
Deposits and placements from banks and other financial institutions	**1,458,065**	1,537,660	1,056,064	903,717	934,073
Financial assets sold under repurchase agreements	**205,832**	88,804	131,021	26,787	7,631
Debt securities issued	**388,215**	382,742	325,167	266,261	192,639
Equity attributable to equity holders of the Bank	**1,318,193**	1,210,091	1,031,066	843,108	749,815
Net capital[1]	**1,546,500**	1,471,620	1,391,559	1,074,967	910,048
Common Equity Tier 1 (CET1) capital, net[1]	**1,231,030**	1,124,690	986,206	838,473	N/A
Additional Tier 1 capital, net[1]	**79,904**	79,902	39,946	1	N/A
Tier 2 capital, net[1]	**235,566**	267,028	365,407	236,493	N/A
Risk-weighted assets[1]	**11,856,530**	10,986,302	10,852,619	9,065,631	7,216,178

Basic Corporate Information and Major Financial Indicators

	2016	2015	2014	2013	2012
Operating results for the year (in millions of RMB)					
Operating income	**510,128**	540,862	524,126	465,771	424,964
Net interest income	**398,104**	436,140	429,891	376,202	341,879
Net fee and commission income	**90,935**	82,549	80,123	83,171	74,844
Operating expenses	**197,049**	225,818	223,898	198,607	182,802
Impairment losses on assets	**86,446**	84,172	67,971	52,990	54,235
Total profit before tax	**226,624**	230,857	232,257	214,174	187,927
Net profit	**184,060**	180,774	179,510	166,211	145,131
Net profit attributable to equity holders of the Bank	**183,941**	180,582	179,461	166,315	145,094
Net cash generated from operating activities	**715,973**	820,348	34,615	32,879	319,058

Financial Indicators

	2016	2015	2014	2013	2012
Profitability (%)					
Return on average total assets[2]	**0.99**	1.07	1.18	1.20	1.16
Return on weighted average net assets[3]	**15.14**	16.79	19.57	20.89	20.74
Net interest margin[4]	**2.25**	2.66	2.92	2.79	2.81
Net interest spread[5]	**2.10**	2.49	2.76	2.65	2.67
Return on risk-weighted assets[1,6]	**1.55**	1.65	1.65	1.83	2.01
Net fee and commission income to operating income	**17.83**	15.26	15.29	17.86	17.61
Cost-to-income ratio[7]	**34.59**	33.28	34.56	36.30	36.76
Data per share (RMB Yuan)					
Basic earnings per share[3]	**0.55**	0.55	0.55	0.51	0.45
Diluted earnings per share[3]	**0.55**	0.55	0.55	0.51	0.45
Net cash per share generated from operating activities	**2.20**	2.53	0.11	0.10	0.98

Basic Corporate Information and Major Financial Indicators

	31 December 2016	31 December 2015	31 December 2014	31 December 2013	31 December 2012
Asset Quality (%)					
Non-performing loan ratio[8]	**2.37**	2.39	1.54	1.22	1.33
Allowance to non-performing loans[9]	**173.40**	189.43	286.53	367.04	326.14
Allowance to total loans[10]	**4.12**	4.53	4.42	4.46	4.35
Capital adequacy (%)					
Common Equity Tier 1 (CET1) capital adequacy ratio[1]	**10.38**	10.24	9.09	9.25	N/A
Tier 1 capital adequacy ratio[1]	**11.06**	10.96	9.46	9.25	N/A
Capital adequacy ratio[1]	**13.04**	13.40	12.82	11.86	12.61
Risk-weighted assets to total assets ratio[1]	**60.59**	61.75	67.94	62.25	54.48
Total equity to total assets ratio	**6.75**	6.81	6.46	5.80	5.67
Data per share (RMB Yuan)					
Net assets per ordinary share[11]	**3.81**	3.48	3.05	2.60	2.31

Notes:
1. *Figures were calculated in accordance with the Capital Rules for Commercial Banks (Provisional) and other relevant regulations.*
2. *Calculated by dividing net profit by the average balances of total assets at the beginning and the end of the period.*
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 — Computation and Disclosure of Return on Net Assets and Earnings per Share (2010 Revision) issued by the CSRC and International Accounting Standard 33 – Earnings per share.*
4. *Calculated by dividing net interest income by the average balances of interest-earning assets.*
5. *Calculated as the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.*
6. *Calculated by dividing net profit by risk-weighted assets at the end of the period. The risk-weighted assets are calculated in accordance with the relevant regulations of the CBRC.*
7. *Calculated by dividing operating and administrative expenses by operating income in accordance with CASs, which is consistent with the corresponding figures as stated in the domestic financial report of the Bank.*
8. *Calculated by dividing the balance of non-performing loans by the balance of total loans and advances to customers.*
9. *Calculated by dividing the allowance for impairment losses on loans by the balance of non-performing loans.*
10. *Calculated by dividing the allowance for impairment losses on loans by the balance of total loans and advances to customers.*
11. *Calculated by dividing equity attributable to ordinary equity holders of the parent company after deduction of other equity instruments at the end of the reporting period by the total number of ordinary shares at the end of reporting period.*

Other Financial Indicators

		Regulatory Standard	31 December 2016	31 December 2015	31 December 2014	31 December 2013	31 December 2012
Liquidity ratio[1] (%)	RMB	≥25	**46.74**	44.50	44.02	43.57	44.75
	Foreign Currency	≥25	**82.24**	115.15	72.49	114.95	161.78
Percentage of loans to the largest single customer[2] (%)		≤10	**6.98**	7.15	5.23	3.33	3.59
Percentage of loans to the top ten customers[3] (%)			**16.58**	16.82	14.43	13.22	15.76
Loan migration ratio[4] (%)	Normal		**3.00**	4.96	3.60	2.53	2.49
	Special mention		**24.86**	18.28	4.99	4.36	4.65
	Substandard		**89.23**	86.94	42.53	37.24	21.79
	Doubtful		**9.55**	10.35	10.10	8.62	4.96

Notes: 1. *Calculated by dividing current assets by current liabilities in accordance with the relevant regulations of the CBRC.*
2. *Calculated by dividing loans to the largest single customer by net capital.*
3. *Calculated by dividing loans to the top ten customers by net capital.*
4. *Calculated in accordance with the relevant regulations of the CBRC, reflecting domestic data only.*

Quarterly Data

2016 (in millions of RMB)	First quarter	Second quarter	Third quarter	Fourth quarter
Operating income	**140,643**	**135,666**	**133,835**	**99,984**
Net profit attributable to equity holders of the Bank	**54,688**	**50,460**	**49,022**	**29,771**
Net cash generated from/(used in) operating activities	**191,116**	**343,653**	**(25,279)**	**206,483**

Honors and Awards

Organizations	Honors and Awards
亚洲银行家 THE ASIAN BANKER	Best National Cash Management Bank in China Best Global Offshore RMB Bond Issuer
EUROMONEY	Best Private Bank in China – SRI/Social Impact Investing Best Private Bank in China – Innovation Technology – Client Experience
THE Asset 财资	Best Asset Securitization Project Best M&A Financing Project
CHINA FINANCIAL MARKET 中国融资	Best Listed Company
银行家 The Chinese Banker	2016 China Financial Innovation Award
中国上市公司协会 China Association for Public Companies 上海證劵交易所 SHANGHAI STOCK EXCHANGE 深圳证券交易所 SHENZHEN STOCK EXCHANGE	Top 20 Board of Supervisors of Listed Companies with Best Practice
CFCA 中国金融认证中心 China Financial Certification Authority	Best Internet Bank
金融时报 FINANCIAL NEWS	Best Bank for Sannong Financial Service

Honors and Awards

Organizations	Honors and Awards
第一财经 CBN	Best Bank for Green Finance
21世纪经济报道 21st CENTURY BUSINESS HERALD	Internet Finance Innovation Award for 2016 Best Corporate Culture for 2016 Innovative Bank in Green Finance Excellent Retail Bank
理性，建设性 经济观察报 The Economic Observer	Most Respected Company for 2016 Excellent Chinese Bank for 2015-2016
金融理财 FINANCIAL MONEY	Golden Wealth Management Bank Award for the Year
证券时报	Best All-round Investment Bank Best Bond Underwriting Bank Best Syndication Financing Bank
经营成就价值 中国经营报 CHINA BUSINESS JOURNAL	State-owned Commercial Bank of Excellent Competitiveness for 2016 Internet Commercial Bank of Excellent Competitiveness for 2016
人民网 people.cn	Excellent Company of the Year

Honors and Awards

Organizations	Honors and Awards
IDC Analyze the Future	Best Innovation in Financial Industry of China for 2016
TradeFinance 贸易金融 中国贸易金融网 SINOTF.COM	Bank of Best Cross-border Financial Service
金融界 JRJ.COM	Outstanding Chinese Bank Bank of Best Social Responsibility
NBD 每日经济新闻 NATIONAL BUSINESS DAILY	Wealth Management Product Innovation Award Excellent Brand for Consumption Finance
ChinaHR.com 中华英才网	Top 50 Employers for University Graduates in China Top 15 Employers of Financial Industry
中国银行业协会 CHINA BANKING ASSOCIATION	Best Financial Institution for Social Responsibility Performance in 2015 Excellent Institution for Legal Risk Management in 2015 Best Performance on Syndication Financing Business
China Asset Securitization Research Institute	Best Structure Award for Green Finance ABS (Enterprise) of 2016

Chairman's Statement

ZHOU Mubing
Chairman of the Board of Directors

In 2016, as the global economy experienced slow recovery and the domestic economy managed to deal with a slowdown in economic growth, make difficult structural adjustments and gradually reduce the negative effects of previous economic stimulus policies, the PRC banking industry faced multiple challenges, including inadequate credit demand, narrower interest spread and increased pressure on risk control. Amid this complicated operational environment and fierce market competition, we diligently implemented the decisions and arrangements of the government, and actively adapted to the "New Normal" status. Through pursuing stable development, promoting reforms, enhancing management and preventing risks, we achieved balanced advancement in scale, quality, structure and efficiency. At the end of 2016, our total assets amounted to RMB19.57 trillion, up by 10.0% over the end of the previous year. Net profit amounted to RMB184,060 million and our ROAE was 15.14%. The non-performing loan ratio was 2.37%, down by 0.02 percentage point over the end of the previous year, and the allowance for non-performing loans was at 173.40%. These achievements are attributed to the ardent support of shareholders, customers and all sectors of the society, as well as the hard work of all our employees. On behalf of the Board of Directors, I would like to extend my cordial gratitude to all of them.

Currently, the PRC banking industry faces new opportunities and challenges. The global economy is still in the process of slow recovery with complexities and uncertainties. While the supply-side structural reform of China proceeds, fundamentals of the economy continue to improve, but some prominent contradictions and problems still exist. Tightening regulation, fiercer competition, inadequate credit demand and continuing risk exposures impose more stringent requirements on the banking industry with respect to its business development, operating transformation, reform and innovation.

2017 is a year when China is expected to deepen its supply-side structural reform, and is also a pivotal year to implement our *Reform and Development Plan for 2016-2020*. Confronted with new circumstances, tasks, opportunities and challenges, we will resolutely implement the major policies and strategic arrangements of our nation, and adhere to the working principle of seeking progress while maintaining stability. We will continue to maintain strategic directions, manage our overall situation, and ensure effective implementation. Guided by the development strategy and focusing on the government's supply-side structural reform, we will put more emphasis on prevention of cases of violations and control of risks, deepen the reforms of management system and mechanisms, and improve management basics and management for foundation-level institutions, so as to maintain a steady growth in performance and continue to develop us into an international first-class commercial banking group.

Improving financial services provided to Sannong and the real economy. With a focus on supporting the supply-side structural reform, we will bolster the five key actions to "cut overcapacity, reduce inventory, deleverage, lower costs and bolster areas of weakness", and improve the quality and efficiency of services provided to the real economy. With respect to cutting overcapacity, following the approach of securing credit exposure to borrowers in certain industries while reducing credit exposure to others, we will reduce total credit exposures to borrowers in industries with overcapacity, and support the transformation and upgrading of enterprises. With respect to reducing inventory, we will implement differentiated approaches for business across the real estate industry, and strongly support the distinctive Anjiadai loan for rural households. With respect to deleveraging, we will, through ABC Asset Management Co., Ltd., steadily facilitate the debt-to-equity swaps in the market and actively provide equity financing to enterprises through wealth management-related financing, industrial funds, and debt-equity combination financing. With respect to lowering costs, we will strictly implement the relevant government policies and regulations on pricing of our services, control fee rates charged by us, and stabilize the cost of capital in rural areas. With respect to bolstering areas of weakness, we will innovate financing service models, which focus on infrastructural major projects with overall effects, corporate technological renovation and equipment upgrades, as well as mass entrepreneurship and innovation, to increase our financial supply. Providing services to Sannong and taking targeted measures to help people lift themselves out of poverty will be our focus for bolstering areas of weakness. We will strengthen innovation of serving Sannong through internet finance and accelerate the development and promotion of the "ABC e-steward" e-commerce platform, in an effort to broaden and deepen financial services for Sannong.

Maintaining steady growth in our performance. Amid the complex domestic and overseas situations, we will focus on further diversifying the sources of our profit and minimizing fluctuations in our performance. Adhering to our commitment to create value for customers and increase return for shareholders, we will fully leverage our advantages across the Group to create broad-based returns by offering comprehensive services with integrated pricing. Through the consolidation and promotion of traditional businesses and rapid expansion of emerging businesses, we will broaden our vision of financial services and promote balanced and concurrent development of both our emerging and traditional businesses. Through both cost control and productivity improvement, we will bolster the input-output ratios of our financial resources, capital, human resources and branch outlets. By managing our stock operation and flow operations, we will capitalize on the opportunities arising from customer funds flow, so as to promote our operating returns.

Enhancing risk management and internal control. As financial risks arise more frequently nowadays, we will increase emphasis on risk prevention and control. We will ensure cases of violation and risks under control through enhancing risk mitigation and prevention, addressing effects and root causes of issues, and creating tailored solutions for different problems. On one hand, we will enhance risk management in key areas such as credit risk, liquidity risk, market risk, internet finance risk and external shocks. We will adopt specific measures to prevent, control and mitigate risks, and clearly allocate responsibilities, so as to overcome risks and adhere to our risk limitations. On the other hand, we will enhance internal control and prevention and control of cases of violation. We will organize activities to support our "Year to Strengthen Management Basics and Management for Foundation-level Institutions" initiative. We will conduct a broad-based inspection of potential risk incidents, so as to reinforce management basics in, among other things, credit, operation, information technology, safe production and employee behavior. We will promote the management model of "Three Lines and One Grid", and strengthen our violation case prevention and control through adoption of technologies. We will also reinforce rectification and continuous improvement, and resolve the issues at the roots in a systematic manner.

Continuously deepening structural and mechanism reforms. Effective reform is the key to our sound governance and future prosperity. We will promote structural and mechanism reforms with specific orientations related to our strategy implementation, market base, problem solution and results focus. We will promote the reform of the County Area Banking Division through "Six Separation" models, so as to revitalize and improve the sub-branches in County Areas. We will also promote operational reform in certain business units that are directly operated by the Head Office, including the Financial Market Department, the Asset Management Department and the Investment Banking Department. We expect these units to play leading and exemplary roles in our business transformation. We will promote management reform of our branches in provincial capitals to boost their market competitiveness. The comprehensive operational reform will be advanced to refine the management system and affiliated system of our subsidiaries and expand their operating autonomy. The reform of our incentive and compliance mechanism will be also be promoted, so as to increase the level of objective assessment in the performance appraisal and salary evaluation processes. In addition, we will promote reform of the management system of our internal audit and internal control for better performance.

Great accomplishments result from great ambition and tireless effort. In the year of 2017, we will lift our spirits, concentrate our efforts, roll up our sleeves to work harder, and make joint efforts with our shareholders, customers and all sectors of the society to create a bright future for the Bank!

ZHOU Mubing
Chairman of the Board of Directors
28 March 2017

ZHAO Huan
President

Amid the complex internal and external business environments in 2016, our management continued to implement the development strategies and plans set by the Board. During the year, we promoted business transformation, optimized our customer portfolio and business structure, and endeavored to reduce risks, costs and cases of violations. As a result, we made steady progress in business operations, controlled risks effectively and achieved better financial results than expected.

We achieved steady growth in our major businesses and operational performance. At the end of 2016, our total assets amounted to RMB19.57 trillion, up by 10.0% over the end of the previous year. The market ranking of the Bank in terms of the growth of deposits and loans remained stable, and the growth of retail deposits maintained the leading position in the banking industry. Selected financial indicators such as allowance for impairment losses on loans, allowance to total loans and allowance to non-performing loans remained the best among comparable banks. Notwithstanding a moderately higher allowance for impairment losses on loans for the year, we achieved a net profit of RMB184,060 million, representing an increase of 1.8% compared to the previous year. The cost-to-income ratio of the Bank was 34.59%, which remained generally stable not taking into account the effect of the transition from business tax to value-added tax.

We optimized our credit structure and made notable contributions in serving Sannong and the real economy. Guided by the "Five Principles of Development" (i.e., innovation, coordination, green development, opening-up and sharing) and focusing on the government's supply-side structural reform and the actions of "cutting overcapacity, reducing inventory, deleveraging, lowering costs, and bolstering areas of weakness", we refined the structure of our credit profile. We actively served key national strategies, major tasks and projects, and effectively supported the growth of the real economy. Expanded financial support was provided to key national projects, with a total of RMB359.8 billion in new loans, representing an increase of RMB121.2 billion compared to the previous year. A total of RMB720.0 billion was directed to finance the real economy through diversified channels such as bonds, wealth management-related financing and industrial funds. Financing for mass entrepreneurship and innovation and services for small and micro enterprises were enhanced, with loans to small and micro enterprises increased by RMB115.4 billion, above the Bank's average loan growth for the eighth consecutive year. The retail loans increased by RMB613.0 billion, or 22.5%, compared to the previous year. Our financial services for Sannong and poverty alleviation were further strengthened. Dedicated loans for Sannong related key areas such as urbanization of County Areas, hydraulic engineering projects and new agricultural business entities achieved rapid growth. We launched an innovative and featured product, "Anjiadai" loan for rural households, to help rural households buy properties in cities, with a total of RMB167.6 billion in new loans in 2016. We adopted targeted measures to support poverty alleviation. The loans to 832 key poverty alleviation counties increased by RMB92.0 billion and the growth rate of which was nearly 6 percentage points higher than that of the Bank's average growth of loans. While increasing our loans, we adhere to the government's policy of cutting overcapacity by reducing credit exposures to borrowers in certain industries. As a result, the balances of loans to borrowers in the coal, iron and steel industries were reduced.

We expanded the diversified sources of our income through accelerating the development of emerging businesses. We further promoted capital-light businesses, including financial market operations, investment banking and wealth management, which resulted in a 10.2% increase in fees and commission income to RMB90.9 billion. We continuously improved our capability in investment in financial market and market-making, and maintained our leading position in terms of returns of bond investments in the banking industry. We also made substantial progress in the investment banking business, and achieved breakthroughs in asset securitization, green bond issuance and cross-border mergers & acquisitions. The asset management business achieved growth in both volume and income, with the balance of wealth management products nearly doubling in the most recent three years to RMB1.63 trillion. Emerging businesses, including private banking, credit cards, precious metals and custody services achieved rapid growth, and our respective market share in international settlement, sales and settlement of foreign exchange and RMB cross-border business increased steadily. We gradually increased the number of overseas institutions and have established 18 overseas institutions and an equity joint venture bank in 15 countries and regions, reinforcing the presence of our network which has covered five continents. We also improved our integrated business platform. We prepared for the establishment of the specialized institution for debt-to-equity swaps. The synergy between the Bank and its subsidiaries continued to provide additional benefits for the Group.

We promoted risk management and control, and maintained stable asset quality. We adhered to our limitation of risk tolerance to prevent rapid increase in the volume of non-performing loans by accelerating the disposal of existing non-performing loans and controlling the occurrence of additional non-performing loans. We focused on the risk management of key areas and mitigated risks relating to customers with large credit exposure as part of our efforts to minimize non-performing loans. The non-performing loan formation ratio decreased compared to the previous year. In addition to diligent efforts to collect and write off non-performing loans, we adopted new disposal measures to resolve existing non-performing loans. We successfully issued RMB10.2 billion of non-performing loan asset-backed securities and steadily promoted debt-to-equity swaps in the market. At the end of 2016, the non-performing loan ratio was 2.37%, a decrease of 0.02 percentage point over the end of the previous year, and the allowance to non-performing loans reached 173.40%. We maintained a robust level of resilience to risks and strong ability to absorb losses.

We steadily improved our management effectiveness through reinforcing management basics and management for foundation-level institutions. To address certain weak points and bottlenecks existing in our operations, we commenced a number of projects and carried out a special rectification campaign to consolidate our management basics and stimulate our innovation activities. We initiated the reform of operational risk monitoring system, integrated functions of our counter business and promoted the "Super Counter", which led to further improvement in our capacity to prevent operational risks and in our service quality. We accelerated the development of IT-based banking. All of our three major internet finance platforms commenced operation, and new breakthroughs were achieved in the building of big data. As a result, our integrated capacity to serve customers through IT-based banking solutions was enhanced. An extensive investigation program and targeted rectification actions were undertaken to address issues identified in higher risk areas including bills operation, improper sales practices, unauthorized commission-based product sales, irregular transactions, telecommunication and internet frauds, and unauthorized credit information queries. Those actions resulted in the elimination of a number of potential risks in a timely manner. We further consolidated the basics of compliance management with a focus on activities related to anti-money laundering compliance, and accelerated the implementation of a compliance system for anti-money laundering designed to meet a high standard. We also streamlined various working procedures for, among other things, loan underwriting, business operations and product research and development, in order to enable a more rapid response to market developments.

In 2017, our management will strictly implement our *Reform and Development Plan for 2016-2020* and the annual operation targets set by the Board. Adhering to the principle of seeking progress while maintaining stability and guided by our development strategies, we will focus on supporting the supply-side structural reform, improve our effectiveness and efficiency, further reinforce our management basics and the management for foundation-level institutions, and develop our business through innovations, so as to provide our shareholders and society with more fruitful returns for their trust and support.

ZHAO Huan
President
28 March 2017

YUAN Changqing

Chairman of the Board of Supervisors

Environment and Prospects

According to estimates by the International Monetary Fund, the growth rate of global economy in 2016 was 3.1%, 0.1 percentage point lower than that of the previous year. The economic recovery among major economies continued to diverge. The United States achieved a favorable economic recovery, with a steady rise of consumer spending, recovery of inflation and continued improvement of employment. The Eurozone saw a slight economic recovery with the deflationary pressure eased, but had to deal with refugee issues and the risks in the banking industry. Japan was weak in economic recovery and remained under deflationary pressure. Certain emerging countries continued to improve their economic conditions, but were still under the pressure of restructuring and transformation in general. In 2016, the Dow Jones Industrial Average Index and Nikkei 225 Index increased by 13.4% and 0.42%, respectively, whereas the European STOXX50 Index dropped by 2.89%. The USD Index showed a strongly upward trend as it increased by 3.73% over the last year. Commodity prices increased with fluctuations, and the CRB Spot Market Price Index increased by 12.9% over the last year.

In 2016, despite the moderation in speed of growth, the Chinese economy tended to be stable with a favorable trend and more positive changes. The annual GDP increased by 6.7% to RMB74.4 trillion, a decrease of 0.2 percentage point as compared to the previous year. Total fixed asset investment and total retail sales of consumer goods recorded a year-on-year growth of 8.1% and 10.4%, respectively. Export recorded a year-on-year decrease of 2.0%. The aforesaid growth/decrease rates represented a decrease of 1.9, 0.3 and 0.2 percentage points, respectively, as compared to those of the previous year. The economic structure continued to improve with rapid growth in the high technology industry, the equipment manufacturing industry and the strategic emerging industries as well as emerging of new industry and business models. The contribution of final consumption to GDP growth was 64.6%. The added value of tertiary industry accounted for 51.6% of the GDP, representing an increase of 1.4 percentage points as compared to the previous year. Further breakthroughs were achieved in the reform and opening up. The overall opening-up scheme was improved and "the Belt and Road Initiative" was rapidly developed. The supply-side structural reform was promoted, and the initiative to "cut overcapacity, reduce inventory, deleverage, lower costs and bolster areas of weakness" was enhanced. The consumer price index (CPI) increased moderately with a year-on-year increase of 2.0% in 2016. This growth rate represented an increase of 0.6 percentage point as compared to that of the previous year. The deflationary pressure was significantly relieved, with a year-on-year decrease of 1.4% in the producer pricing index (PPI). This decrease rate represented a decrease of 3.8 percentage points as compared to that of the previous year. In 2016, the money supply (M2) increased by 11.3%, and the total social financing amounted to RMB17.8 trillion in China.

In response to the complex and dynamic domestic and overseas economic environment, the PRC government adhered to the principle of seeking progress while maintaining stability, and continued to adopt prudent monetary policies and proactive fiscal policies. The PBOC adopted comprehensive monetary policy tools, and maintained reasonable and adequate market liquidity. The PRC government continued to deepen financial reforms, promoted unified macro-prudential management of cross-border financing, improved the average balance method for assessment of deposit reserves, launched the trial of debt-equity combination financing, and further opened up the bank card clearing market. RMB was included as one of the Special Drawing Rights (SDR) currency, and debt-to-equity swaps in the market were initiated.

It is expected that the global economic recovery will remain slow in 2017 with more uncertainties. According to forecasts of the International Monetary Fund, the growth rate of the global economy will increase to 3.4% in 2017 from 3.1% in 2016. The U.S. is expected to continue its moderate economic recovery, and the Federal Reserve is expected to continue to raise interest rates. However, uncertainties remain in the economic policies adopted by U.S. President Trump and their effects. The coming elections of governments in Europe will bring serious challenges to the process of European integration, and the negative effects of these challenges on the economic recovery of Europe remain unclear. With limited room to implement its economic policies and a significantly ageing population, it will be difficult for Japan to escape the low-growth rut in a short term. The emerging countries are expected to improve their economic conditions, but will also have to deal with foreign trade downturn, slowing growth of labor productivity and unreasonable economic structure.

It is expected that the Chinese economic growth will become stable with moderate inflation in 2017, along with the identification of new drivers for economic growth and further promotion of the supply-side structural reform. The upgrading of household consumption in China is expected to accelerate, and the consumptions in aged care, tourism and healthcare will increase more rapidly. However, the increase in household income is likely to slow down and therefore, the consumption is expected to maintain stable growth. Taking into account the recovery of investment in manufacturing industry, the stabilized investment in the real estate market and the continuous support to infrastructure investment under proactive fiscal policies, the investment in fixed assets is expected to achieve a slight recovery. With the recovery of global economy and depreciation of RMB, the exports are expected to increase slightly. The prices of products are expected to increase moderately as (i) the price of manufacturing products will continue to increase as driven by the growth in demand, and (ii) the price of household consumption will increase as driven by the increase in service price.

In 2017, the PRC government will continue to reinforce the supply-side structural reform, moderately increase the total demand, and promote a stable and healthy economic growth. Fiscal policies will become more proactive and effective, with a focus on supporting the supply-side structural reform, reducing corporate taxes and fees, as well as promoting people's livelihood. Monetary policies will remain prudent and neutral. The total money supply will be adjusted, and the transmission channels and mechanism of monetary policies will be improved, so as to maintain a stable market liquidity. China will enhance the flexibility of exchange rate, and keep RMB exchange rate stable at a reasonable and balanced level. Greater efforts will be directed to preventing and controlling financial risks by managing asset bubbles and improving supervision capabilities, so as to prevent the occurrence of any systematic financial risk.

Steady implementation of "the 13th Five-Year Plan" and the supply-side structural reform will bring new opportunities and challenges to our reform and development. In 2017, we will continue to promote restructuring and transformation to achieve steady and healthy development of our businesses.

We will promote our business expansion. Capturing the opportunities arising from emerging industries and businesses, we will strive to develop financial services related to people's livelihood, green finance and high technology, and continue to achieve innovation and breakthroughs in credit management, business synergy and risk mitigation. We will actively support Public-Private Partnership (PPP) projects and major projects related to New-type Urbanization, so as to provide strong financial support for steady growth and stable investment. Focusing on the supply-side structural reform in the agricultural industry, we will provide outstanding financial services to serve Sannong.

We will diversify our competitive advantages. In view of the dramatic changes of the landscape in financial markets and based on our business development in the traditional credit market, we will actively explore emerging financial markets such as capital markets. We will continuously improve our intermediary service capability in custody, clearing and agency, and actively explore new businesses such as investment banking and asset management to have more presence to capital markets.

We will improve our integrated online and offline service. In view of the development of internet finance, we will continuously improve our mobile finance and our Sannong financial services with Internet +, and strengthen our service capability through development of big data.

We will comprehensively enhance our risk management. Based on the clear understanding of our risk conditions, we will adopt measures of risk control and prevention, and continuously enhance our internal control, in order to resolutely prevent the occurrence of cases of violations and risk events.

Reform and Development Plan for 2016-2020

With the aim to develop the Bank into "an international first-class commercial banking group with featured operations, efficient and convenient services, diversified functions, and outstanding value-creation capability", we formulated our *Reform and Development Plan for 2016-2020* with reference to the analysis of the economic and financial conditions (both domestically and overseas) and our own advantages and disadvantages. The plan specified the guiding principles, business strategies and performance targets, and mapped out the blueprint during 2016 to 2020.

Refining our operation philosophies. We will stick to operation philosophies of modern commercial banks, including value creation, capital constraint, cost constraint and risk control, and further promote the transformation from "self-oriented operation" to "customer-oriented operation", from "a mere credit intermediary" to "a comprehensive financial service provider", and from "capital-heavy business" to "capital-light business", so as to adapt to the changes of the operating environment.

Reinforcing our strategies and positions. We will reinforce our positions to "serve Sannong to promote businesses in the County Areas", "focus on key areas to deliver better performance in Urban Areas", and "enhance synergies to achieve higher returns". We will enhance our advantages and continue to consolidate and expand our businesses in County Areas. We will promote our businesses in Urban Areas with focus, and allocate resources to businesses with higher values and more benefits. We will also strengthen synergies between the Head Office and branch outlets, between Urban Areas and County Areas, between domestic and overseas operations, between branches and subsidiaries, between different business lines, and between online and offline businesses, so as to leverage the business advantages of the Group to achieve maximum value-creation for customers and financial returns.

Accelerating business transformation. Adhering to the principles of thoughtful service, risk control and sustainable development, we will strengthen financial services in the key areas and explore innovative models to serve Sannong. We will promote the transformation of the corporate banking business in Urban Areas by consolidating customer base, innovating business model and marketing approach, and improving our professional service capability. We will aim to promote the transition from a large retail bank to a strong retail bank by consolidating our customer base and actively exploring comprehensive retail banking services. We will actively participate in strategic emerging industries and modern service industries, explore effective financial service models for capital-light businesses in emerging industries, and improve our service capability. Business structure will be adjusted, and more efforts will be made to develop emerging businesses with low capital consumption and high added value, including investment banking, financial market business, asset management, inter-bank business, custody service, pension business and private banking. To follow the trends of "Industry 4.0" featuring intelligent manufacturing and "Bank 4.0" featuring integration between industries and the internet, we will accelerate the transformation towards "Bank 4.0" and the development of internet finance, and strive to build a framework of comprehensive financial products and service covering all business lines. We will change our service provided on an "everywhere" basis towards an "as appropriate" basis.

During this period, we will adapt to business developments, streamline operational procedures, promote the integration and innovation in channels and improve the mechanisms for integrated pricing and revenue sharing, with an endeavour to improve our operation and management and promote our business development. Meanwhile, we will continue to refine our comprehensive risk management system, reinforce internal control and audit supervision, build a talent pool and IT-based banking, cultivate new corporate culture and develop a modern corporate governance system unique to ABC, so as to support and secure our business transformation, reform and innovation. We will develop detailed plans for the Bank and promote their implementation. We will improve appraisals for the plan's implementation to ensure that the plan will guide the reform and development of the Group.

Financial Statement Analysis

Income Statement Analysis

In 2016, we achieved a net profit of RMB184,060 million, representing an increase of RMB3,286 million or 1.8% over the previous year.

Changes of Significant Income Statement Items

In millions of RMB, except for percentages

Item	2016	2015	Increase/ (decrease)	Growth rate (%)
Net interest income	**398,104**	436,140	(38,036)	-8.7
Net fee and commission income	**90,935**	82,549	8,386	10.2
Other non-interest income	**21,089**	22,173	(1,084)	-4.9
Operating income	**510,128**	540,862	(30,734)	-5.7
Less: operating expenses	**197,049**	225,818	(28,769)	-12.7
Impairment losses on assets	**86,446**	84,172	2,274	2.7
Operating profit	**226,633**	230,872	(4,239)	-1.8
Share of results of associate	**(9)**	(15)	6	-40.0
Profit before tax	**226,624**	230,857	(4,233)	-1.8
Less: Income tax expense	**42,564**	50,083	(7,519)	-15.0
Net Profit	**184,060**	180,774	3,286	1.8
Attributable to:				
Equity holders of the Bank	**183,941**	180,582	3,359	1.9
Non-controlling interests	**119**	192	(73)	-38.0

Net Interest Income

Net interest income was the largest component of our operating income, accounting for 78.0% of the total in 2016. Our net interest income was RMB398,104 million in 2016, representing a decrease of RMB38,036 million as compared to the previous year. The changes in volume and interest rates resulted in an increase of RMB40,580 million and a decrease of RMB78,616 million in net interest income, respectively.

In 2016, the net interest margin was 2.25% and the net interest spread was 2.10%, which decreased by 41 and 39 basis points compared to the previous year, respectively. The decreases in net interest margin and net interest spread were primarily due to the consecutive reduction of interest rates by the PBOC from November 2014 to 2015 and the decline in the yields of lending, investments and financing businesses compared to the previous year, and the separation of price and tax for the interest income from loans and other businesses under the "Transition from Business Tax to Value-Added Tax" policy implemented since 1 May 2016, which also resulted in a decrease in the yield of interest-earning assets.

The table below presents the average balance, interest income/expense, and average yield/cost of interest-earning assets and interest-bearing liabilities.

In millions of RMB, except for percentages

Item	2016			2015		
	Average balance	**Interest income/ expense**	**Average yield/cost (%)**	Average balance	Interest income/ expense	Average yield/cost (%)
Assets						
Loans and advances to customers	**9,370,200**	**410,790**	**4.38**	8,633,586	476,988	5.52
Debt securities investments[1]	**4,618,837**	**170,096**	**3.68**	3,665,564	147,882	4.03
Non-restructuring-related debt securities	**4,253,514**	**158,870**	**3.74**	3,294,083	136,475	4.14
Restructuring-related debt securities[2]	**365,323**	**11,226**	**3.07**	371,481	11,407	3.07
Balances with central banks	**2,478,513**	**39,264**	**1.58**	2,517,511	39,745	1.58
Amounts due from banks and other financial institutions[3]	**1,222,750**	**37,040**	**3.03**	1,566,387	61,178	3.91
Total interest-earning assets	**17,690,300**	**657,190**	**3.71**	16,383,048	725,793	4.43
Allowance for impairment losses[4]	**(410,350)**			(385,312)		
Non-interest-earning assets[4]	**966,835**			973,294		
Total assets	**18,246,785**			16,971,030		
Liabilities						
Deposits from customers	**14,233,459**	**209,149**	**1.47**	12,865,645	233,377	1.81
Amounts due to banks and other financial institutions[5]	**1,383,379**	**34,248**	**2.48**	1,698,281	43,398	2.56
Other interest-bearing liabilities[6]	**483,256**	**15,689**	**3.25**	375,815	12,878	3.43
Total interest-bearing liabilities	**16,100,094**	**259,086**	**1.61**	14,939,741	289,653	1.94
Non-interest-bearing liabilities[4]	**1,067,598**			1,051,534		
Total liabilities	**17,167,692**			15,991,275		
Net interest income		**398,104**			436,140	
Net interest spread			**2.10**			2.49
Net interest margin			**2.25**			2.66

Notes:

1. *Debt securities investments include debt securities investments at fair value through profit or loss, available-for-sale debt securities investments, held-to-maturity debt securities investments and debt securities investments classified as receivables.*
2. *Restructuring-related debt securities include receivable from the MOF and special government bond.*
3. *Amounts due from banks and other financial institutions primarily include deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, and financial assets held under resale agreements.*
4. *The average balance of non-interest-earning assets, non-interest-bearing liabilities and allowance for impairment losses are the average of their respective balance at the beginning and the end of the reporting period.*
5. *Amounts due to banks and other financial institutions primarily include deposits and placements from banks and other financial institutions, as well as financial assets sold under repurchase agreements.*
6. *Other interest-bearing liabilities primarily include debt securities issued and borrowings from central banks.*

The table below presents the changes in net interest income due to changes in volume and interest rate.

In millions of RMB

	Increase/(decrease) due to		Net increase/
	Volume	Interest rate	(decrease)
Assets			
Loans and advances to customers	32,293	(98,491)	(66,198)
Debt securities investments	35,106	(12,892)	22,214
Balances with central banks	(618)	137	(481)
Amounts due from banks and other financial institutions	(10,410)	(13,728)	(24,138)
Changes in interest income	56,371	(124,974)	(68,603)
Liabilities			
Deposits from customers	20,099	(44,327)	(24,228)
Amounts due to banks and other financial institutions	(7,796)	(1,354)	(9,150)
Other interest-bearing liabilities	3,488	(677)	2,811
Changes in interest expense	15,791	(46,358)	(30,567)
Changes in net interest income	**40,580**	**(78,616)**	**(38,036)**

Note: Changes due to the effects of both volume and interest rate have been allocated to the changes due to volume.

Interest Income

We recorded interest income of RMB657,190 million in 2016, representing a decrease of RMB68,603 million over the previous year. The decrease was primarily due to a decrease of 72 basis points in average yield, partially offset by an increase of RMB1,307,252 million in average balance of interest-earning assets.

Interest Income from Loans and Advances to Customers

Interest income from loans and advances to customers decreased by RMB66,198 million, or 13.9%, over the previous year to RMB410,790 million. The decrease was primarily due to a decrease of 114 basis points in the average yield, partially offset by an increase of RMB736,614 million in the average balance.

The table below presents the average balance, interest income and average yield of loans and advances to customers by business type.

In millions of RMB, except for percentages

	2016			2015		
Item	**Average balance**	**Interest income**	**Average yield (%)**	Average balance	Interest income	Average yield (%)
Corporate loans	**5,455,502**	**250,729**	**4.60**	5,375,881	308,531	5.74
Short-term corporate loans	**2,249,014**	**96,411**	**4.29**	2,267,447	123,082	5.43
Medium- and long-term corporate loans	**3,206,488**	**154,318**	**4.81**	3,108,434	185,449	5.97
Discounted bills	**450,555**	**14,326**	**3.18**	252,083	10,765	4.27
Retail loans	**3,031,025**	**134,990**	**4.45**	2,558,245	145,036	5.67
Overseas and others	**433,118**	**10,745**	**2.48**	447,377	12,656	2.83
Total loans and advances to customers	**9,370,200**	**410,790**	**4.38**	8,633,586	476,988	5.52

Interest income from corporate loans decreased by RMB57,802 million, or 18.7%, to RMB250,729 million compared to the previous year. The decrease was primarily due to a decrease of 114 basis points in the average yield. Interest income from retail loans decreased by RMB10,046 million, or 6.9%, to RMB134,990 million compared to the previous year. The decrease was primarily due to a decrease of 122 basis points in the average yield. The decrease in the average yields of both corporate loans and retail loans was primarily due to: (1) the re-pricing of existing loans and lower interest rates for new loans as a result of six consecutive interest rate cuts by the PBOC since November 2014, and (2) the decrease in interest income from loans as a result of separation of price and tax under the "Transition from Business Tax to Value-Added Tax" policy.

Interest income from discounted bills increased by RMB3,561 million, or 33.1%, to RMB14,326 million compared to the previous year. The increase was primarily due to an increase of RMB198,472 million in the average balance, partially offset by a decrease of 109 basis points in the average yield. The decrease in the average yield was mainly due to the decrease in market interest rate and the decrease in interest income as a result of separation of price and tax under the "Transition from Business Tax to Value-Added Tax" policy.

Interest income from overseas and other loans decreased by RMB1,911 million, or 15.1%, to RMB10,745 million compared to the previous year. The decrease was primarily due to a decrease of 35 basis points in the average yield and a decrease of RMB14,259 million in the average balance.

Interest Income from Debt Securities Investments

Interest income from debt securities investments was the second largest component of our interest income. In 2016, interest income from debt securities investments increased by RMB22,214 million to RMB170,096 million compared to the previous year. The increase was primarily due to an increase of RMB953,273 million in the average balance, partially offset by a decrease of 35 basis points in the average yield. The decrease in average yield was mainly due to the increased investment in local government bonds which offered lower interest rate but better investment return and the decrease in interest income from debt securities as a result of separation of price and tax under the "Transition from Business Tax to Value-Added Tax" policy.

Interest Income from Balances with Central Banks

Interest income from balances with central banks decreased by RMB481 million to RMB39,264 million compared to the previous year. The decrease was primarily due to a decrease of RMB38,998 million in the average balance.

Interest Income from Amounts Due from Banks and Other Financial Institutions

Interest income from amounts due from banks and other financial institutions decreased by RMB24,138 million to RMB37,040 million compared to the previous year. The decrease was primarily due to a decrease of 88 basis points in the average yield and a decrease of RMB343,637 million in the average balance. The decrease in the average yield was primarily due to the downward market interest rate.

Interest Expense

Interest expense decreased by RMB30,567 million to RMB259,086 million compared to the previous year. The decrease was mainly due to a decrease of 33 basis points in the average cost, partially offset by an increase of RMB1,160,353 million in the average balance.

Interest Expense on Deposits from Customers

Interest expense on deposits from customers decreased by RMB24,228 million to RMB209,149 million compared to the previous year. The decrease was primarily due to a decrease of 34 basis points in the average cost, partially offset by an increase of RMB1,367,814 million in the average balance. The decrease in the average cost was primarily due to (1) the re-pricing of existing deposits and lower interest rates of new deposits from customers as a result of consecutive interest rate cuts by the PBOC from November 2014 to 2015, and (2) the Bank strengthened the management of deposit pricing to exercise effective control over interest cost.

Analysis of Average Cost of Deposits by Product

In millions of RMB, except for percentages

	2016			2015		
Item	**Average balance**	**Interest expense**	**Average cost (%)**	Average balance	Interest expense	Average cost (%)
Corporate Deposits						
Time	**2,119,595**	**54,861**	**2.59**	1,964,384	62,730	3.19
Demand	**3,562,748**	**22,064**	**0.62**	3,033,507	20,848	0.69
Sub-Total	**5,682,343**	**76,925**	**1.35**	4,997,891	83,578	1.67
Retail Deposits						
Time	**4,319,228**	**115,665**	**2.68**	4,219,163	136,561	3.24
Demand	**4,231,888**	**16,559**	**0.39**	3,648,591	13,238	0.36
Sub-Total	**8,551,116**	**132,224**	**1.55**	7,867,754	149,799	1.90
Total Deposits from Customers	**14,233,459**	**209,149**	**1.47**	12,865,645	233,377	1.81

Interest Expense on Amounts Due to Banks and Other Financial Institutions

Interest expense on amounts due to banks and other financial institutions decreased by RMB9,150 million to RMB34,248 million compared to the previous year. The decrease was primarily due to a decrease of RMB314,902 million in the average balance and a decrease of 8 basis points in the average cost. The decrease in the average cost was primarily due to the downward market interest rate.

Interest Expense on Other Interest-bearing Liabilities

Interest expense on other interest-bearing liabilities increased by RMB2,811 million to RMB15,689 million compared to the previous year, primarily due to an increase of RMB107,441 million in the average balance, partially offset by a decrease of 18 basis points in the average cost. The increase in the average balances was mainly due to the Bank's regular borrowing from the PBOC through lending facility.

Net Fee and Commission Income

In 2016, we generated net fee and commission income of RMB90,935 million, representing an increase of RMB8,386 million, or 10.2%, compared to the previous year. The proportion of net fee and commission income to our operating income was 17.83%, representing an increase of 2.57 percentage points compared to the previous year.

Composition of Net Fee and Commission Income

In millions of RMB, except for percentages

Item	2016	2015	Increase/ (decrease)	Growth rate (%)
Settlement and clearing fees	**16,715**	17,714	(999)	-5.6
Consultancy and advisory fees	**9,050**	8,892	158	1.8
Agency commissions	**39,377**	28,628	10,749	37.5
Bank card fees	**20,108**	20,689	(581)	-2.8
Electronic banking service fees	**9,993**	8,962	1,031	11.5
Credit commitment fees	**2,263**	2,547	(284)	-11.2
Custodian and other fiduciary service fees	**3,119**	2,857	262	9.2
Others	**194**	205	(11)	-5.4
Fee and commission income	**100,819**	90,494	10,325	11.4
Less: Fee and commission expenses	**9,884**	7,945	1,939	24.4
Net fee and commission income	**90,935**	82,549	8,386	10.2

Settlement and clearing fees decreased by RMB999 million, or 5.6%, to RMB16,715 million compared to the previous year. The decrease was mainly due to the diversion effects of channels on settlement business.

Consultancy and advisory fees increased by RMB158 million, or 1.8%, to RMB9,050 million compared to the previous year. The increase was primarily due to the increased income from merger and acquisition business and debt financing consultancy business.

Agency commissions increased by RMB10,749 million, or 37.5%, to RMB39,377 million compared to the previous year. The increase was mainly due to the growth in income from assets disposal on behalf of the MOF and our bancassurance business.

Bank card fees decreased by RMB581 million, or 2.8%, to RMB20,108 million compared to the previous year. The decrease was mainly due to the decrease in income from credit card instalment business.

Electronic banking service fees increased by RMB1,031 million, or 11.5%, to RMB9,993 million compared to the previous year. The increase was primarily due to the rapid growth in income from e-commerce banking services.

Credit commitment fees decreased by RMB284 million, or 11.2%, to RMB2,263 million compared to the previous year. The decrease was mainly due to more discounts and exemptions of fees offered to corporate customers and cancellation of certain guarantee and commitment fees related to loans.

Custodian and other fiduciary service fees increased by RMB262 million, or 9.2%, to RMB3,119 million compared to the previous year. The increase was mainly due to the increased income from wealth management custody services.

Other Non-interest Income

In 2016, other non-interest income amounted to RMB21,089 million, representing a decrease of RMB1,084 million over the previous year.

Net trading gains amounted to RMB5,457 million, representing an increase of RMB1,895 million over the previous year. The increase was primarily due to the increase in trading gains on derivative financial instruments.

Net gain/loss on financial instruments designated at fair value through profit or loss amounted to a loss of RMB1,291 million, representing an increase in loss of RMB3,018 million compared to the previous year. The change was primarily related to the fair value changes of underlying assets invested by principal guaranteed wealth management products.

Net gain on investment in securities amounted to RMB920 million, representing an increase of RMB63 million over the previous year. The increase was primarily due to the increase in trading gains on available-for-sale securities.

Other operating income amounted to RMB16,003 million, representing a decrease of RMB24 million over the previous year. The fluctuation was primarily due to the increase in insurance premium income netted off by the increase in foreign exchange losses.

Composition of Other Non-interest Income

In millions of RMB

Item	2016	2015
Net trading gain	**5,457**	3,562
Net gain/(loss) on financial instruments designated at fair value through profit or loss	**(1,291)**	1,727
Net gain on investments securities	**920**	857
Other operating income	**16,003**	16,027
Total	**21,089**	22,173

Operating expenses

In 2016, our operating expenses amounted to RMB197,049 million, representing a decrease of RMB28,769 million compared to the previous year, and the cost-to-income ratio was 34.59%, representing an increase of 1.31 percentage points compared to the previous year.

Staff costs were RMB111,536 million, representing an increase of RMB1,187 million, or 1.1%, compared to the previous year. The increase was primarily due to the increase in staff remuneration in line with market situation and business performance, as well as the increase in social insurances and other costs.

General operating and administrative expenses decreased by RMB4,021 million, or 8.3%, compared to the previous year to RMB44,440 million. The decrease was primarily due to the strengthened cost management by the Bank.

Depreciation and amortization decreased by RMB596 million, or 3.0%, to RMB19,037 million compared to the previous year, primarily because we strictly controlled our expenditure on fixed assets and stepped up efforts in the disposal of idle assets.

Insurance benefits and claims increased by RMB3,227 million, or 40.4%, from the previous year to RMB11,211 million. The increase was primarily due to the expansion of insurance business.

Composition of Operating Expenses

In millions of RMB, except for percentages

Item	2016	2015	Increase/ (decrease)	Growth rate (%)
Staff costs	**111,536**	110,349	1,187	1.1
General operating and administrative expenses	**44,440**	48,461	(4,021)	-8.3
Business tax and surcharges	**11,449**	29,075	(17,626)	-60.6
Depreciation and amortization	**19,037**	19,633	(596)	-3.0
Insurance benefits and claims	**11,211**	7,984	3,227	40.4
Provision for guarantees and commitments	**(3,474)**	3,084	(6,558)	-212.6
Provision for risk incidents and legal proceedings	**(432)**	5,509	(5,941)	-107.8
Others	**3,282**	1,723	1,559	90.5
Total	**197,049**	225,818	(28,769)	-12.7

Impairment Losses on Assets

In 2016, impairment losses on assets increased by RMB2,274 million to RMB86,446 million compared to the previous year.

Impairment losses on loans decreased by RMB2,969 million to RMB78,928 million compared to the previous year, primarily due to the decrease in the allowance for impairment losses on loans assessed on an individual basis compared to the previous year.

Income Tax Expense

In 2016, our income tax expense amounted to RMB42,564 million, representing a decrease of RMB7,519 million, or 15.0%, compared to the previous year. The effective tax rate was 18.78% in 2016. The decrease in income tax expense and the lower effective tax rate compared to the statutory tax rate were primarily due to the growth in income exempted from income tax, including interest income from the PRC treasury bonds and local government bonds compared to the previous year.

Segment Information

We assessed our performance and determined the allocation of resources based on the segment reports. The segment information below had been presented in a same manner with that of internal management and reporting. At present, we manage our segments from the aspects of business lines, geographical regions and the County Area Banking Business.

The table below presents our operating income by business segment during the period indicated.

In millions of RMB, except for percentages

	2016		2015	
Item	**Amount**	**Percentage (%)**	Amount	Percentage (%)
Corporate banking business	**241,764**	**47.4**	275,396	50.9
Retail banking business	**194,215**	**38.1**	196,679	36.4
Treasury operations	**56,317**	**11.0**	55,756	10.3
Other business	**17,832**	**3.5**	13,031	2.4
Total operating income	**510,128**	**100.0**	540,862	100.0

The table below presents our operating income by geographic segment during the period indicated.

In millions of RMB, except for percentages

Item	2016 Amount	2016 Percentage (%)	2015 Amount	2015 Percentage (%)
Head Office	**46,873**	**9.2**	58,921	10.9
Yangtze River Delta	**97,206**	**19.1**	105,085	19.4
Pearl River Delta	**67,944**	**13.3**	72,080	13.3
Bohai Rim	**76,065**	**14.9**	84,219	15.6
Central China	**69,579**	**13.6**	68,802	12.7
Western China	**109,500**	**21.5**	113,351	21.0
Northeastern China	**21,693**	**4.2**	20,242	3.7
Overseas and others	**21,268**	**4.2**	18,162	3.4
Total operating income	**510,128**	**100.0**	540,862	100.0

Note: Please refer to "Note IV. 44. Operating Segments" to the consolidated financial statements for details of geographic segments.

The table below presents the operating income from the County Area Banking Business and Urban Area Banking Business during the period indicated.

In millions of RMB, except for percentages

Item	2016 Amount	2016 Percentage (%)	2015 Amount	2015 Percentage (%)
County Area Banking Business	**194,311**	**38.1**	200,879	37.1
Urban Area Banking Business	**315,817**	**61.9**	339,983	62.9
Total operating income	**510,128**	**100.0**	540,862	100.0

Balance Sheet Analysis

Assets

At 31 December 2016, our total assets amounted to RMB19,570,061 million, representing an increase of RMB1,778,668 million, or 10.0%, compared to the end of the previous year. Net loans and advances to customers increased by RMB812,689 million, or 9.6%. Net investment in securities and other financial assets increased by RMB821,488 million, or 18.2%. Cash and balances with central banks increased by RMB224,596 million, or 8.7%, primarily due to the increase in the mandatory deposit reserve with central banks. Deposits and placements with and loans to banks and other financial institutions increased by RMB1,439 million, or 0.1%. Financial assets held under resale agreements decreased by RMB148,758 million, or 31.5%, primarily due to the decrease in bills held under resale agreements.

Key Items of Assets

In millions of RMB, except for percentages

	31 December 2016		31 December 2015	
Item	**Amount**	**Percentage (%)**	Amount	Percentage (%)
Total loans and advances to customers	**9,719,639**	**–**	8,909,918	–
Less: Allowance for impairment losses on loans	**400,275**	**–**	403,243	–
Loans and advances to customers, net	**9,319,364**	**47.6**	8,506,675	47.8
Investment in securities and other financial assets, net	**5,333,535**	**27.3**	4,512,047	25.4
Cash and balances with central banks	**2,811,653**	**14.4**	2,587,057	14.5
Deposits and placements with and loans to banks and other financial institutions	**1,203,614**	**6.2**	1,202,175	6.8
Financial assets held under resale agreements	**323,051**	**1.7**	471,809	2.6
Others	**578,844**	**2.8**	511,630	2.9
Total assets	**19,570,061**	**100.0**	17,791,393	100.0

Loans and Advances to Customers

At 31 December 2016, our total loans and advances to customers amounted to RMB9,719,639 million, representing an increase of RMB809,721 million or 9.1% over the end of the previous year.

Distribution of Loans and Advances to Customers by Business Type

In millions of RMB, except for percentages

Item	31 December 2016		31 December 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Loans granted by domestic branches	**9,279,077**	**95.5**	8,463,286	95.0
Corporate loans	**5,368,250**	**55.2**	5,378,404	60.4
Discounted bills	**569,948**	**5.9**	356,992	4.0
Retail loans	**3,340,879**	**34.4**	2,727,890	30.6
Overseas and others	**440,562**	**4.5**	446,632	5.0
Total	**9,719,639**	**100.0**	8,909,918	100.0

Corporate loans amounted to RMB5,368,250 million, representing a decrease of RMB10,154 million or 0.2% over the end of the previous year, primarily because of changes of the demand for loans and increased efforts in disposing non-performing loans.

Retail loans amounted to RMB3,340,879 million, representing an increase of RMB612,989 million or 22.5% over the end of the previous year. This was primarily due to increased marketing efforts for retail customers and increased credit facilities for retail residential mortgage loans.

Discounted bills increased by RMB212,956 million, or 59.7%, to RMB569,948 million compared to the previous year. The increase was primarily due to a moderate increase in the allocation of assets for bills in light of changes in markets.

Overseas and other loans decreased by RMB6,070 million, or 1.4%, to RMB440,562 million compared to the previous year.

Distribution of Corporate Loans by Maturity

In millions of RMB, except for percentages

	31 December 2016		31 December 2015	
Item	**Amount**	**Percentage (%)**	Amount	Percentage (%)
Short-term corporate loans	**2,169,949**	**40.4**	2,283,318	42.5
Medium- and long-term corporate loans	**3,198,301**	**59.6**	3,095,086	57.5
Total	**5,368,250**	**100.0**	5,378,404	100.0

Short-term corporate loans decreased by RMB113,369 million, or 5.0%, over the end of the previous year. Medium- and long-term corporate loans increased by RMB103,215 million, or 3.3%, over the end of the previous year. The proportion of medium- and long-term corporate loans to total corporate loans increased by 2.1 percentage points to 59.6%. The increase was mainly due to a rapid increase in loans for infrastructure construction projects.

Distribution of Corporate Loans by Industry

In millions of RMB, except for percentages

	31 December 2016		31 December 2015	
Item	**Amount**	**Percentage (%)**	Amount	Percentage (%)
Manufacturing	**1,225,322**	**22.8**	1,367,358	25.4
Production and supply of power, heat, gas and water	**660,361**	**12.3**	592,832	11.0
Real estate[1]	**449,687**	**8.4**	526,408	9.8
Transportation, logistics and postal services	**1,006,903**	**18.8**	893,535	16.6
Wholesale and retail	**404,172**	**7.5**	504,342	9.4
Water, environment and public utilities management	**236,880**	**4.4**	205,021	3.8
Construction	**181,634**	**3.4**	210,539	3.9
Mining	**230,098**	**4.3**	249,938	4.7
Leasing and commercial services	**552,447**	**10.3**	453,344	8.4
Finance	**179,338**	**3.3**	130,682	2.4
Information transmission, software and IT services	**23,804**	**0.4**	26,929	0.5
Others[2]	**217,604**	**4.1**	217,476	4.1
Total	**5,368,250**	**100.0**	5,378,404	100.0

Notes: 1. *Classification of the loans in the table above is based on the industries in which the borrowers operate. Real estate loans include loans for the development of real estate projects by enterprises mainly engaged in the real estate industry, mortgage loans for operating properties and other non-real estate loans to enterprises in the real estate industry.*

2. *Others mainly include agriculture, forestry, animal husbandry, fishery, education, hotels and catering industries.*

During the reporting period, we further strengthened in-depth research and direction on industries. We actively adjusted the industrial structure of corporate loans and actively supported the development of the emerging industries and the upgrading and transformation of the traditional industries. We also increased credit facilities for strategic emerging industries and infrastructure industry. We regarded green credit as major focus for business development and restructuring. We also implemented "white-list" credit limit management to Industries with high energy consumption, high pollution or overcapacity.

At 31 December 2016, the five major industries reflected in our corporate loan portfolio were comprised of (1) manufacturing; (2) transportation, logistics and postal services; (3) production and supply of power, heat, gas and water; (4) leasing and commercial services; and (5) real estate. Aggregate loans to the five major industries accounted for 72.6% of our total corporate loans, representing an increase of 0.4 percentage point over the end of the previous year. The industries with the largest increase in proportion to our total corporate loans portfolio were (1) transportation, logistics and postal services; (2) leasing and commercial services; and (3) production and supply of power, heat, gas and water. Manufacturing experienced the largest decrease in proportion.

Distribution of Retail Loans by Product Type

In millions of RMB, except for percentages

	31 December 2016		31 December 2015	
Item	**Amount**	**Percentage (%)**	Amount	Percentage (%)
Residential mortgage loans	**2,559,970**	**76.6**	1,927,018	70.7
Personal consumption loans	**153,251**	**4.6**	179,453	6.6
Loans to private businesses	**192,213**	**5.8**	230,223	8.4
Credit card balances	**242,451**	**7.3**	222,206	8.1
Loans to rural households	**191,770**	**5.7**	167,695	6.1
Others	**1,224**	**–**	1,295	0.1
Total	**3,340,879**	**100.0**	2,727,890	100.0

At 31 December 2016, our residential mortgage loans increased by RMB632,952 million or 32.8% over the end of the previous year to RMB2,559,970 million, primarily because we strictly followed the strategy of macro-economic and related policies implemented by the government in relation to the real estate market and actively supported households in purchasing their own homes.

Personal consumption loans decreased by RMB26,202 million, or 14.6%, over the end of the previous year to RMB153,251 million. Loans to private businesses decreased by RMB38,010 million, or 16.5%, over the end of the previous year to RMB192,213 million. Decreases in personal consumption loans and loans to private businesses were mainly due to our active efforts in adjusting the retail credit business structure in response to changes in the retail credit market.

Credit card balances increased by RMB20,245 million, or 9.1%, over the end of the previous year to RMB242,451 million, primarily due to the increase in both the number of credit cards issued and the transaction volume of credit cards.

Loans to rural households increased by RMB24,075 million, or 14.4%, over the end of the previous year to RMB191,770 million, mainly because we further strengthened our support to new agricultural business entities.

Distribution of Loans by Geographic Region

In millions of RMB, except for percentages

	31 December 2016		31 December 2015	
Item	**Amount**	**Percentage (%)**	Amount	Percentage (%)
Head Office	**279,762**	**2.9**	215,418	2.4
Yangtze River Delta	**2,170,468**	**22.3**	2,048,393	23.0
Pearl River Delta	**1,466,397**	**15.1**	1,263,044	14.2
Bohai Rim	**1,500,014**	**15.4**	1,463,574	16.4
Central China	**1,309,273**	**13.5**	1,132,516	12.7
Northeastern China	**394,896**	**4.1**	364,412	4.1
Western China	**2,158,267**	**22.2**	1,975,929	22.2
Overseas and others	**440,562**	**4.5**	446,632	5.0
Total	**9,719,639**	**100.0**	8,909,918	100.0

During the reporting period, the Bank monitored the progress of national development strategies of "the Belt and Road Initiative", "Coordinated Development of the Beijing-Tianjin-Hebei Region" and Yangtze River economic belt to actively meet the demand of the projects and increased credit support to these projects. Capturing the opportunities arising from industry migration to Central and Western China from Eastern China and a significant increase in investment in infrastructure projects in Central and Western China and Northeastern China, we increased the credit facilities for relevant projects in Central and Western China and Northeastern China.

Investments

At 31 December 2016, our net investment in securities and other financial assets increased by RMB821,488 million, or 18.2%, to RMB5,333,535 million over the end of the previous year.

Distribution of Investments by Product Type

In millions of RMB, except for percentages

Item	31 December 2016		31 December 2015	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Non-restructuring-related debt securities	**4,789,697**	**89.8**	3,885,091[2]	86.1
Restructuring-related debt securities	**365,323**	**6.9**	365,323	8.1
Equity instruments in 2016	**12,954**	**0.2**	9,308	0.2
Others[1]	**165,561**	**3.1**	252,325	5.6
Total	**5,333,535**	**100.0**	4,512,047	100.0

Note: 1. Primarily consisting of assets generated by investment of the proceeds from issuance of wealth management products.

2. Reclassified in accordance with the presentation of 2016.

The bond yields fluctuated significantly and credit default events occurred frequently in 2016. We invested in a rationed schedule by capturing the market trend and increased investments in debt securities which offered better comprehensive investment return. So that the volume of investment portfolio expanded. At 31 December 2016, non-restructuring-related debt securities investments increased by RMB904,606 million over the end of the previous year.

Distribution of Non-restructuring-related Debt Securities Investments by Issuer

In millions of RMB, except for percentages

Item	31 December 2016		31 December 2015	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Government bonds	**1,927,598**	**40.3**	1,231,991	31.6
PBOC bills	**–**	**–**	21,404	0.6
Bonds issued by policy banks	**1,442,999**	**30.1**	1,499,520	38.6
Bonds issued by other banks and financial institutions	**814,571**	**17.0**	492,298	12.7
Bonds issued by entities in public sectors and quasi-governments	**174,025**	**3.6**	162,436	4.2
Corporate bonds	**430,504**	**9.0**	477,442	12.3
Total	**4,789,697**	**100.0**	3,885,091	100.0

In 2016, the Bank conducted an in-depth analysis of the domestic and overseas macro-economic environment and closely monitored the changes of the bond market and the credit default events to strengthen risk control, moderately increased our investments in local government bonds, bonds issued by financial institutions and inter-bank certificates of deposit, and reduced credit corporate bonds relating to industries with overcapacity and those of low quality.

Distribution of Non-restructuring-related Debt Securities Investments by Remaining Maturity

In millions of RMB, except for percentages

	31 December 2016		31 December 2015	
Remaining Maturity	**Amount**	**Percentage (%)**	Amount	Percentage (%)
Overdue	**–**	**–**	1	–
Less than 3 months	**279,454**	**5.8**	185,155	4.8
3–12 months	**695,366**	**14.5**	587,915	15.1
1–5 years	**2,296,876**	**48.0**	1,889,171	48.6
More than 5 years	**1,518,001**	**31.7**	1,222,849	31.5
Total	**4,789,697**	**100.0**	3,885,091	100.0

In 2016, based on the principle of balancing both yields and maturities, we appropriately adjusted the maturity structure of our debt securities portfolio. We moderately increased our investments in short-term debt securities, while appropriately adjusted the proportion of our investments in medium- and long-term debt securities.

Distribution of Non-restructuring-related Debt Securities Investments by Currency

In millions of RMB, except for percentages

	31 December 2016		31 December 2015	
Item	**Amount**	**Percentage (%)**	Amount	Percentage (%)
RMB	**4,546,871**	**94.9**	3,744,671	96.4
USD	**191,831**	**4.0**	100,809	2.6
Other foreign currencies	**50,995**	**1.1**	39,611	1.0
Total	**4,789,697**	**100.0**	3,885,091	100.0

In 2016, the Bank optimized the currency structure of the investments in debt securities by making appropriate investments in debt securities in USD and other foreign currencies issued by sovereign and non-sovereign entities in light of the movement of domestic and overseas bond markets.

Distribution of Investments by Holding Purpose

In millions of RMB, except for percentages

	31 December 2016		31 December 2015	
Item	**Amount**	**Percentage (%)**	Amount	Percentage (%)
Financial assets at fair value through profit or loss[1]	**417,955**	**7.8**	439,261	9.7
Available-for-sale financial assets	**1,408,881**	**26.5**	1,214,542	26.9
Held-to-maturity investments	**2,882,152**	**54.0**	2,300,824	51.0
Debt securities classified as receivables	**624,547**	**11.7**	557,420	12.4
Total	**5,333,535**	**100.0**	4,512,047	100.0

Note: 1. Including financial assets held for trading and financial assets designated as at fair value through profit or loss.

Investment in Financial Bonds

Financial bonds refer to debt securities issued by the policy banks, commercial banks and other financial institutions that are to be repaid pursuant to a pre-determined schedule. At 31 December 2016, the balance of financial bonds was RMB2,257,570 million, including bonds of RMB1,442,999 million issued by the policy banks and bonds of RMB814,571 million issued by commercial banks and other financial institutions.

The table below presents the top ten financial bonds held by the Bank in terms of face value at 31 December 2016.

In millions of RMB, except for percentages

Bond	Face value	Annual interest rate	Maturity date	Allowance[1]
2014 policy bank bonds	19,181	5.44%	2019-04-08	–
2015 policy bank bonds	16,721	3.97%	2025-02-27	–
2016 policy bank bonds	13,886	3.01%	2021-01-06	–
2014 policy bank bonds	13,819	5.61%	2021-04-08	–
2016 policy bank bonds	13,576	2.96%	2021-02-18	–
2016 policy bank bonds	13,257	5.67%	2024-04-08	–
2014 policy bank bonds	12,693	4.21%	2025-04-13	–
2015 policy bank bonds	11,944	4.02%	2020-01-14	–
2015 policy bank bonds	11,167	3.99%	2025-02-09	–
2015 policy bank bonds	11,011	3.07%	2021-02-22	–

Note: 1. Allowance in this table refers to individually assessed allowance, not including collectively assessed allowance.

Liabilities

At 31 December 2016, our total liabilities increased by RMB1,668,962 million or 10.1%, over the end of the previous year to RMB18,248,470 million. Deposits from customers increased by RMB1,499,641 million or 11.1%. Deposits and placements from banks and other financial institutions decreased by RMB79,595 million or 5.2%, primarily because of a decrease in deposits from securities companies. Financial assets sold under repurchase agreements increased by RMB117,028 million or 131.8%, primarily due to the increase in reverse repos of the PBOC. Debt securities issued increased by RMB5,473 million, or 1.4%, primarily due to the increase in the issuance of medium-term notes and inter-bank certificates of deposit. Financial liabilities at fair value through profit or loss decreased by RMB129,273 million or 30.0%, primarily because we actively controlled the size of principal guaranteed wealth management products issued by the Bank.

Key Items of Liabilities

In millions of RMB, except for percentages

	31 December 2016		31 December 2015	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Deposits from customers	**15,038,001**	**82.4**	13,538,360	81.7
Deposits and placements from banks and other financial institutions	**1,458,065**	**8.0**	1,537,660	9.3
Financial assets sold under repurchase agreements	**205,832**	**1.1**	88,804	0.5
Debt securities issued	**388,215**	**2.1**	382,742	2.3
Financial liabilities at fair value through profit or loss	**301,170**	**1.7**	430,443	2.6
Other liabilities	**857,187**	**4.7**	601,499	3.6
Total	**18,248,470**	**100.0**	16,579,508	100.0

Deposits from Customers

At 31 December 2016, deposits from customers increased by RMB1,499,641 million or 11.1%, over the end of the previous year to RMB15,038,001 million. In terms of customer structure, the proportion of retail deposits decreased by 1.0 percentage point compared to the end of the previous year to 58.6%. In terms of maturity structure, the proportion of demand deposits increased by 3.3 percentage points compared to the end of the previous year to 55.9%.

Distribution of Deposits from Customers by Business Line

In millions of RMB, except for percentages

Item	31 December 2016		31 December 2015	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Domestic deposits	**14,937,670**	**99.3**	13,449,015	99.3
Corporate deposits	**5,599,743**	**37.2**	4,821,751	35.6
Time	**1,707,628**	**11.4**	1,599,187	11.8
Demand	**3,892,115**	**25.8**	3,222,564	23.8
Retail deposits	**8,815,148**	**58.6**	8,065,556	59.6
Time	**4,279,398**	**28.5**	4,166,985	30.8
Demand	**4,535,750**	**30.1**	3,898,571	28.8
Other deposits[1]	**522,779**	**3.5**	561,708	4.1
Overseas and others	**100,331**	**0.7**	89,345	0.7
Total	**15,038,001**	**100.0**	13,538,360	100.0

Note: 1. Including margin deposits, remittance payables and outward remittance and so on.

Distribution of Deposits from Customers by Geographic Region

In millions of RMB, except for percentages

Item	31 December 2016		31 December 2015	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Head Office	**82,577**	**0.5**	74,161	0.5
Yangtze River Delta	**3,309,192**	**22.0**	2,974,911	22.0
Pearl River Delta	**2,100,051**	**14.0**	1,846,193	13.6
Bohai Rim	**2,681,161**	**17.8**	2,418,137	17.9
Central China	**2,536,899**	**16.9**	2,277,151	16.8
Northeastern China	**773,462**	**5.1**	710,741	5.2
Western China	**3,454,328**	**23.0**	3,147,721	23.3
Overseas and others	**100,331**	**0.7**	89,345	0.7
Total	**15,038,001**	**100.0**	13,538,360	100.0

Distribution of Deposits from Customers by Remaining Maturity

In millions of RMB, except for percentages

	31 December 2016		31 December 2015	
Item	**Amount**	**Percentage (%)**	Amount	Percentage (%)
Demand	**9,007,828**	**59.9**	7,673,376	56.7
Less than 3 months	**1,685,789**	**11.2**	1,681,820	12.4
3–12 months	**2,637,833**	**17.6**	2,553,458	18.9
1–5 years	**1,705,965**	**11.3**	1,629,705	12.0
More than 5 years	**586**	**–**	1	–
Total	**15,038,001**	**100.0**	13,538,360	100.0

Shareholders' Equity

At 31 December 2016, our shareholders' equity amounted to RMB1,321,591 million, comprised of ordinary shares of RMB324,794 million, preference shares of RMB79,899 million, capital reserve of RMB98,773 million, investment revaluation reserve of RMB3,578 million, surplus reserve of RMB115,136 million, general reserve of RMB198,305 million and retained earnings of RMB496,083 million. Net assets per ordinary share were RMB3.81, representing an increase of RMB0.33 over the end of the previous year.

The table below presents the composition of shareholders' equity as of the dates indicated.

In millions of RMB, except for percentages

	31 December 2016		31 December 2015	
Item	**Amount**	**Percentage (%)**	Amount	Percentage (%)
Ordinary shares	**324,794**	**24.6**	324,794	26.8
Preference shares	**79,899**	**6.0**	79,899	6.6
Capital reserve	**98,773**	**7.5**	98,773	8.2
Investment revaluation reserve	**3,578**	**0.3**	22,429	1.8
Surplus reserve	**115,136**	**8.7**	96,748	8.0
General reserve	**198,305**	**15.0**	175,606	14.5
Retained earnings	**496,083**	**37.5**	412,005	34.0
Foreign currency translation reserve	**1,625**	**0.1**	(163)	0.0
Non-controlling interests	**3,398**	**0.3**	1,794	0.1
Total	**1,321,591**	**100.0**	1,211,885	100.0

Off-Balance Sheet Items

Our off-balance sheet items primarily include derivative financial instruments, contingent liabilities and commitments. We enter into currency rate, interest rate and precious metals related derivative transactions for the purposes of trading, asset and liability management and business on behalf of customers. Our contingent liabilities and commitments include credit commitments, capital expenditure commitments, operating and finance lease commitments, bond underwriting and redemption commitments, mortgaged and pledged assets, legal proceedings and other contingencies. Credit commitments are the major component of off-balance sheet items and comprised of loan commitments, bank acceptances, letters of guarantee issued and guarantees, letters of credit issued and credit card commitments.

Composition of Credit Commitments

In millions of RMB, except for percentages

	31 December 2016		31 December 2015	
Item	**Amount**	**Percentage (%)**	Amount	Percentage (%)
Loan commitments	**588,401**	**36.0**	450,433	30.4
Bank acceptances	**312,255**	**19.1**	382,255	25.8
Letters of guarantee issued and guarantees	**229,177**	**14.0**	233,376	15.7
Letters of credit issued	**181,284**	**11.1**	158,905	10.7
Credit card commitments	**323,217**	**19.8**	258,745	17.4
Total	**1,634,334**	**100.0**	1,483,714	100.0

Other Financial Information

Changes in Accounting Policies

There was no significant change in accounting policies during the reporting period.

Differences between the consolidated financial statements prepared under IFRSs and those prepared in accordance with CASs

There were no differences between the net profit or shareholder's equity in the consolidated financial statements prepared under IFRSs and the corresponding figures prepared in accordance with CASs by the Bank.

Business Review

Corporate Banking

In 2016, to cope with the "New Normal" of economic development, the Bank actively served the real economy and people's livelihood, accelerated corporate banking business transformation, and continued improving our comprehensive financial service capability. Closely following national industrial policies and the government's requirement of cutting overcapacity and excess inventory as well as deleveraging, the Bank rolled out supporting policies for key areas covering 11 categories of major projects specified by the NDRC, projects for international production capacity cooperation and special construction funds, furthered our efforts to facilitate infrastructure constructions, support strategic emerging industries and modern service sectors, and promoted financial services to areas related to new economies and new driving forces. To actively serve the major regional development strategies of China, the Bank formulated a series of synergetic cooperation policies for the Yangtze River Economic Belt, Pearl River Delta Region, Guangzhou-Hong Kong-Macau Region, pairing-assistance programs for Xinjiang, and Revitalization of Northeast China. The Bank carried out supporting policies in line with the "Being a Leading Bank in 100 Cities" strategy to beef up the Urban Area Banking Business. To actively serve Chinese enterprises' "Going Out" strategy, the Bank increasingly stepped internal and external collaboration and facilitated investments in businesses in free trade zones and cross-border merger & acquisition. To actively serve people's livelihood, we increasingly bolstered the rebuilding of shanty areas and old city renovation and construction of affordable housing, made more efforts in fostering quality small and micro enterprises financially, through which to build the financial service brand of new-type urbanization. Synergetic marketing of corporate banking business was carried out profoundly, as the Bank intensified product innovation and promotion to boost synergetic marketing in key field such as supply chain finance, cash management and investment banking. To facilitate the transformation for investment banking, the Bank proactively expanded high-end investment banking activities, including bond underwriting, asset securitization and syndicated loans, and therefore synergies between investment and lending were enhanced and the comprehensive financial service capability was boosted.

The Bank has been supporting enterprises in reducing their leverage ratios through a market-oriented and institutionalized approach and supporting the reform of supply-side economic restructuring. We supported promising and quality enterprises with high leverage ratio in reducing leverage ratios and costs while optimizing their debt portfolio by establishing industrial funds and limited partnership funds with state-owned enterprises. Capitalizing on their advanced platforms, our subsidiaries (including ABC International Holdings Limited) engaged in the sponsorship and underwriting for the listing of a number of domestic enterprises in Hong Kong. These subsidiaries also actively participated in projects of direct investment to assist enterprises in equity financing. The Bank innovated enterprise financing methods, supported merger and acquisitions of enterprises by annexation loan, revitalized the existing assets of enterprises by asset-backed securitization and optimized the financial structure by industrial funds, so that we supported enterprises reducing the leverage ratio from all aspects. The Board of Directors of the Bank has considered and approved the proposals relating to the construction of specialized Institutions for debt-equity swaps before all other players. We are actively organizing the relevant preparatory activities. The Bank developed a new operation model and promoted the implementation of debt-to-equity swap project pursuant to principles of "orderly advance", "market-oriented operation" and "one policy for one account". The Bank has entered into framework agreements on cooperation in debt-to-equity swaps with Guizhou Liuzhi Mining Group, Sichuan Lutianhua Group and Shandong Hi-speed Group.

As at the end of 2016, we had 3,798.5 thousand corporate banking customers, of which 63.0 thousand customers had outstanding loan balances.

Corporate Loans and Deposits

During the reporting period, with more efforts in taking funds, the Bank sped up product research and development, sales and system upgrade, with a focus on product innovation in the areas of supply chain finance and cash management. The corporate deposits maintained a steady growth. At 31 December 2016, the balance of the domestic corporate deposits amounted to RMB5,599,743 million, representing an increase of RMB777,992 million or 16.1% over the end of the previous year.

The Bank advanced its database for and enlarged loans to key marketing projects with a focus on key industries, large projects and core customers, expanding the business to a number of national key construction projects including construction of infrastructure facilities, rebuilding of shanty areas, industrial upgrades, renovation of hydraulic engineering projects and oil and gas engineering. At 31 December 2016, the balance of the domestic corporate loans and discounted bills amounted to RMB5,938,198 million, representing an increase of RMB202,802 million or 3.5%, over the end of the last year. 5,811 projects were included in the database of key marketing projects, up by 3,060 projects as compared to the end of the previous year. In 2016, new loans granted to the key marketing projects amounted to RMB359,756 million, representing an increase of RMB121,156 million over the previous year.

The Bank continued to optimize the regional and product structures for its real estate customers and improve post-disbursement management to facilitate the healthy development of its corporate real estate business. Support was to first-tier cities and economically-advanced second-tier cities enjoying notable regional clustering effect, and selectively delivered to central cities in the three major economic belts and areas and provincial capitals in middle and west China, while loans to third-tier and fourth-tier cities with unreasonable supply-demand ratio were strictly curbed. Support was preferentially offered to ordinary commercial housing projects with large market demand and reasonable pricing and intensively given to projects of land development and shanty area rebuilding in first-tier cities with scarce land resources and economically-advanced second-tier cities, while loans to projects such as low-density high-end residences, commercial real estates and operating properties were strictly curbed. At the end of 2016, the balance of real estate loans to corporate customers amounted to RMB233,526 million, representing a decrease of RMB123,621 million over the end of the previous year.

Small and Micro Enterprise Banking

During the reporting period, the Bank targeted building a pool of high quality small and micro clients, prioritizing support to small and micro enterprises included in the credit enhancement by the government, upstream and downstream enterprises of the core clients, small and micro enterprises with good tax records and those engaging in popular entrepreneurship and innovation. The Bank strengthened the research and development of featured products, launched innovative products such as "Tax-Banking Connect" and "Internet Quick Loan", developed an online loan application platform for medium and small enterprises and continued to expand the pilot coverage of the loan product "Technological Innovation Loan". Through improving marketing and service models and template-guided management of credit business, the Bank explored new types of operation and management models for small and micro enterprises. The Bank further developed specialized branch outlets, such as the first batch of exemplary branches of financial services for small and micro enterprises were established to improve the overall financial service capability for small and micro enterprises based on experiences from pilot programs.

At the end of 2016, the balance of loans to small and micro enterprises amounted to RMB1,203,578 million, representing an increase of RMB115,350 million or 10.6% over the end of the previous year. The growth rate was higher than that of the total loans of the Bank by 1.5 percentage points.

Institutional Banking

As of the end of 2016, the Bank had established agency business cooperation arrangements with 209 banks with ever expanding areas of cooperation. The Bank had also offered third-party depositary services to 99 security firms and the number of the contracted customers reached 32.0466 million. The average daily balance of funds under depositary amounted to 217,058 million. As banking cooperation with futures companies goes deeper, the number of the cooperative futures companies reached 147 and the depository amount of futures deposits amounted to RMB27,355 million. With the increasingly improved service capability catering for governmental customers, agency financial business on behalf of the central government recorded a sum of RMB113,875 million as at 31 December 2016, up by 5.8% year on year. Our influence in bancassurance market strengthened constantly and we had entered into comprehensive agreement of cooperation with 95 insurance companies as of the end of 2016. New insurance premiums reached RMB310,829 million, and income from bancassurance reached RMB8,959 million, up by 85.4% year on year.

Settlement and Cash Management

Payment and Settlement

The Bank strengthened the management basics of corporate accounts, continued to promote the initiative of "adding accounts and raising quality" and increase the proportion of newly-registered enterprises opening account in ABC. As such, the scale of corporate settlement accounts and the account balance constantly increased. The Bank also actively promoted the construction of the transaction banking system and reinforced the marketing and promotion of basic settlement products. As at the end of 2016, the Bank had 4,712.9 thousand corporate settlement accounts, representing an increase of 4.8% over the end of the previous year.

Cash Management

The Bank kept improving the service capability of cash management business, by actively promoting the new service model of "Internet + Finance" for service sectors, trading market and some other fields, continuously promoting the products of guaranteed payment, Guaranteed Payment Easy Collection & Payment and Bill Pool, providing interfaces to third party payment platforms, and extending businesses to the upstream and downstream of corporate customers to offer services covering the whole industrial service chain. An effective network to connect domestic and overseas operations was also built step by step to provide customers with all-embracing and highly intelligent global cash management services, so as to consistently enhance the market competitiveness of "Xingyun" cash management. As at the end of 2016, the accounts of active cash management customer reached 1.594 million[1], representing an increase of 54.3% over the end of 2015. In 2016, the Bank was awarded the "Best Domestic Cash Management Bank in China 2016" by *The Asian Banker*.

Trade Financing and International Settlement

Proactively following a series of development strategies of "the Belt and Road Initiative", Internationalization of the RMB and Enterprises "Going Out", the Bank continuously refined its trade financing service system and improved service capability of trade financing. By actively promoting products of export credit insurance and financing, international factoring, financing under short-term export special risk insurance and letter of guarantee concerning foreign transactions, businesses of international settlement, sales and settlement of foreign exchange and trade financing developed steadily and healthily, and the market competitiveness and the comprehensive strength of cross-border financial services were further enhanced. The Bank rolled out RMB capital account convertibility business and became the first cross-border clearing bank of "Shenzhen-Hong Kong Stock Connect". The infrastructure construction for cross-border RMB business was ramped up and the clearing business through RMB Cross-Border Inter-Bank Payments System (CIPS) saw a rapid development. The Bank also expanded customers and products of RMB cross-border businesses in the pilot free trade zones of Shanghai, Guangdong, Tianjin and Fujian so as to boost the RMB businesses in the free trade zone.

In 2016, the total volume of international trade financing conducted by the domestic branches reached USD103.87 billion. The total volume of international settlement conducted by the domestic branches reached USD873.96 billion. The foreign guarantees issued amounted to USD35.08 billion, up by 12.8% year on year. In 2016, the Bank was awarded the "Globally Best Offshore RMB Bond Issuers" by The Asian Banker.

1 *Cash management customers whose accounts exist no less than ten times of transactions would be regarded as the active cash management customers. In 2016, the Bank adjusted the criteria for the cash management customers of the Bank by taking customers of the corporate payment cards and the pool of bills into account.*

Investment Banking

In 2016, the Bank kept strengthening its effort of bond underwriting and actively promoted product innovation. We underwrote 352 bonds in 2016, raising RMB415,128 million of funds. The Bank successfully underwrote various Panda bonds, SDR bonds, railway construction bonds throughout the year. Innovations were made to the Sannong business model. The Bank issued RMB0.5 billion social impact bonds for poverty alleviation, as joint underwriter, for Yinan County Urban and Rural Construction Development co., Ltd.. The bond has a term of 10 years bearing an interest rate of 3.75%, and the entire amount of fund raised therefrom would be used for Poverty Alleviation Program in Yinan county.

Asset securitization business was promoted through innovation, as a number of asset-backed security projects including clean energy, automobile consumption loan, leasehold property and rights to property incomes were concluded. In 2016, the Bank led the launch of the "Special Plan Backed by the Green Asset of Right to ABC Suiying & Jinfeng Technology Wind Power Tariffs" as the first green assets-backed security listed on the stock exchange in China. The Bank launched a securitization program of non-performing assets of corporate customers named "The 2016 1st Tranche Nongying Non-performing Assets Backed Security". The quantity of assets in the asset pool reached 1,199 with principals and interests totaling RMB10,727 million, with an issuance size of RMB3,064 million. Such issuance program was the largest non-performing asset securitization since the inception of such business in China, representing 38.4% of the total issuance size of the public non-performing asset securitization in the inter-bank markets in 2016. The issuance program has set the record in terms of issuance price, subscription rate and efficiency of issuance among the comparable programs, and has a remarkable demonstration effect in the market.

Great progress in loan extension for merger and acquisition was also made, as loans approved for merger and acquisition for the year amounted to RMB56.44 billion and the loan balance as at the end of year stood at RMB41.27 billion.

In the Election of China Best Investment Bank organized by *Securities Times*, the Bank won several awards such as the "Best All-round Investment Bank for the Year", "Best Bond Underwriting Bank for the Year" and "Best Loan Syndication Bank for the Year". The Bank captured the "Annual Excellence Prize" and "Annual Rising Star Prize" in the Annual Conference of China Securitization Forum. In the Second China Annual Structured Finance & Asset-backed Securitization Forum (2016), the Bank was awarded the "Largest Issue Prize", "Most Investor-Recognized Product Prize" and "Market's Most Influential Product Prize". It also won the "The Best Securitization Prize" under The Asset Triple A Country Awards in 2016 held by *The Treasury* and the "Best Performance Prize" in the syndicate business evaluation of the China Banking Association.

Retail Banking

In 2016, the Bank responded to the changing trend of customers' demands and steadily advanced the process of enhancing the value creation capability of the retail business, which resulted in a steady improvement of market competitiveness for various businesses. The Bank managed its branch outlets by category and level and sped up the transformation of its branch outlets toward standardization to improve customers' experience. The Bank promoted the layered customer service and improved the wealth management system to deeply explore customers' value. The Bank strengthened cross selling between corporate and retail businesses and meticulously organized comprehensive marketing activities of retail businesses, such as the "Spring Action". By introducing the marketing and management system for retail customers, the Bank initially established a precise and full-channel collaborative marketing system, and effectively improved the capacity for big data application and cross-selling.

Retail Loans

At 31 December 2016, the balance of retail loans of the Bank amounted to RMB3,340,879 million, representing an increase of RMB612,989 million over the end of the previous year. During the reporting period, the Bank conscientiously implemented the national macro-control policies for the real estate industry, actively supported residents in purchasing their houses for non-investment purpose for the first time or for improving living conditions, and also strongly supported rural households in purchasing houses in urban areas, as a result of which, the retail residential mortgage loans increased rapidly. At the end of 2016, the balance of retail residential mortgage loans amounted to RMB2,559,970 million, representing an increase of RMB632,952 million over the end of the previous year. Seizing the opportunity of traditional consumption upgrading and new consumption emerging, the Bank continuously increased the efforts in the innovation of and support for retail consumption loans, launched new products such as "Internet Quick Loan", "Self-help Pledge Loan" and "Revolving Mortgage Loan", and realized the whole process financial service for online consumption.

Retail Deposits

In 2016, making full use of our advantages in the markets of Urban Areas and County Areas, the Bank actively marketed low-cost funds to continuously optimize our liability structure. Through increasing resources invested in County Areas and giving full play to the functions of branch outlets and service stations in County Areas, the Bank consolidated its leading position in respect of retail deposits in the County Area market. With the synergies between corporate and retail banking businesses and integrated marketing, the Bank expanded the capital sources by businesses like payroll service and retail fund collection. The Bank achieved and maintained lower cost of fundings through increasing transaction volume with customers and great efforts in marketing of investment, settlement and clearing services. At 31 December 2016, the balance of retail deposits reached RMB8,815,148 million, representing an increase of RMB749,592 million or 9.3% over the end of the previous year.

Bank Cards

At the end of 2016, the number of debit cards cumulatively issued by the Bank amounted to 880 million, representing an increase of 68 million over the end of the previous year, and the Bank ranked the first among the top four banks in terms of debit cards cumulatively issued. The cumulative number of issued debit IC cards amounted to 509 million, representing an increase of 100 million compared to the end of the previous year. To enrich the product portfolio of debit cards and satisfy the diversified needs of the customers, the Bank introduced new payment products such as ApplePay and HCE, etc. and took the initiative to launch various themed and featured cards like Low-carbon Eco Card, Jinsui Pretty Card, Jinhui Lucky Card and Beijing-Tianjin-Hebei Coordination Card. Meanwhile, the Bank also carried out a series of consumption promotion activities with hotels and airlines, etc., which had effectively lifted up the utilization rate of the debit cards and the engagement of the customers.

At the end of 2016, the number of credit cards[1] cumulatively issued reached 68.63 million with newly issued credit cards in 2016 amounted to 10.25 million. The transaction volume of credit cards for the year amounted to RMB1,338,413 million, representing an increase of 16.0% compared to the previous year. The Bank established a featured credit card product system which focused on the key products including ETC card, Pretty House Card and Pretty Young Mother Credit Card by taking advantage of its branch outlets and customers. For the year 2016, 5.93 million cards were issued in respect of our popular products, representing 57.9% of the total newly issued cards in such year. The Bank continued to carry out various series of marketing activities including "Happy Saturday" and "Happy World" to enhance the brand awareness. The Bank also put great efforts in promoting cash installment and driving the development of the installment business by activities as motor festival and group-on, to expand the scale of motor installment transactions. The total installment transaction amount reached RMB133,922 million for the year 2016, representing an increase of 47.1% as compared to last year.

Item	**31 December 2016**	31 December 2015	Growth rate (%)
Number of debit cards issued (unit: 10,000)	**88,041.56**	81,275.29	8.3
Number of credit cards issued (unit: 10,000)	**6,365.95**	5,323.18	19.6

Item	**2016**	2015	Growth rate (%)
Transaction volume for debit cards (RMB100 million)	**62,533.63**	67,023.91	-6.7
Transaction volume for credit cards (RMB100 million)	**13,322.50**	11,465.80	16.2

1 *Credit cards include credit card and Quasi-credit card.*

Private Banking Business

As of the end of 2016, all the 37 tier-1(direct) branches of the Bank had begun to provide private banking business. The number of customers of the private banking business reached 70 thousand and the asset balance under management amounted to RMB818.4 billion.

During the reporting period, the Bank made full efforts in building an exclusive product portfolio of private banking, continuously expanded the product offerings, and launched wealth management products for entrusted asset management independently administrated by the private banking department. The existing scale of various exclusive private banking products amounted to RMB145,923 million, representing an increase of RMB30.4 billion over the end of the previous year. The Bank researched and innovated to develop an asset allocation template in three dimensions, namely the economic cycle, attributes of customer risks and life cycle to comprehensively promote professional asset allocation service for private banking business. Meanwhile, the Bank improved the exclusive services for private banking business focused on family trusts, built platforms for featured value-added services and reinforced the synergetic corporation between the domestic and overseas markets and facilitate cross-border financial services.

Treasury Operations

The treasury operations of the Bank include money market activities and investment and trading activities. Adhering to the principle of prudent operations, the Bank flexibly coped with changes in domestic and foreign economic and financial markets, adjusted the investment strategies timely and improved risk management level continuously. Our investment return on assets remained at a high level among peers.

Money Market Activities

In 2016, the global political and economic situation remained turbulent with major incidences like the Brexit (Britain exiting from the EU) and American presidential election, and the divergence among different countries' economic fundamentals and policies became increasingly significant. In addition, with the domestic monetary policy shift from prudent to prudent and neutral and coupled with tightened financial regulations, deleveraging of the market and other factors, the RMB capital and bond market experienced significant fluctuations.

In a market environment with high-volatility, high risks and low returns, the Bank was confronted with great challenges in respect of liquidity management and profitability in the monetary market. The Bank secured the margin of liquidity safety and improved the efficiency of fund utilization by means of strengthening domestic and foreign synergetic corporation, expanding debt, optimizing portfolio structure and balancing risk and return. In 2016, the Bank's RMB-denominated financing transactions amounted to RMB28,740,999 million, including RMB15,863,133 million in lending and RMB12,877,866 million in borrowing. The Bank actively developed inter-bank certificates of deposit and the transaction volume of certificates of deposit amounted to RMB251,975 million in 2016, representing an increase of 137.9% compared to the last year.

Investment and Trading Activities

At 31 December 2016, our net investment in securities and other financial assets amounted to RMB5,333,535 million, representing an increase of RMB821,488 million and an increase rate of 18.2%, compared to the end of the previous year.

Trading Activities

In 2016, the yield of domestic bonds fluctuated sharply. Closely monitoring changes in the bond market, the Bank shortened the maturities of portfolios to reduce risk exposure, while flexibly adjusting the trading portfolios to increase coupon interest income when yields were on sharp rise. The Bank also actively conducted trading band operation when bond market yields fluctuated within ranges. Therefore, the Bank achieved a good return. In 2016, the Bank held leading positions in the banking industry in respect of both the market making business in the inter-bank market and the trading business in the exchange market, and won various awards, including the "Outstanding Dealer in the Inter-bank IMB Market ", "Outstanding Bond Trader" and "Outstanding Contribution to Opening-up" award granted by China Foreign Exchange Trade System, "Outstanding Bond Trader" awarded by Shanghai Stock Exchange and "Outstanding Proprietary Trader in Chinese Bond Market" awarded by China Government Securities Depository Trust & Clearing Company Limited.

Banking Book Activities

In 2016, by effectively following the yield rate trend in the bond market and rationally seizing investment opportunities, the Bank increased its investment, and actively selected bonds with higher investment value when the yield rate was high. In the meanwhile, the Bank enhanced sophisticated management of corporate bonds, and closely monitored the changes in the credit standings of relevant enterprises and the development of credit default events, to strengthen risk anticipation and prevention. Through synergistic operations between the primary market and the secondary market, the Bank continuously adjusted investment portfolio to effectively control the investment risks.

Adhering to a foreign currency investment strategy of making progress while maintaining stability, the Bank further strengthened the research and anticipate on the rate hikes by the Federal Reserve, adapted to the market changes, moderately expanded the scale of investment portfolio, effectively controlled the maturities of portfolios, so that the foreign currency investment portfolios were constantly optimized. Meanwhile, we enhanced efficient market operation and product pricing power and strictly controlled the credit risks.

Asset Management

Wealth Management

During the reporting period, the Bank actively promoted the innovation on the design and sales models of wealth management products, provided 24-hours pre-order, purchase and redemption services for wealth management products, and launched various structured wealth management products linked with factors such as stock indexes, exchange rates and commodity prices, so that the scale of and the number of authorized customers for wealth management realized stable growth. At the end of 2016, the scale of the wealth management products in the Bank reached RMB1,631,196 million, representing an increase of 3.4% over the end of the previous year, which included personal wealth management products of RMB1,151,588 million and corporate wealth management products of RMB479,608 million.

In millions of RMB, except for percentages

	Item	Balance of product	Percentage (%)
By target	Personal wealth management	1,151,588	70.6
	Corporate wealth management	479,608	29.4
By type	Principal guaranteed products	331,821	20.3
	Non-principal guaranteed products	1,299,375	79.7
	Total	**1,631,196**	**100.0**

The Bank won many awards in 2016, including the Best Structured Banking Wealth Management Product (Ru Yi Wealth Management Product) and the Best Banking Wealth Management Brand (An Xin Wealth Management Product) selected by *the Securities Times*; the Most Competitive Bank in Asset Management and the Best Service Innovation Bank selected by *the 21st Century Business Herald*; Top Ten Winners for Wealth Management Innovation Award (Agriculture-related Wealth Management Product) selected by *The Banker*; Wealth Management Product Innovation Award granted by *National Business Daily*.

Custody Service

As of the end of 2016, the Bank had RMB9,003,902 million of assets under custody, representing an increase of 26.0% over the end of the previous year; of which, insurance assets under custody was RMB2,835,035 million, and representing an increase of 19.2% over the end of the previous year. In 2016, the Bank's commission income from custody service and other fiduciary services amounted to RMB3,119 million.

Pension

In 2016, the Bank actively provided custodian service for the SSF and steadily developed the corporate annuity and semi-annuity businesses, resulting in a rapid growth in its pension business. As of the end of 2016, pension funds under the Bank's custodian amounted to RMB372,096 million, representing an increase of 16.9% over the end of the previous year.

Precious Metals

Influenced by factors such as international geopolitical tensions, the Brexit and anticipation of rate hikes by the US Federal Reserve, prices of precious metals rose before falling back in 2016, showing an inverted V-shaped trend. As a major domestic precious metal market making bank, the Bank managed to meet the customers demand for precious mental trading, investment and hedging through gold leasing, account-based precious metal and physical gold trading businesses by leveraging the support of Shanghai Gold Exchange, Shanghai Futures Exchange and the precious metal market in London.

During the reporting period the Bank continuously strengthened its channel regarding the precious metal trading system for its customers and increased marketing efforts to steadily promote the precious metal trading business. Transaction volume in respect of personal accounts recorded a significant growth. In 2016, the Bank traded 3,329.97 tons of gold and 50,066.34 tons of silver for its own account and on behalf of its customers, representing an increase of 55.5% and 89.1% over the previous year, respectively.

Treasury Transactions on Behalf of Customers

In 2016, the Bank timely adjusted its quotation strategy to customers in response to market changes, explored customers' demand for foreign exchange settlement, and promoted balanced development of its foreign exchange settlement business, which resulted in a surplus foreign exchange on behalf of customers. In 2016, the Bank continued to promote the listing and trading of minor currencies in the areas located along "the Belt and Road Initiative", and successively realized the quotation and direct trading between RMB and currencies such as the South African Rand, the United Arab Emirates Dirham and the Saudi Riyal, which promoted the regionalization and internationalization of RMB. During the reporting period, the transaction volume of foreign exchange settlements on behalf of customers amounted to USD256,640 million[1], and that of foreign exchange trading on behalf of customers amounted to USD17,739 million[2].

Agency Distribution of Fund Products

In 2016, with focusing on optimization of allocation of customers' assets, the Bank carried out in-depth cooperation with outstanding fund companies, researched and developed innovative market-oriented products, and put great efforts into the marketing of new and well-performing funds. Professional investment research teams were built to provide professional directions with respect to fund sales. The functions of IT system was optimized and customer's experience was improved continuously. The agency distribution business of fund products grew steadily, with cumulatively distributing fund products of RMB257.0 billion throughout the year.

1 *The transaction volume of foreign exchange sales and settlements on behalf of customers includes that of spot foreign exchange sales and settlements on behalf of customers and the total contract amount of customers driven forward/swaps foreign exchange sales and settlements.*

2 *The transaction volume of foreign exchange trading on behalf of customers includes that of spot foreign exchange sales and settlements on behalf of customers, the total contract amount of customer driven forward/swaps foreign exchange sales and settlements and Waihuibao transaction.*

Agency Sales of PRC Government Bonds

In 2016, the Bank distributed 14 tranches of savings treasury bonds as an agent in the amount of RMB46.41 billion, including 10 tranches of savings treasury bonds (in electronic form) of RMB29.13 billion and 4 tranches of treasury bonds (in certificate form) of RMB17.28 billion.

Green Finance

Continuously promoting the green finance concept, the Bank carried out early and effective exploration in a series of business fields of credit, bond and fund. The Bank had achieved innovation and breakthrough in green assets securitization, making contribution for supporting the green industry and fulfilling the environmental protection commitment.

During the reporting period, the Bank won the honour of "The Best Green Finance Bank" in Financial Value Ranking of 2016 by *China Business Network*, and the honour of "Outstanding Green Finance Innovation Bank of 2016" in the competitiveness evaluation for Asian financial enterprises by *21st Century Business Herald*. The Bank won the "Best Structure Award for Green Finance ABS (Enterprise) of 2016" in the annual meeting of China Asset Securitization Institute.

Green Credit

At the end of 2016, the balance of the Bank's green credits business was RMB649,432 million, representing an increase of RMB106,301 million or 19.6% compared to the end of the previous year.

During the reporting period, the green credit was determined as an important direction for our business development and credit structure adjustment. The Bank actively supported green economy fields like ecological conservation, clean energy, energy saving and environmental protection, cyclic economy, pollution treatment and comprehensive utilization of resources. The Bank strived to develop green credit businesses such as energy-efficiency credits, loans pledged with future proceeds usufruct of energy management contract, pollutant discharge right mortgage loan and carbon emission mortgage loan, as well as green finance services like energy-saving and emission-reduction consultation.

The Bank included prevention of environmental and social risk into the whole-process management of credit business. The Bank treated the completeness, lawfulness and compliance of customers' measures for controlling environmental and social risks as important requirements during credit review. As for those who failed to pass the certification of the environment authority, the Bank resolutely refused to do business with them. As for those who were highly exposed to the environmental and social risks, such as relating to environmental protection litigations, administrative penalties and negative press reports, the Bank would timely lower the customers' classification and actively cut their credit exposure. Actively introducing advanced international concepts and experience on green finance, the Bank initiated the cooperation on green credit with the International Finance Corporation (IFC) of the World Bank, with a focus on key parts like management mechanism, product innovation and capacity building, so as to accelerate the process of improving our green credit management system with the help of the external intellectual support.

The Bank reclassified customers in industries of iron and steel as well as coal, and set differentiated credit limits in the credit operation system according to classification results, so as to drive more credit resources to be provided to those customers with competitive advantages in the industry. As for those 11 industries with credit limit management such as the iron and steel industry and the coal industry, the Bank drew up a customer list to accelerate cutting of their credit exposure. As of the end of 2016, the Bank's loan balance of industries with high energy consumption, high pollution or overcapacity, decreased by RMB2,772 million compared to the end of last year. Among which, the loan balance of the top five industries with massive overcapacity, i.e. iron and steel, cement, electrolytic aluminium, sheet glass and ship building, decreased by RMB6,236 million compared to the end of the previous year.

Green Bonds

During the reporting period, the Bank actively engaged in the underwriting and issuance of green bonds to support the healthy development of "green" real economy. In 2016, the Bank underwrote and distributed green bonds of RMB10.5 billion in aggregate. As the lead underwriter, the Bank took part in the issuance of three green finance bonds issued by Industrial Bank Co., Ltd. and was participating in the project of green medium-term notes issued by Wuhan Metro Group Co., Ltd., which was approved by the Association of Securities Dealers for registration as of the end of 2016.

During the reporting period, all the proceeds raised by the Bank from issuance of the dual currency green bonds in October 2015 with the equivalent amount of USD995 million in London, U.K. had been invested in related green projects. These projects followed the *Green Bond Principles* generally accepted throughout the world and were reviewed preliminarily by a qualified third-party certification authority, involving 14 projects on clean transportation, wind power generation, photovoltaic power generation and biomass power generation, with a total investment amount of RMB6.3 billion.

Green Funds

In November 2015, as the first bank in China to set up an international green fund, the Bank initiated the China-France international energy transition green fund together with Amundi Asset Management of France. During the reporting period, both parties established a special work team to conduct several rounds of negotiation. At present, the initial draft business plan has been finished, in which an initial consensus has been reached on matters relating to the joint venture to be established for such green fund, such as equity proportion, place of incorporation, investment direction and fund raising.

Securitization of Green Assets

During the reporting period, the Bank took the lead in issuing the first green assets-backed security listed on the stock exchange in China – "ABC Suiying" Special Plan Backed by the Green Asset of Electricity Charge Usufruct for Wind Power of Goldwind Sci & Tech Co., Ltd. The underlying assets of the securities are the electricity charge usufruct for 5 high quality wind power plants of Xinjiang Goldwind Sci & Tech Co., Ltd. located in Xinjiang Province, Shanxi Province and other places, which have been given green certification and green performance evaluation by DET NORSKE VERITAS (DNV • GL) and International Finance Corporation (IFC) of the World Bank. Pursuant to the evaluation of IFC, the underlying assets of the project (wind power plants) could reduce greenhouse gas emission by about 2.4 million tons during a 5-year period, equal to saving 858,000 tons of standard coal, presenting an obvious environmental benefit. The successful issuance of the green assets securitization was not only the Bank's specific practice of the green finance, but also the Bank's innovation of serving the Sannong, and supporting the building of "the Belt and Road Initiative".

Distribution Channels

Branch Outlets

During the reporting period, focusing on the improvement of the structure, efficiency and service experience of the branch outlets, the Bank continuously pushed forward the branch outlet refinement project of "Four Actions", namely addition, reduction, reallocation and enhancement, to accelerate the standardization transformation of the branch outlets and enhance their capability for value creation. Counters and staffs were cut back in nearly 1,800 inefficient branch outlets and standardization transformation was carried out in more than 12,000 branch outlets, which stimulated the enthusiastic in promoting operating activities by these branches. The Bank also set up over 1,000 new offsite banking and self-service banking outlets in the County Areas covering over 400 villages and towns, presenting a further extension of financial service coverage in the County Areas.

Internet Finance

During the reporting period, the Bank optimized the internet distribution channel and strived to put forward the transformation and upgrading of internet financial services. The Bank continued to develop three platforms of financial services, social life and e-commerce, launched various financial products such as "ABC Quick E Wealth Management", "ABC Quick E Loan" and "ABC Quick E Pay", and innovated in the interactive scenario-based marketing of internet finance services to further improve customer experience. In 2016, with the stable growth in the number of internet finance customers and transaction volumes, the profitability of the Bank further increased. As of the end of 2016, the total number of the Bank's internet finance customers[1] reached 711 million with an increase of 119 million over the year. In 2016, the Bank also recorded 31,466 million financial transactions through electronic channels, representing an increase of 50.3% compared to the previous year. The financial transactions through electronic channels accounted for 96.0% of total internet finance, representing an increase of 3.0 percentage points over the previous year.

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1 *The number of internet finance customers = the number of electronic banking customers – the number of telephone banking customers.*

Financial service platform

As for retail finance, adhering to the core service principle of "Open, Integrate, Customize and Share", the Bank launched new versions of retail internet banking and mobile banking platforms with optimized business processes and product functions, which offered customer experiences featuring daily life and real-life scenarios and various attractive functions like registration by customers of other banks, online wealth management, online financing and quick authentication. As of the end of 2016, the Bank had a total of 189 million certificate customers of retail internet banking[1], representing an increase of 16.7% compared to the end of the previous year, and achieved a transaction volume of RMB48.4 trillion for the year; it also had 169 million mobile banking customers, representing an increase of 20.7 % compared to the end of the previous year, and recorded a transaction volume[2] of RMB14.7 trillion for the year with an increase of 146.3% over the previous year. In 2016, the Bank's website recorded 3,430 million visits with 347 million SMS accounts by the end of the year and 17.6 billion SMS messages sent over the year.

As for corporate finance, the Bank introduced the financial service platform of corporate internet banking and corporate mobile banking to realize customized product portfolios, model-based approval process and parameterized authority configuration, which are designed to adapt to various industry characteristics and sizes of enterprises. Product offering was also widened to include such categories as cash management, investment and wealth management and international business to provide full attentive services. As of the end of 2016, the Bank had 4.482 million corporate mobile banking customers in total, representing an increase of 18.7% over the end of the previous year, and recorded a transaction volume of RMB73.2 trillion over the year. The Bank's online coverage of products targeted at corporate customers increased to 71% from 51% at the end of the previous year.

Social life platform

Featuring services fitting the social life of customers with consumer-friendly scenarios, the Bank is committed to set up four supporting systems, namely, the Pay Center, the Discount Center, the Interaction Center and the Marketing Center. The Bank incorporated the Discount Center into the "Nearby Merchants" section of the mobile banking which offers third-party merchant resources and creates a vibrant O2O shopping/spending scenarios featuring special offers. The Bank also innovated in the interactive scenario-based marketing for internet finance and achieved interaction between customer managers and customers through online services using personal computers and mobile terminals, thus creating a social life ecosystem with close ties between customers and the Bank through online and offline linkage. Together, a good experience is provided for our customers and our marketing endeavors are equipped with a strong tool.

1 *Certificate customers of retail internet banking include USB-KEY certificate customers and IE certificate customers.*

2 *In the calculation of the transaction volume of our mobile banking services for the year, transfers of fund between the Bank's accounts were calculated on unidirectional basis instead of bidirectional basis.*

E-commerce platform

The Bank thoroughly followed and implemented the strategy of "Internet + Sannong" and continued to build the platforms of "ABC e-steward". Leveraging the existing advantages in resources such as service stations and electronic machines in the "Huinongtong" project, the platforms of "ABC e-steward" provided a series of agriculture-related e-business financial services like preferential procurement for the farmers, matchmaking trading of agricultural products, butler services, preferential loans and preferential wealth management services to agricultural producers and wholesalers, countryside stores and farmers in County Areas, so as to optimize the two-way e-business service system of "industrial products to the countryside" and "agricultural products to the city", deeply integrate the financial and information services into the production and operation of the enterprises and farmers, and help customers with business integration and whole process management. Meanwhile, the Bank would transform the service stations of the "Huinongtong" project into comprehensive service entities integrating the functions of the financial service stations, e-commerce pilot sites and logistics stations in rural communities, so as to facilitate the improvement of basic financial environment in the County Areas. As of the end of 2016, the number of merchants participating in "ABC e-steward" totalled 703,400, representing an increase of 392.9% over the end of the previous year, and the transaction volume reached RMB146,976 million for the year with a year-on-year growth of 322.4%. Moreover, the platform of "ABC e-steward" was selected as one of the Top 100 Practical Cases for the Implementation of the "Internet +" Action by the National Development and Reform Commission.

Telephone Banking

During the reporting period, the Bank achieved the unification of the voice self-service system for telephone banking across the country and continually improved its product service and customer experience. In 2016, it received 321 million calls via its 95599 customer service center, and 82.45 million calls were handled by customer service staff with a completion rate of 86.73%.

Self-service Banking

As of the end of 2016, the Bank had 129,800 cash-related self-service banking facilities and 52,400 self-service banking terminals, with a transaction volume of RMB20.50 trillion for the year, representing a year-on-year growth of 5.0%. It ranked the first among all banks in terms of the number and value of intra-bank transaction settlements, and 86.4% of the transactions were diverted to self-service banking facilities.

During the reporting period, the Bank continuously strengthened the construction of basic trading platform and marketing support platform to improve the capabilities of self-service channels in serving customers and active product selling to consumers, optimize the operation and management and promote intelligent self-service banking business. The Bank improved the application process of EMV international cards, and offer cash withdrawal business for international cards. The Bank also accelerated the improvement of the application process of contact-less IC cards to provide support for the Quick Pass and other mobile payment products. Besides, the Bank integrated various new functions like insurance agency and settlement and sales of foreign exchange into self-service banking terminals with a view to enriching the variety of payment services, and promoted the lottery marketing system for self-service banking terminals to improve the capability of targeted marketing.

Cross-border Financial Service

In 2016, the Bank proactively supported China's economic and diplomatic strategies. The Bank steadily made progress in the layout and development of overseas institutions and continuously enhanced our global financial service capability. The scope of business, operation level, and cross-border financial service capability were steadily improved. During the reporting period, the Bank's Dubai Branch officially obtained the approval from local regulatory authorities and it was appointed as the RMB clearing bank for the United Arab Emirates by the PBOC. Our Bank's applications for the establishment of a representative office in Sao Paulo, branches in London and Macao were approved by the CBRC. The overseas applications for the establishment of the Hanoi Branch and the Vancouver Branch ran smoothly and saw good progress. As at the end of 2016, the Bank had established 18 overseas institutions in 14 countries and regions, and set up the Sino-Congolese Bank for Africa by way of equity joint venture in the Republic of Congo, forming an overseas network covering Asia, Europe, North America, Oceania and Africa. As of the end of 2016, the total assets of our overseas branches and subsidiaries reached USD109,306 million. Net profit for 2016 was USD283 million.

In view of the economic and financial conditions at home and abroad, the Bank improved its network layout of branches and its functions in major international financial centers. Focusing on national strategies of China including the "Going Out" of agricultural enterprises, infrastructure interconnectivity and internationalization of RMB, the Bank push forward the institutional layout in the countries and regions involved in "the Belt and Road Initiative". As such, we strive to create a featured and differentiated overseas service platform to further enhance our global financial service capability.

Diversified Operation

Currently, we have established an integrated business platform consisting of fund management, securities and investment banking, financial leasing and life insurance in an effort to continuously promote the implementation of our strategy of integrated operation. Our initiatives included furthering the construction of integrated business platform, enhancing the parent-subsidiary strategic synergy, speeding up to foster new competitive advantages, and improving our cross-industry, crossover, cross-border operation.

In 2016, following the Group's development strategy, confronted with complex economic and financial situations at home and abroad, our four subsidiaries under the integrated business platform (namely ABC-CA Fund Management Co., Ltd., ABC International Holdings Limited, ABC Financial Leasing Co., Ltd. and ABC Life Insurance Co., Ltd.) strived to deepen reforms and strengthen their management, leading to continuous improvement in overall operation performance. Over the past year, the total assets managed by ABC-CA Fund Management Co., Ltd. grew rapidly to over RMB420 billion. The core investment banking business of ABC International Holdings Limited expanded with sharp rise in profits. ABC Financial Leasing Co., Ltd. actively push ahead with its business transformation. ABC Life Insurance Co., Ltd. had achieved a total premium income of RMB24.7 billion. As the end of 2016, total assets of our four subsidiaries of integrated business operations amounted to RMB148,137 million, representing an increase of RMB22,335 million compared to the end of the previous year; net profit for 2016 amounted to RMB1,162 million, representing an increase of 48.97% compared to the previous year. With the synergies arising from our diversified operation gradually emerging, our overall financial service capability was enhanced.

Information Technology

During the reporting period, the Bank steadily promoted technology innovation related to products and services, which provided a robust support for the operation and management of our bank. The Bank formulated information banking construction plan, which specified its thoughts, objectives and tasks to this end. Eight achievements were honored with the "Bank Technology Development Award" from the PBOC. Four achievements were awarded the "Project Research Achievement Award for Risk Management of Banking Information Technology" from the CBRC. For the first time, we participated in the formulation of international financial standards, that the international standard named Specification of Description for Banking Product compiled under our leadership passed the project admission into ISO/TC68/SC7.

Construction of key technology projects was push forward. Three platforms for internet financial service, e-commerce and social life were established. Key innovative products including e-account, on-line loans secured by pledges, Quick E Bao and Quick E Pay were launched. Efficiency and quality of data service were improved, while data input was finished for the big data platform. We built the market of corporate, individual, regulatory and operating data at a faster pace and constructed the information platform for operation and management and the base of unified indicators across the Bank.

Innovation and application of technology products was promoted. The Bank launched Jinsui Quick Agricultural Loan and explored new loan model for farmers. A bank-wide unified point system for individual customers was established for point accumulation and unified application and management of debit and credit cards. The Bank accelerated its research and development of customer-end transaction system for financial market and asset management as it launched new products including Shuangxiang Bao, Account-Connected Precious Metal and Unit NAV Constant at RMB1. The Bank established a master blacklist and an overseas anti-money laundering system and prepared the establishment of new overseas institutional IT.

Sophisticated operation and management was supported. The Bank started operation of the first and second phases of marketing and management system for individual customers and piloted the first phase of marketing and management system for corporate customers. The Bank refined operation risk monitoring system by putting 79 risk monitoring models into operation and establishing a unified early warning verification process and performance evaluation function. The Comprehensive Counter Service Reform Project was set into pilot operation, whereby controls were actualized through electronic certificates and signatures as well as the digital information of physical seals. The Bank also improved credit risk monitoring methods, erected model factory of early warnings, published 183 risk indicators, and strengthened forced control indicated with risk monitoring signals in credit approval.

The safe running of our information system was ensured. The Bank accelerated the integration of the operations, applications and support systems in Shanghai and Beijing. Further, the Bank promoted construction of the "two cities and three centers" project, The bank also put the reformed active-active data centers for exemplary applications into operation and verified systematic one-click switch process of the data centers in Beijing and Shanghai. The level of system virtualization was raised, and infrastructure cloud platform was adopted in a wider range. All business outlets of the Bank were covered by WIFI. The data center in the head office proceeded with the first unplanned drill of disaster recovery. During the reporting period, the Bank's transaction volume generated by its operation system increased steadily with 318 million transactions being handled in the core operation system per working day. The highest daily transaction volume reached 437 million. Therefore, the Bank's information system was sustainable in providing continuous stable services.

Human Resources Management and Organization Management

Human Resources Management

Human Resources Reform

During the reporting period, the Bank persisted with the market-oriented approach and continued to enhance the reform of human resources. The Bank implemented the organizational restructuring of the head office, strengthened the ability of the head office in direct management and explored management and incentive mechanisms that could be flexibly matched with the departments under direct management, and made the headquarter play a leading role in operation and management. Established investment banking department, private banking department and retail credit department to improve service standard to high-end corporate and private customers. Integrated the functions of internet finance and set up Internet Finance Department to meet the financial demands arising from the development of emerging businesses. Reorganized the Operation Management Department and Customer Service Center to realize integrated operation of customer service system. Deepened the reform on County Area Banking Division and newly opened the Center for County Area Channel Management and Center for County Area Internet Finance Management to form an organizational structure with "three departments and eight centers" for the County Area Banking Business Division. Propelled the market operation of debt-to-equity swap and prepared to set up special agency to debt-to-equity swap.

During the reporting period, the Bank accelerated the "four major projects" of talent development, including cultivation of chief managers, development of professional staff, transformation and optimization of foundation-level teams and retaining talents; carried out a series of reforms on the selection of leading managers, promotion of professionals and incentives to back-bone personnel; and emphasized mobilizing, protecting and galvanizing the enthusiasm, initiative and creativity of its staff. The Bank innovated in the selection mechanism of leading managers, organized and completed two open selections for leaders directly managing the head office, and guided the branches to expedite the selection and cultivation of young leaders to promote the upgrading the leadership. Meanwhile, the Bank made innovations in the mechanism for talent development and post promotion, introduced the *Opinions on Deepening the Reform on Talent Development Mechanism* and *Opinions on Strengthening the Construction of Professional Posts*, and constructed "binary channels" of management promotion and professional promotion to expand the career path of its employees. Following the tendency of internet finance, the Bank optimized the allocation of and management over the foundation-level staff by the comprehensive application of E-channel replacement, super counter and optimal combination of the labor forces, so as to unleash the potential and innovative spirit of foundation-level staff. Moreover, the Bank brought in a more competitive incentive mechanism to attract, motivate and retain back-bone staff, in an endeavor to keep talents by providing good career opportunities, a pleasant working environment and effective mechanisms.

Development and Cultivation of Human Resources

During the reporting period, the Bank furthered the ABC University by enriching its school philosophy and innovating training methods to improve the adaptability and pertinence of educational trainings. We launched the development program of famous teachers, published its WeChat public account of E-lectures of ABC University, and optimized the training contents of its online college by enriching the repertoires of courses, teaching materials, case studies, examination questions and enlarging the electronic library. The Bank set up a diversified learning platform for its staff. Classified trainings were implemented to meet demands of different groups. As for the leading managers, while high-end training programs including the seminar themed "innovation, harmonization, green, openness and sharing" and overseas trainings for risk management and County Area business were held. As for the professionals, the rotating job trainings in each professional line were continuously promoted, and the model trainings were organized for emerging businesses like investment banking, asset management, cross-border finance and bank-leasing cooperation. As for foundation-level backbone personnel, the *Management Approach to Post Qualification Examination* was formulated, and 172,000 examinees were arranged to take post qualification examinations for 25 professional fields to promote their learning and application of their knowledge.

Management of Remuneration and Benefit

During the reporting period, the Bank continued to improve the remuneration management system, reinforced the centralized management and control of total payroll of branch outlets and subsidiaries, and strengthened the linkage of remuneration to economic value added and business transformation. The Bank refined the practice of remuneration allocation among its staff, by improving long-term incentive mechanisms and employee benefits and increasing the payroll incentives for key personnel and core talents. The remuneration allocation gave favor to foundation-level staff through the establishment of minimum wages and differentiated allowance policies to improve sense of belonging and loyalty of its employees. Meanwhile, the Bank improved the management mechanism for Annuity Scheme and Retirement Benefits Fund and accelerated the market-oriented management of Annuity Scheme, so as to increase the long-term investment return. The benefits for retired staff of the Bank were borne by the Retirement Benefits Fund and Annuity Scheme.

Information on Employees

The Bank had 496,698 employees (and additional contracted employees of 9,339) at the end of 2016, representing a decrease of 6,384 compared to the end of last year. Among our employees, 8,115 persons were employed at our major domestic subsidiaries and 788 persons were local employees at our overseas institutions.

Distribution of Employees by Regions

	31 December 2016	
	Number of Employees	Percentage (%)
Head Office	8,319	1.7
Yangtze River Delta	67,549	13.6
Pearl River Delta	53,837	10.8
Bohai Rim	70,744	14.3
Central China	104,504	21.0
Northeastern China	52,048	10.5
Western China	130,794	26.3
Subtotal of Domestic Branch Outlets	487,795	98.2
Major Domestic Subsidiaries	8,115	1.6
Overseas Institutions	788	0.2
Total	**496,698**	**100.0**

Distribution of Employees by Education Background

	31 December 2016	
	Number of Employees	Percentage (%)
Doctorate's Degree	474	0.1
Master's Degree	23,736	4.8
Bachelor's Degree	219,860	44.3
Associate Degree and Vocational School	156,611	31.5
Below College	96,017	19.3
Total	**496,698**	**100.0**

Distribution of Employees by Departments

	31 December 2016	
	Number of Employees	Percentage (%)
Management	122,958	24.7
Risk management	18,273	3.7
Finance	22,923	4.6
Administration	18,635	3.7
Sales	111,635	22.5
Trading	227	0.1
Information technology	5,552	1.1
Tellers	147,627	29.7
Technicians	34,590	7.0
Others	14,278	2.9
Total	**496,698**	**100.0**

Distribution of Employees by Age

	31 December 2016	
	Number of Employees	Percentage (%)
30 or below	106,413	21.4
31 – 40	74,248	15.0
41 – 50	204,188	41.1
51 or above	111,849	22.5
Total	**496,698**	**100.0**

Management of Branch Outlets

Domestic Branch Outlets

As of the end of 2016, the Bank had 23,682 domestic branch outlets, including the Head Office, the Business Department of the Head Office, three specialized institutions managed by the Head Office, 37 tier-1 (direct) branches, 365 tier-2 branches (including business departments of branches in provinces), 3,506 tier-1 sub-branches (including business departments in municipalities, business departments of branches directly managed by the Head Office and business departments of tier-2 branches), 19,714 foundation-level establishments and 55 other establishments.

Number of Domestic Branches and Branch Outlets by Regions

	31 December 2016	
	Number of Domestic Branch Outlets	Percentage (%)
Head Office[1]	8	–
Yangtze River Delta	3,125	13.2
Pearl River Delta	2,555	10.9
Bohai Rim	3,398	14.3
Central China	5,262	22.2
Northeastern China	2,285	9.6
Western China	7,049	29.8
Total of Domestic Branch Outlets	**23,682**	**100.0**

Note: 1. Including the Head Office, Business Department Dealing with Discounted Bills, Big Client Department, Private Banking Department, Credit Card Center, Changchun Training Institute, Tianjin Training Institute and Wuhan Training Institute.

Overseas Branch Outlets

As of the end of 2016, we had ten overseas branches and three overseas representative offices, namely the Hong Kong, Singapore, Seoul, New York, Dubai International Financial Center, Tokyo, Frankfurt, Sydney, Luxembourg and Dubai branches, as well as the Vancouver, Hanoi and Taipei representative offices.

Major Subsidiaries

ABC-CA Fund Management Co., Ltd.

ABC-CA Fund Management Co., Ltd. was established in March 2008 and its registered capital was RMB200 million, 51.67% of which was held by the Bank. Its businesses include fund-raising, sales of fund and asset management, and the major products include stock funds, mixed funds, bond funds and monetary market funds.

At 31 December 2016, the total assets and net assets of ABC-CA Fund Management Co., Ltd. amounted to RMB815 million and RMB691 million, respectively. It recorded a net profit of RMB224 million for 2016.

ABC International Holdings Limited

ABC International Holdings Limited was established in Hong Kong in November 2009. The registered capital of ABC International Holdings Limited was HKD4.113 billion, 100% of which was held by the Bank. ABC International Holdings Limited is eligible to engage in providing comprehensive and integrated financial services including sponsorship and underwriting for listing, issuance and underwriting of bonds, financial consultation, asset management, direct investment, institutional sales, securities brokerage and securities consultation in Hong Kong, and is also eligible to engage in various capital market businesses in mainland, except as the sponsor of A-share listing.

At 31 December 2016, the total assets and net assets of ABC International Holdings Limited. amounted to HKD23,537 million and HKD5,589 million, respectively. It recorded a net profit of HKD709 million for 2016.

ABC Financial Leasing Co., Ltd.

ABC Financial Leasing Co., Ltd. was established in September 2010 and its registered capital was RMB3 billion, 100% of which was held by the Bank. The principal scope of business includes financial leasing, transfer of financing and leasing assets, fixed-income securities investments, acceptance of lease deposit from lessee, inter-bank lending, borrowing from financial institutions, overseas loan, disposal of leased items, financial consultation and other business approved by the CBRC.

At 31 December 2016, the total assets and net assets of ABC Financial Leasing Co., Ltd. amounted to RMB42,519 million and RMB4,599 million, respectively. It recorded a net profit of RMB301 million for 2016.

ABC Life Insurance Co., Ltd.

The registered capital of ABC Life Insurance Co., Ltd. was RMB2.95 billion, 51% of which was held by the Bank. ABC Life Insurance Co., Ltd. primarily engages in the insurance business including life insurance, health insurance and accident insurance; reinsurance business for the abovementioned business; businesses with the application of insurance funds as permitted by the laws and regulations of the PRC; and other businesses approved by the China Insurance Regulatory Commission.

At 31 December 2016, ABC Life Insurance Co., Ltd. had total assets of RMB83,749 million and net assets of RMB5,354 million and the net profit for the year was RMB17,992.5 thousand.

China Agricultural Finance Co., Ltd.

The registered capital of China Agricultural Finance Co., Ltd. was HKD588.79 million, 100% of which was held by the Bank.

Agricultural Bank of China (UK) Limited

Agricultural Bank of China (UK) Limited is a wholly-owned subsidiary of the Bank incorporated in the United Kingdom, with a registered capital of USD100 million. It engages in the corporate financing business, including corporate deposits, bilateral loans, syndicated loans, trade financing, international settlement, foreign exchange and derivatives. At 31 December 2016, Agricultural Bank of China (UK) Limited had total assets of USD1,130 million.

Agricultural Bank of China (Luxembourg) Limited

Agricultural Bank of China (Luxembourg) Limited is a wholly-owned subsidiary of the Bank incorporated in Luxembourg, with a registered capital of EUR20 million. Its authorised scope of business includes retails, wholesales and treasury transactions. At 31 December 2016, Agricultural Bank of China (Luxembourg) Limited had total assets of USD21 million.

Agricultural Bank of China (Moscow) Limited

Agricultural Bank of China (Moscow) Limited is a wholly-owned subsidiary of the Bank incorporated in Russia, with a registered capital of RUB1.400 billion. It engages in wholesale banking businesses including international settlements, corporate deposits, syndicated loan, bilateral loans, trade financing and exchange transactions. At 31 December 2016, Agricultural Bank of China (Moscow) Limited had total assets of USD98 million.

ABC Hubei Hanchuan Rural Bank Limited Liability Company

ABC Hubei Hanchuan Rural Bank Limited Liability Company was established in August 2008 in Hanchuan, Hubei Province with registered capital of RMB31 million, 50% of which was held by the Bank. At 31 December 2016, ABC Hubei Hanchuan Rural Bank Limited Liability Company had total assets of RMB252 million, net assets of RMB58 million and the net profit for the year was RMB4,152.6 thousand.

ABC Hexigten Rural Bank Limited Liability Company

ABC Hexigten Rural Bank Limited Liability Company was established in August 2008 in Hexigten Banner, Chifeng City, Inner Mongolia Autonomous Region with registered capital of RMB19.60 million, 51.02% of which was held by the Bank. At 31 December 2016, ABC Hexigten Rural Bank Limited Liability Company had total assets of RMB253 million, net assets of RMB35 million and the net profit for the year was RMB3,186.3 thousand.

ABC Ansai Rural Bank Limited Liability Company

ABC Ansai Rural Bank Limited Liability Company was established in March 2010 in Ansai County, Yanan City, Shaanxi Province with registered capital of RMB20.00 million, 51% of which was held by the Bank. At 31 December 2016, ABC Ansai Rural Bank Limited Liability Company had total assets of RMB322 million, net assets of RMB52 million and the net profit for the year was RMB6,207.6 thousand.

ABC Jixi Rural Bank Limited Liability Company

ABC Jixi Rural Bank Limited Liability Company was established in May 2010 in Jixi County, Xuancheng City, Anhui Province with registered capital of RMB29.40 million, 51.02% of which was held by the Bank. At 31 December 2016, ABC Jixi Rural Bank Limited Liability Company had total assets of RMB175 million, net assets of RMB46 million and the net profit for the year was RMB0.0845 million.

ABC Zhejiang Yongkang Rural Bank Limited Liability Company

ABC Zhejiang Yongkang Rural Bank Limited Liability Company was established in June 2012 in Yongkang City, Jinhua City, Zhejiang Province with registered capital of RMB210 million, 51% of which was held by the Bank. At 31 December 2016, ABC Zhejiang Yongkang Rural Bank Limited Liability Company had total assets of RMB566 million, net assets of RMB238 million and the net profit for the year was RMB7,394.9 thousand.

ABC Xiamen Tong'an Rural Bank Limited Liability Company

ABC Xiamen Tong'an Rural Bank Limited Liability Company was established in June 2012 in Tong'an District, Xiamen City, Fujian Province with registered capital of RMB100 million, 51% of which was held by the Bank. At 31 December 2016, ABC Xiamen Tong'an Rural Bank Limited Liability Company had total assets of RMB888 million, net assets of RMB130 million and the net profit for the year was RMB7,882.2 thousand.

Major Investee

Sino-Congolese Bank for Africa was established by the Bank in the Republic of Congo, in which the Bank invested Franc CFA26,671.40 million, with a shareholding of 50%. Sino-Congolese Bank for Africa was granted a license by the Ministry of Finance of the Republic of Congo on 28 May 2015 and commenced operation on 2 July 2015.

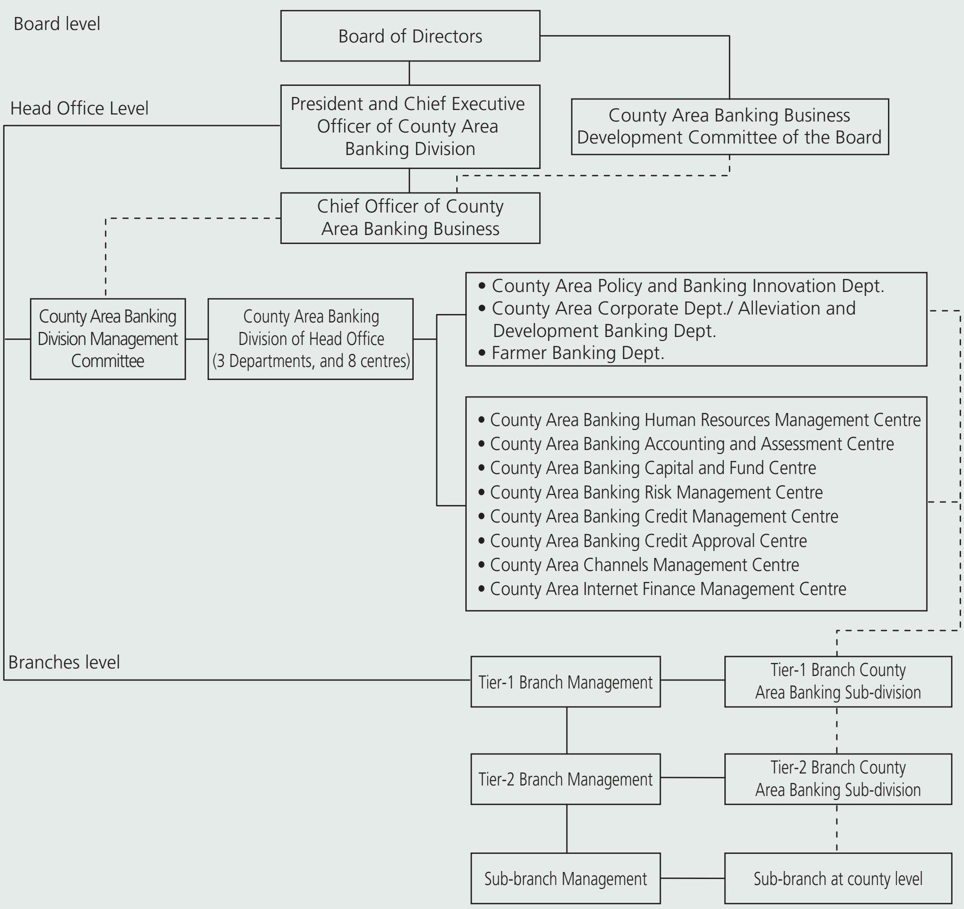
County Area Banking Business

We provide customers in County Areas with a broad range of financial services through all branch outlets in County Areas in China. We refer to such banking business as the County Area Banking Business or Sannong Banking Business. During the reporting period, we followed through the business strategy of catering to the needs of Sannong and enhancing businesses in County Areas. Adhering to commercially-driven operations and proactively adapting to the new normal of economy, we made innovations in management system and mechanism as well as in service model, in order to promote healthy development of County Area Banking Business. Therefore, the service capabilities and market competitiveness of our County Area Banking Business were enhanced.

Management Structure and Management Mechanism

During the reporting period, we formulated *Opinions on Further Deepening the Reform of the County Area Banking Division*, which focused on improving the support capability of the County Area Banking Division to serve the Sannong, by further refining our organizational structure, management system and operating mechanism of the County Area Banking Division.

Management Structure



Management Structure Chart of County Area Banking Business

In addition to the three existing dedicated departments, namely, County Area Policy and Banking Innovation Department, County Area Corporate Business Department/Poverty Alleviation and Development Banking Department, Farmer Banking Department and the six management centers of the County Area Banking Division for the middle and back offices, covering human resources management, accounting and assessment, capital and fund management, risk management, credit management as well as credit approval, the Head Office established two new management centers, namely, County Area Banking Channel Management Center and County Area Banking Internet Finance Management Center, forming an organizational structure of County Area Banking Division with "3 Departments and 8 Centers". The County Area Banking Sub-Divisions were set up at tier-1 and tier-2 branches according to the structure of the Head office and the actual circumstances of relevant branches. Sub-branches in County Areas were the basic operation unit of County Area Banking Division.

Management Mechanism

During the reporting period, we focused on strengthening and invigorating county sub-branches in deepening the reform of the County Area Banking Division. We carried out youth talent development project in County Areas, selected and allocated excellent leading teams for county sub-branches. Incentive wages for executing Sannong and County Areas strategies were prioritized. Preference is given to the development of high performing sub-branches in affluent counties and the improvement of poor performing sub-branches in affluent counties.

We allocated economic capital for the County Areas Banking Division separately and strengthened the capital constraint mechanism. We optimized the assessment and incentive system for Sannong service by adopting featured indicators for Sannong business and product, raising the weightings of Sannong indicators in the comprehensive performance assessment for branches, and enhancing the appraisal of management teams of branches for Sannong services in order to enhance constraint for Sannong services. We allocated more resources and increased more expenses for developing the County Area Banking Businesses.

We continued to refine the differentiated Sannong credit management system. The coverage of agriculture-related comprehensive credit policies, credit policies for industries and the systems for single credit products were further expanded. Tier-1 branches could formulate locally specific credit policies for agriculture-related industries and segmented industries according to the local resource endowments. We also promoted sophisticated management of Sannong credit review. In particular, 35 criteria for Sannong credit review were established, covering major Sannong credit products, agriculture-related industries and collateral arrangement, and therefore the quality and efficiency of credit review were improved effectively.

We continued to refine our risk policies for Sannong, that preferential policies were provided for new agricultural business entities and Sannong featured products in internal capital measurement and assessment. We strengthened industry-specific risk management and control. By using a number of tools such as adjustment of economic capital measurement, specific rules for exposure reduction in certain fields and control of credit limit for certain industries, we promoted the withdrawal and exposure reduction of dubious customers in steel, coal and other industries in County Areas. We put great efforts in eliminating and disposing of non-performing loans in County Areas to ensure that the overall risk of County Area Banking Business was under control.

County Area Corporate Banking Business

During the reporting period, we promoted the "Six Special Campaigns"[1], focused on the enhancement of financial services in key areas of Sannong, and made great effort in product innovation featured for County Areas, so as to consolidate and improve the competitiveness of our corporate banking business in County Areas.

We put targeted effort in financial services in key areas and made remarkable achievements. We continuously increased our support to key service targets such as large-scaled enterprises, projects and markets, new agricultural business entities and featured agriculture. At the end of 2016, the balance of loans for major water conservancy projects amounted to RMB274.6 billion, representing an increase of RMB42.3 billion or 18.2% compared to the end of the previous year. The balance of loans for County Area urbanization[2] amounted to RMB400 billion, representing an increase of RMB63.4 billion or 18.8% compared to the end of the previous year.

Oriented on markets, we made great effort to enhance the innovation of products and services for corporate customers in County Areas. We innovatively launched products including agency service for financial leasing of agricultural machinery and financial leasing factoring of agricultural machinery. We innovatively developed "Internet + Sannong" product and financial service model. We provided "internet loan based on big data" for core customers like Mengniu and Yili. We vigorously promoted the service model of "Three Big Circles" (credit and financing service circle, payment and settlement service circle and retail comprehensive banking service circle) for the commodity circulation market in County Areas. Leveraging on advantage of closing to the market and having good understanding on customers, our branches developed and launched a large number of products with local features such as "Nongdantong", "Xinmiantong" and "Qicai Yunnan & Loans for the Water Source Program Assisted by China Tobacco".

We strengthened the external cooperation to improve the comprehensive service capability of County Area Banking Business. We promoted the credit enhancement model by the government and cooperated with policy-supported assurance institutions for agricultural loans to effectively reduce financing cost of corporate customers in County Areas. We actively explored the new way of serving Sannong, including cooperation with the Ministry of Agriculture to support the pilot demonstration projects of integrated development of the primary, secondary and tertiary industries in rural areas. We also collaborated with institutions such as securities firms to develop investment banking business in County Areas.

1 *"Six Specialized Campaigns" refers to the "Ten Billion Financing for a Hundred Companies" campaign launched to support leading agricultural industrialization companies, the "Deepening Promotion of 10 Thousand Cooperatives" campaign to support specialized agricultural cooperatives, the "a Hundred Cities and a Thousand Towns" campaign to support new-type urbanization, the "Top 100 Markets" campaign to support merchants in the commodity market of the County Areas, the "100 Tourism Counties" campaign to support the development of tourism industry in County Areas, and the specialized marketing campaign to support major water conservancy projects.*

2 *To obtain accurate statistics for our businesses, we adjusted the basis of calculation for total loans for urbanization in County Areas in 2016 by excluding loans for construction relating to commercial buildings, investment properties and commodity markets in the County Areas.*

At the end of 2016, the balance of corporate customer deposits in County Areas was RMB1,860,449 million, representing an increase of RMB244,675 million compared to the end of the previous year. Loans for corporate customers in County Areas (excluding discounted bills) amounted to RMB1,873,315 million, representing an increase of RMB43,691 million compared to the end of the previous year.

County Area Retail Banking Business

During the reporting period, we further promoted the innovation and upgrading of "Jinsui Huinongtong" project, proactively carried out innovation of retail banking products in County Areas, and promoted the transformation of rural household banking operation, resulting in an overall improvement in the service quality of County Area Retail Banking Business.

The rural household loan business was effectively promoted. By organizing 1,073 training sessions for the new agricultural business entities, we conducted special training and precise marketing. At the end of 2016, the balance of loans extended to new agricultural business entities including large-scale professional operators and family farmers was RMB52.8 billion, representing an increase of RMB15.9 billion compared to the end of the previous year. We actively promoted rural household loan business under the credit enhancement model by the government with the balance reaching RMB34.9 billion, representing an increase of RMB10.6 billion compared to the end of the previous year. We also steadily developed the pilot program of loans pledged with "Two Rights" (rural land contractual operation rights and property rights of farmers' houses). At the end of 2016, the pilot program of loans secured by rural land contractual operation rights had expanded to 27 branches and 230 sub-branches, while the pilot program of loans secured by property rights of farmers' houses had expanded to 16 branches and 62 sub-branches.

We continuously enhanced the innovation of retail banking products in County Areas. In line with the advent of new policies, new customers, new needs of Sannong, we refined loan products to farmers of agricultural industry chain, by developing and launching a number of new popular products, such as "Anjiadai" loans for farmers, loans pledged by property rights of farmers' houses, "Nongjiale" loans and insurance and guarantee products for farmers. In 2016, the "Anjiadai" loans extended to farmers totalled RMB167.6 billion. Leveraging on the technologies of internet and big data, we piloted the "Jinsui kuailongdai" product, which explored the way of batch, standardized and patterned processing of rural household loan business.

We put great effort in combining the "Jinsui Huinongtong" project with internet finance. As of the end of 2016, the village coverage of electronic machines of the Bank was 75.1%, and 194 million Huinong Cards were issued. We secured the agency business of pension insurance in 1,406 counties for the urban and rural residents and new rural cooperative medical insurance in 897 counties, representing an increase of 40 counties and 72 counties, respectively, as compared to the end of the previous year. We secured a total of 14,239 agricultural-related agency projects such as agricultural-related financial subsidies and fees collection for public utility projects, representing an increase of 5,814 as compared to the end of the previous year. We formulated the *Implementation Plan on Connecting the "Jinsui Huinongtong" Project with Internet Finance*. Basing on e-commerce financial platforms like "ABC e-Steward", our service stations were rebuilt as comprehensive financial service stations for rural communities, offering "One-Stop" services of information release, purchase and sale of agricultural products, financial services and household utility payments, etc. At the end of 2016, 96 thousand service stations launched e-commerce platforms including "ABC e-Steward", which processed e-commerce transactions totaling RMB9.33 billion for the year.

At the end of 2016, the balance of retail customer deposits in County Areas was RMB4,430,752 million, representing an increase of RMB405,994 million compared to the end of the previous year. Loans for retail customers in County Areas amounted to RMB1,199,128 million, representing an increase of RMB235,875 million compared to the end of the previous year.

Financial Poverty Alleviation

Helping poor people lived in the rural areas lifting themselves out of poverty by 2020 is the most arduous task of China to complete building a moderately prosperous society. The most important work of our serving Sannong is to support the national poverty alleviation strategy and do well of our poverty alleviation development banking business. During the reporting period, remarkable results in financial poverty alleviation were achieved through further refining the financial poverty alleviation mechanism and strengthening the innovation of our products and service models.

We adopted several measures to ensure the efforts exerted into financial poverty alleviation. We formulated the *Opinion on Enhancing the Financial Poverty Alleviation during the 13th Five-Year Plan Period*, which specified the basic principles, targets, major works and resource ensuring for financial poverty alleviation in the next five-year. We tailored financial service solutions for each poor county according to their resource endowments and characteristics of industries. We strengthened cooperation with departments of the government at all levels to innovatively carry out commercially sustainable models for poverty alleviation such as credit enhancement by the government and government's purchase of services. We actively promoted policy innovation of our products by establishing 15 Sannong Product Innovation Bases in poor areas, and authorizing tier-1 branches to develop featured agricultural credit products in the poor areas. Tier-1 branches were encouraged to explore commercially sustainable models of financial services and formulate differentiated credit policies in line with their resource endowments and characteristics of industries in poor areas. We allocated more resources to 832 key counties of national poverty alleviation by formulating specialized credit plans and allocating additional business expenses and strategic salaries. We implemented specialized assessment for the financial poverty alleviation. The indicators such as the number of ratified and registered poor people, growth in loans for targeted poverty alleviation and inclusive finance services coverage were included in our assessment system. We promoted our poverty alleviation in designated areas by convening matchmaking meetings in designated counties and implementing 11 favorable policies. We conducted credit pre-review for key projects in designated poverty alleviation counties and accelerated approval process of the loans for projects whose conditions were ripe.

We achieved positive results in financial poverty alleviation. Loans granted to poor areas continuously increased. Total loans granted to 832 key counties of national poverty alleviation in 2016 amounted to RMB335,100 million. At the end of 2016, the balance of the loans was RMB704,400 million, representing an increase of RMB92.0 billion over the end of 2015, which mainly supported key areas and weak points of economic and social developments in the poor areas. We significantly strengthened our efforts in targeted poverty alleviation. According to the statistical standards of the PBOC, total loans granted for targeted poverty alleviation amounted to RMB104,100 million in 2016. At the end of the year, total loans granted to targeted poverty alleviation amounted to RMB203,400 million, representing an increase of RMB42.4 billion over the end of 2015. We further enriched our featured products for poverty alleviation, with 76 innovative products for poverty alleviation with regional characteristics developed in 832 key counties of national poverty alleviation. Based on our branch outlets and Huinong service stations, we improved the coverage, accessibility and convenience of basic financial services in the poor counties by using technology and network technique. Our poverty alleviation work in designated areas achieved remarkable results. In 2016, total loans granted to Wuqiang County and Raoyang County in Hebei, Huang Ping County in

Guizhou and Xiushan County in Chongqing, the four designated poverty alleviation counties, amounted to RMB2.6 billion. At the end of 2016, the balance of loans amounted to RMB4.4 billion, representing an increase of 35% over the end of 2015, which serviced 30,000 ratified and registered poor people. For the year 2016, the special funds provided by the Bank to the four designated poverty alleviation counties and Fuping County in Hebei totalled RMB8.50 million. During the reporting period, the Bank was rewarded with the "2015 Poverty Alleviation Award" by China Foundation for Poverty Alleviation.

In the following year, we will focus on the policy of "taking targeted measures to help people lift themselves out of poverty" to further increase credit facilities. We will focus on customers in key businesses such as infrastructure and projects for the improvement of people's livelihoods, and key projects for poverty alleviation such as photovoltaic and e-commerce in poor areas. Preferential terms of loans will be given to customers with strong capabilities of implementing poverty alleviation in order to promote targeted poverty alleviation by developing industries. We will adopt targeted measures to cater the financial needs in various fields such as business, studies and housing of poor people and proactively issue small unsecured loans for poverty alleviation.

Statistics of targeted financial poverty alleviation based on PBOC Standards for the year 2016

I.	**Loans for targeted financial poverty alleviation (balance at the end of the period, in hundred millions of RMB)**	**2,033.94**
1.1	Retail loans for targeted poverty alleviation	186.76
	1.1.1 Loans for ratified and registered poor people	163.02
	1.1.2 Other retail loans for targeted poverty alleviation	23.74
1.2	Corporate loans for targeted poverty alleviation	1,847.18
	1.2.1 Loans related to industries for targeted poverty alleviation	503.53
	1.2.2 Loans related to projects for targeted poverty alleviation	1,343.65
	Of which: loans for improving ecological environment	39.94
	Loans for improving rural infrastructure	1,296.66

II.	**People driven by loans for targeted financial poverty alleviation (number of existing loan customers, in ten thousands of people)**	
2.1	Number of people driven by loans for ratified and registered poor people at the end of the reporting period	106.74
2.2	Number of people driven by other loans for targeted poverty alleviation at the end of reporting period	7.42
2.3	Number of people driven by loans related to industries for targeted poverty alleviation at the end of reporting period	17.13
2.4	Number of people who were served for loans for targeted poverty alleviation at the end of reporting period	428.46

Financial Position

Assets and Liabilities

As of 31 December 2016, the total assets of the County Area Banking Business reached RMB7,040,416 million, representing an increase of 10.4% compared to the previous year. The total loans and advances to customers reached RMB3,178,345 million, representing an increase of 11.1% which was 2.0 percentage points higher than that of the Bank compared to the previous year. The balance of deposits from customers reached RMB6,421,067 million, representing an increase of 10.7% compared to the previous year.

The table below presents the major items of assets and liabilities of the County Area Banking Business as of the dates indicated.

In millions of RMB, except for percentages

	31 December 2016		31 December 2015	
Item	**Amount**	**Percentage (%)**	Amount	Percentage (%)
Total loans and advances to customers	**3,178,345**	**–**	2,860,193	–
Allowance for impairment losses on loans	**(162,590)**	**–**	(159,125)	–
Loans and advances to customers, net	**3,015,755**	**42.8**	2,701,068	42.3
Intra-bank balance[1]	**3,435,785**	**48.8**	3,174,640	49.8
Other assets	**588,876**	**8.4**	503,614	7.9
Total assets	**7,040,416**	**100.0**	6,379,322	100.0
Deposits from customers	**6,421,067**	**97.3**	5,800,174	96.8
Other liabilities	**177,792**	**2.7**	192,737	3.2
Total liabilities	**6,598,859**	**100.0**	5,992,911	100.0

Note: 1. Intra-bank balance refers to funds provided by our County Area Banking Business to other business segments within the Bank through internal funds transfers.

Profit

In 2016, the profit before tax of our County Area Banking Business decreased by 12.6% to RMB65,920 million, compared to the previous year, primarily due to the narrowing of the interest spread and the adoption of a more prudent approach of allowance for loan impairment losses.

The table below presents the major income items of the County Area Banking Business for the years indicated.

In millions of RMB, except for percentages

	2016	2015	Change	Growth Rate (%)
External interest income	**143,479**	166,863	(23,384)	-14.0
Less: External interest expense	**88,268**	100,263	(11,995)	-12.0
Interest income from intra-bank balance[1]	**102,598**	101,332	1,266	1.2
Net interest income	**157,809**	167,932	(10,123)	-6.0
Net fee and commission income	**31,887**	28,191	3,696	13.1
Other non-interest income	**4,615**	4,756	(141)	-3.0
Operating income	**194,311**	200,879	(6,568)	-3.3
Less: Operating expenses	**84,205**	91,828	(7,623)	-8.3
Impairment losses on assets	**44,186**	33,649	10,537	31.3
Total profit before tax	**65,920**	75,402	(9,482)	-12.6

Note: 1. Interest income from intra-bank balance represents the interest income earned on funds provided by our County Area Banking Division to our other divisions at internal funds transfer pricing, which is determined based on the market interest rate.

Key Financial Indicators

In 2016, the return on average total assets of the County Area Banking Business was 0.80%, representing a decrease of 17 basis points compared to the previous year. The interest spread between deposits and loans was 3.33%, 42 basis points higher than that of the Bank. At 31 December 2016, the non-performing loan ratio of the County Area Banking Business was 3.00%, representing a decrease of 0.02 percentage point compared to the end of the previous year. The allowance to non-performing loans was 170.30% and the allowance to total loans was 5.12%.

The tables below set out the key financial indicators of our County Area Banking Business at the dates or for the years indicated.

Unit: %

Item	2016	2015
Return on average total assets	**0.80**	0.97
Average yield of loans	**4.73**	5.97
Average cost of deposits	**1.40**	1.76
Net fee and commission income to operating income	**16.41**	14.03
Cost-to-income ratio	**42.54**	41.71

Item	31 December 2016	31 December 2015
Loan-to-deposit ratio	**49.50**	49.31
Non-performing loan ratio	**3.00**	3.02
Allowance to non-performing loans	**170.30**	184.47
Allowance to total loans	**5.12**	5.56

Risk Management and Internal Control

Comprehensive Risk Management System

Comprehensive risk management refers to the timely identification, measurement, monitoring, reporting and control of all types of risks in business operation, processes and staff through the integration of elements of risk management including risk appetite, policies, organizations, tools and models, data systems and risk culture, so as to ensure effective risk management in decision making, implementation and supervision.

In 2016, the Bank continued to advance the construction of its comprehensive risk management system. Under the general requirement of "comprehensively preventing risks and fighting against risks" and following the guideline of "mitigating existing risks while controlling emerging risks", the Bank further enhanced the initiative and effectiveness of risk management. The Bank optimized responsibilities of departments for risk management and refined accountability and performance appraisal mechanisms for risk management. The Bank strengthened its management of credit risk in key areas, resulting in stable assets quality and leading risk resistance among comparable banks. The Bank formulated annual risk management policies of treasury trading and investment as well as market risk management, and enhanced the risk management of bonds and wealth management products. The Bank also strengthened prevention and control of cases of non-compliance, avoided behaviors violating laws and regulations, to comprehensively reinforce its operational risk management.

The Bank further reinforced the implementation and application of the advanced approach of capital management. In the aspect of credit risk, the Bank continued to carry out model-based monitoring and model optimization to raise the accuracy of risk measurement. The Bank made its effort to promote the implementation of internal rating systems in its overseas branches. Major benchmarks of non-retail rating among domestic and overseas branches achieved consistency, the non-retail rating policy system in its overseas branches were improved, and the internal rating system and risk weighted assets measurement system were extended to all the overseas branches. The Bank continuously monitored and verified the retail internal rating system to comprehensively optimize its parameters. In the aspect of market risk, the Bank established the methods for the measurement and allocation of economic capital based on Internal Models Approach (IMA), and applied them extensively in the areas of product management, performance appraisal and policy formulation, etc., with a view to providing a strong support for the analysis of business risks in the financial market and the management of investment decision-making. In the aspect of operational risk, the Bank continued to promote the implementation of the Advanced Measurement Approach (AMA) for operational risk, and adjusted and refined the risk index system of AMA in order to improve the accuracy and sensitivity of risk measurement.

During the reporting period, the Risk Management Committee under the Bank's senior management held three meetings and discussed and considered various motions and reports, including the Bank's market risk management policies, strategies for trading and investment as well as market risk management in 2016, the administrative measures on consolidated risks management of the subsidiaries, the analysis report on the risk exposures of relative businesses in the capital market and the effects on business performance.

Risk Appetite

Risk appetite is a term that refers to the types and levels of risks acceptable to the Bank as determined by the Board of Directors, which depends on the expectations and constraints of our major stakeholders, external operating environment and the conditions of the Bank, in order to achieve strategic targets and effective risk management. The risk appetite statement and the administrative measures on risk appetite described the types and levels of risks acceptable to the Bank during the course of operations. The Bank established its risk limitation, specified the basic principles for formulating various risk management policies and set up the general rules for the formulation, adjustment, management duties and implementation of risk appetite.

Generally speaking, the Bank is devoted to building ourselves into an international first-class commercial banking group and maintaining a prudent risk appetite. The Bank operates in compliance with regulatory and legal requirements and consistently implements the advanced approach of capital management. At the same time, the Bank seeks to achieve moderate returns with reasonable levels of risk by maintaining security, profitability and liquidity and insisting on having an appropriate balance among capital, risk and revenue. The Bank maintains a sufficient risk allowance and capital adequacy, aims to improve its overall risk management capability for business development and innovation, and creates value through risk management, so as to effectively support the fulfillment of our strategic targets.

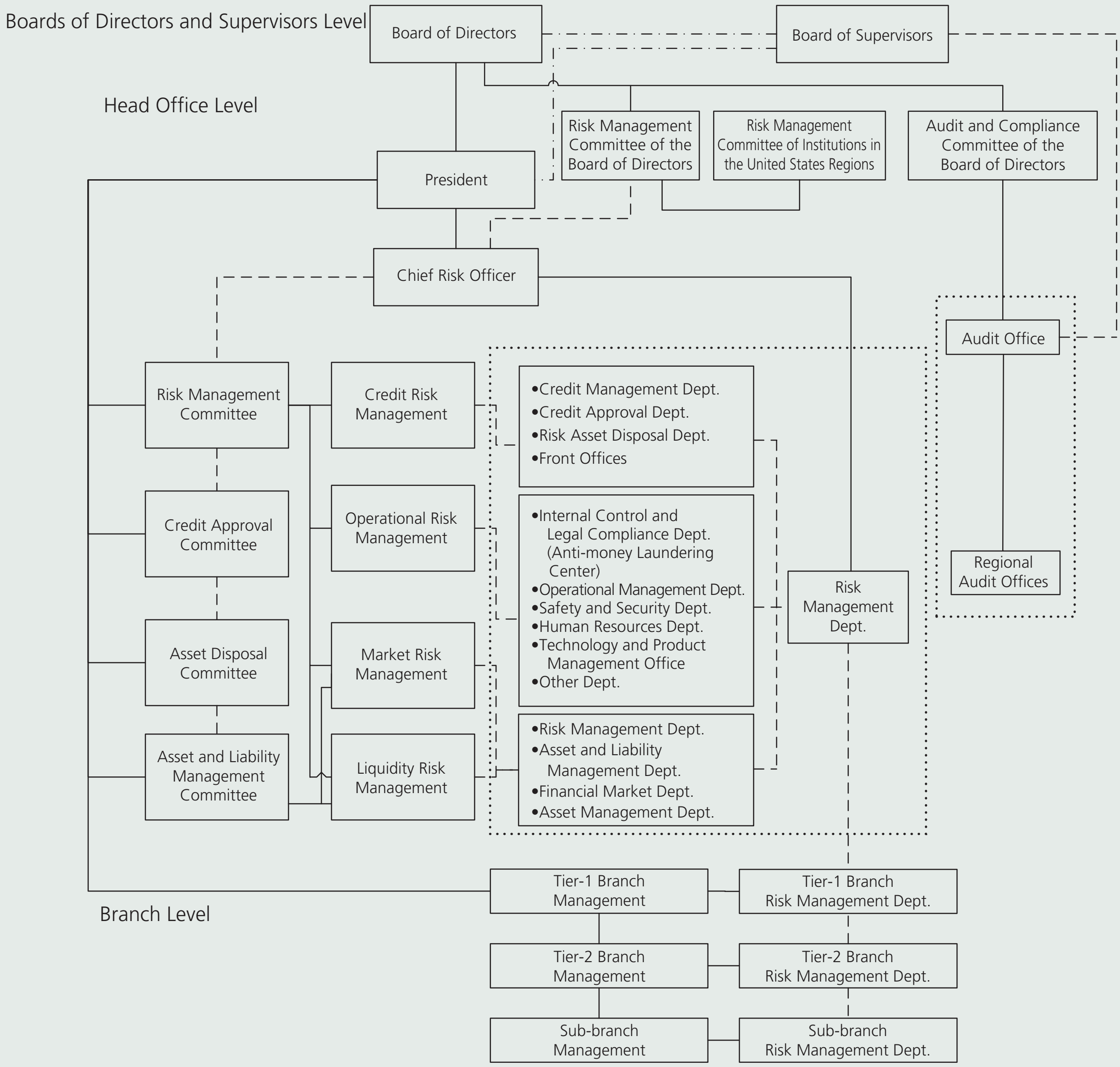
In 2016, the Bank maintained a prudent risk appetite, and operated in strict accordance with relevant laws and regulations, in the light of which, the bank kept the balance among capital, risk and yield while maintaining security, profitability and liquidity, and sought moderate returns with modest risks while maintaining sufficient risk allowance and capital adequacy for risk resistance.

Risk Management Organizational Structure

The Board of Directors assumes the ultimate responsibility for risk management. The Risk Management Committee, the Audit and Compliance Committee under the Board of Directors perform the risk management functions, review the key risk management issues and supervise and evaluate the establishment of risk management system and the risk condition of the Bank.

Senior management is the organizer and executor of risk management of the Bank. Under the senior management oversight, we have various risk management committees with different functions, including Risk Management Committee (with three sub-committees, namely credit risk management committee, market risk management committee and operational risk management committee), Credit Approval Committee, Asset and Liability Management Committee and Asset Disposal Committee. Risk Management Committee is primarily responsible for considering material risk management issues, studying and drafting risk management policies, system and tools, analyzing and evaluating the overall risk condition of the Bank, and coordinating, guiding and reviewing the risk management of all departments and branches.

Based on the principle of "centralized management, matrix distribution, comprehensive coverage and full participation", the Bank established the "Three Lines of Defense" of the risk management which are comprised of business departments (departments bearing risk), risk management departments and audit departments. In 2016, the Bank further improved the risk management mechanism as required by the *Guidelines of Comprehensive Risk Management* issued by the CBRC to ensure that the Board of Directors, Board of Supervisors and Senior Management assumed their duties faithfully. During the reporting period, the Risk Management Committee of Institutions in the United States Regions was set up by the Board of Director and the Anti-money Laundering Center (as the secondary division of the Internal Control and Legal Compliance Department) was established at the Head Office to further clarify the duties of departments for risk management. Specifically, the Risk Management Department is the responsible department for comprehensive risk management and market risk management across the Bank; the Credit Management Department is the responsible department for credit risk management across the Bank; and the Internal Control and Legal Compliance Department is the responsible department for operational risk, compliance risk, and legal risk across the Bank. The Bank continued to build up its risk management teams. Profession-based training was enhanced through measures including job rotation and special purpose training programs to strengthen our employees' professionalism and ability to perform their duties.



Risk Management Structure

Risk Management System

In 2016, the Bank continued to refine its risk management policy systems. For credit risk management, the Bank formulated the guidelines on identifying the group clients and the administrative measures on credit pre-granting of corporate customers and revised the administrative measures on stress testing, ratings of overseas institutions and credit risk incident reporting. For market risk management, the Bank formulated the policies for market risk management, and revised the administrative measures on segregation of the trading book and banking book, management measures on measurement of VaR, administrative measures on model validation of market risks and administrative measures on valuation of trading portfolios and investments. For operational risk management, the Bank formulated the administrative measures on information technology risk.

Risk Analysis and Reporting

In 2016, closely following the changes of macro-economic situations and national industrial policies, the Bank enhanced risk identification, monitoring and warning for key areas, including industries, products and customers to enhance the pertinence, timeliness and comprehensiveness of risk analysis and reporting. The Bank promoted the establishment of risk supervision and reporting IT system and utilized IRB, risk limit, economic capital and stress testing among other tools, to continuously improve the quality of risk reporting.

Credit Risk

Credit risk is the risk of economic loss arising from a counter-party's failure to fulfill its obligations under an agreed covenant. The Bank is exposed to credit risk primarily from its loan portfolio, investment portfolio, guarantee business and various other on- and off-balance sheet credit risk exposures.

Credit Risk Management

During the reporting period, following the national macro-control policies, the Bank kept optimizing its credit structure, and reinforced the construction of the credit risk management system. Through strengthening the risk prevention and control in key areas, mitigating various potential risks on a timely basis, and diversifying the ways of collection and disposal of non-performing loans, the Bank maintained its assets quality stable.

Credit Risk Management Structure

The credit risk management system mainly comprises the Board of Directors and its Risk Management Committee, the senior management and its Risk Management Committee, Credit Approval Committee, Asset Disposal Committee, Risk Management Department, Credit Management Department, Credit Approval Department and front offices, forming a credit risk management structure characterized with centralized management and multi-level authorization.

Risk Management of Corporate Banking

The Bank refined the policy systems for risk management. It issued various documents during the year such as the guidelines on due diligence for corporation and individuals, guidelines on authenticity verification and guidelines on the selection of group clients, in order to strengthen the authenticity management during the whole processes of credit loan business. The Bank formulated the administrative measures on credit risk related to remaining credit exposures, to standardize relative business processes. Opinions on strengthening the management of collateral were formulated. The Bank also revised the administrative measures on monitoring and controlling the risks associated with credit business, so as to put itself in a stronger position to monitor and control credit risks.

The Bank strengthened the risk management in key areas. Through enhancing the control of customers' access to loan financing, strictly implementing corporate customer list-based management and continuing to carry out exposure limit management on industries associated with high risks such as overcapacity industries, the Bank continuously optimized its credit structure. The Bank strictly followed the control policies on real estate industry, improved the management of loan structure, and strengthened the risk control with regard to high risk regions and large real-estate loans. The Bank completed the evaluations on the debt level of local governments and set strict access requirements for certain regions and customers to optimize the aggregate loan exposure and the structure of local government financing vehicles. The Bank put great efforts on the credit review and approval of public-private partnership (PPP) projects to take a more proactive position for risk prevention and strictly control the risks of financing business with local governments. The Bank carried out a special rectification campaign for the credit risks in the key areas, and enhanced risk detection in all aspects to mitigate potential risks promptly.

The Bank strengthened the post-disbursement management and the collection and the disposal of non-performing assets. The Bank enhanced its post-disbursement inspections and monitoring of large exposure risk, and exerted more efforts in the withdrawal and loan collection from customers with potential risk. While insisting on collecting loans by itself, the Bank exerted more efforts in speeding up the write-off of bad debts, advanced transfer of non-performing loans in batches and piloted securitization of non-performing assets in an effort to improve the efficiency of disposal.

The Bank refined its tools and IT systems of credit risk management. The Bank continuously optimized the functionalities of its IT systems, initiated the construction of certain key projects, including the management and control platform for global unified credit granting and its application system for the overseas branches, and the consolidated and unified credit granting management and control project, which provided a strong guarantee for the steady development of the credit business.

Risk Management of Retail Banking

The Bank established a pilot retail loan center in tier-1 branches to carry out retail loan review, approval and audit on a centralized basis. The Bank optimized the operational procedures for the collection and management of overdue retail loans, and promoted and launched the collection IT system to improve the efficiency of overdue loan collection. It carried out a special program to inspect the authenticity of the retail credit business and the collateral-related risks, and strengthened the risk management and control in key areas. By strictly implementing differentiated credit policies, the Bank continuously optimized the underwriting standards of retail loans and gradually withdrew loans from risky customers having large credit exposure. The Bank deepened the application of measurement tools, and improved the automatic processing of the retail business, realizing automatic approval of individual housing loans in four pilot branches. It conducted stress tests for retail loans to understand the asset quality under different scenarios and to develop specific risk prevention plans. The Bank also exerted more efforts in speeding up the collection and write-off of non-performing loans to ensure stable asset quality in retail loans.

Risk Management of Credit Card Service

In advancing the reform in risk management of the credit card service, centralized phone-based investigation was implemented at the Head Office and a pilot program was launched for centralized loan approval by the Head Office, therefore realizing more intensified risk management. The Bank optimized the management of credit card customer access, and enforced strict control on large size credit granting. Also, the Bank conducted cross-selling to capture more quality customers based on its target customer database. The Bank strengthened the management and control of post-disbursement risks and carried out risk investigations for its credit card business to timely identify and mitigate the risks related to existing customers. It promoted the centralized outsourcing phone-based collection program at the Head Office to further improve the efficiency of collection.

Risk Management of Treasury Operations

The Bank optimized an authorization system to improve the clarity and applicability of the authorization scheme. The Bank improved the credit assessment model to improve the ability of risk identification and risk analysis. All businesses were managed from the client acceptance to subsequent monitoring. Dynamical adjustments were made regarding closely watched customers showing signs of potential risks. The Bank integrated the management function of black list and white list into the IT management system, so as to realize automatic management and control and continuously optimize the customer structure. Major market risk incidents were closely monitored, so that risk warnings could be timely issued.

Risk Management of Business in County Area

Please refer to "Discussion and Analysis – County Area Banking Business – Management Structure and Management Mechanism".

Loan Risk Classification

We formulated and refined relevant regulations on loan risk classification in accordance with the *Guidelines of Loan Credit Risk Classification* issued by the CBRC. We comprehensively assessed the recoverability of loans and classified the loans by taking into account of principle factors, including the borrower's repayment ability, repayment record, willingness to repay the loan, profitability of the loan project, and the reliability of the secondary repayment source.

We adopted two classification management systems: (1) the five-category classification system and (2) the 12-category classification system. Based on the five-category classification required by the CBRC, corporate loans were mainly managed with 12-category classification system. Comprehensive evaluations of customer default risk and debt transaction risk objectively reflected the risk level of loans and improved the foreseeability and sensitivity of risk identification. Retail loans were managed with the five-category classification system based on overdue days mainly. The credit management system automatically classified the loans based on the length of period by which payments of principal or interest were overdue and the collateral type and allowed for a more objective risk assessment. Furthermore, large retail loans for production and operation over RMB5 million were classified manually for each half year to enhance risk sensitivity thereof. In addition, the classification was timely adjusted based on the information collected in the credit management to reflect loan quality objectively.

During the reporting period, the macro-economy was trending better through steady development. The previous pressure on our asset quality was relieved to some extent. We will continuously enhance the management of risk classification, adhere to our limitation of risk tolerance and keep our asset quality stable.

Credit Risk Analysis

Distribution of Loans by Collateral

In millions of RMB, except for percentages

Item	31 December 2016 Amount	31 December 2016 Percentage of total loans (%)	31 December 2015 Amount	31 December 2015 Percentage of total loans (%)
Loans secured by mortgages	**4,594,468**	**47.3**	4,265,801	47.9
Loans secured by pledges	**1,485,633**	**15.3**	1,198,000	13.5
Guaranteed loans	**1,293,680**	**13.3**	1,349,190	15.1
Unsecured loans	**2,345,858**	**24.1**	2,096,927	23.5
Total	**9,719,639**	**100.0**	8,909,918	100.0

Distribution of Overdue Loans by Overdue Period

In millions of RMB, except for percentages

Item	31 December 2016 Amount	31 December 2016 Percentage of total loans (%)	31 December 2015 Amount	31 December 2015 Percentage of total loans (%)
Overdue for less than 90 days (including 90 days)	**79,545**	**0.8**	98,465	1.1
Overdue for 91 to 360 days	**86,468**	**0.9**	105,098	1.2
Overdue for 361 days to 3 years (including 3 years)	**98,427**	**1.0**	63,251	0.7
Overdue for more than 3 years	**10,195**	**0.1**	12,698	0.1
Total	**274,635**	**2.8**	279,512	3.1

Loan Concentration

In millions of RMB, except for percentages

Top 10 borrowers	Industry	Amount	Percentage of total loans (%)
Borrower A	Transportation, logistics and postal services	107,998	1.11
Borrower B	Transportation, logistics and postal services	20,551	0.21
Borrower C	Transportation, logistics and postal services	19,629	0.20
Borrower D	Transportation, logistics and postal services	18,288	0.19
Borrower E	Transportation, logistics and postal services	17,577	0.18
Borrower F	Production and supply of power, heat, gas and water	16,647	0.17
Borrower G	Transportation, logistics and postal services	15,100	0.16
Borrower H	Production and supply of power, heat, gas and water	13,773	0.14
Borrower I	Production and supply of power, heat, gas and water	13,492	0.14
Borrower J	Transportation, logistics and postal services	13,310	0.14
Total		**256,365**	**2.64**

At 31 December 2016, we fulfilled the regulatory requirements that total loans to our largest single borrower represented 6.98% of our net capital and total loans to our ten largest borrowers represented 16.58% of our net capital.

Distribution of Loans by Five-category Classification

In millions of RMB, except for percentages

	31 December 2016		31 December 2015	
Item	**Amount**	**Percentage of total loans (%)**	Amount	Percentage of total loans (%)
Normal	**9,111,457**	**93.75**	8,322,619	93.41
Special mention	**377,348**	**3.88**	374,432	4.20
Non-performing loans	**230,834**	**2.37**	212,867	2.39
Substandard	**57,550**	**0.59**	47,755	0.54
Doubtful	**151,587**	**1.56**	147,864	1.66
Loss	**21,697**	**0.22**	17,248	0.19
Total	**9,719,639**	**100.00**	8,909,918	100.00

At 31 December 2016, the balance of non-performing loans of the Bank was RMB230,834 million, representing an increase of RMB17,967 million compared to the end of the previous year. The non-performing loan ratio decreased by 0.02 percentage point to 2.37%. The balance of special mention loans was RMB377,348 million, representing an increase of RMB2,916 million compared to the end of the previous year. Special mention loans accounted for 3.88% of total loans, representing a decrease of 0.32 percentage point.

During the reporting period, we adhered to our limitation of risk tolerance and strengthened management of loan quality, maintaining effective control of the overall risks: (1) We optimized our credit risk monitoring system, strengthened the daily monitoring and analyzed of key industries, regions and clients and enhanced the risk pre-warning; (2) We improved our risk prevention mechanism to clarify management responsibilities and accelerate risk mitigation; (3) We actively adopted various measures to accelerate the disposal of non-performing loans; (4) We mitigated the potential risk in a timely manner by strengthening our effort in guiding the control of non-performing loans in major branches.

Distribution of Non-Performing Loans by Product Type

In millions of RMB, except for percentages

Item	31 December 2016			31 December 2015		
	Amount	Percentage (%)	Non-performing loan ratio (%)	Amount	Percentage (%)	Non-performing loan ratio (%)
Corporate loans	**188,767**	**81.8**	**3.52**	177,453	83.3	3.30
Of which: Short-term corporate loans	**146,138**	**63.3**	**6.73**	142,154	66.7	6.23
Medium- and long-term corporate loans	**42,629**	**18.5**	**1.33**	35,299	16.6	1.14
Discounted bills	**1**	**–**	**–**	–	–	–
Retail loans	**37,980**	**16.4**	**1.14**	31,884	15.0	1.17
Residential mortgage loans	**11,014**	**4.8**	**0.43**	8,257	3.9	0.43
Credit card balances	**6,983**	**3.0**	**2.88**	6,059	2.8	2.73
Personal consumption loans	**3,119**	**1.4**	**2.04**	2,892	1.4	1.61
Loans to private business	**9,804**	**4.2**	**5.10**	8,495	4.0	3.69
Loans to rural households	**6,955**	**3.0**	**3.63**	6,020	2.8	3.59
Others	**105**	**0.0**	**8.58**	161	0.1	12.43
Overseas and others	**4,086**	**1.8**	**0.93**	3,530	1.7	0.79
Total	**230,834**	**100.0**	**2.37**	212,867	100.0	2.39

At 31 December 2016, the balance of corporate non-performing loans was RMB188,767 million, representing an increase of RMB11,314 million over the end of the previous year. The non-performing corporate loan ratio increased by 0.22 percentage points over the end of the previous year to 3.52%. The balance of retail nonperforming loans increased by RMB6,096 million to RMB37,980 million over the end of the previous year, and the non-performing loan ratio decreased by 0.03 percentage point to 1.14% over the end of the previous year.

Distribution of Non-Performing Loans by Geographic Region

In millions of RMB, except for percentages

	31 December 2016			31 December 2015		
Item	Amount	Percentage (%)	Non-performing loan ratio (%)	Amount	Percentage (%)	Non-performing ratio (%)
Head Office	7	–	–	7	–	–
Yangtze River Delta	35,471	15.4	1.63	41,684	19.6	2.03
Pearl River Delta	30,530	13.2	2.08	29,600	13.9	2.34
Bohai Rim	45,728	19.8	3.05	40,005	18.8	2.73
Central China	30,194	13.1	2.31	28,084	13.2	2.48
Northeast China	8,772	3.8	2.22	6,036	2.8	1.66
Western China	76,046	32.9	3.52	63,921	30.0	3.23
Overseas and others	4,086	1.8	0.93	3,530	1.7	0.79
Total	**230,834**	**100.0**	**2.37**	212,867	100.0	2.39

At 31 December 2016, the balance of non-performing loans in Yangtze River Delta decreased by RMB6,213 million; and the balance of non-performing loans in Western China and Bohai Rim increased by RMB12,125 million and RMB5,723 million, respectively, over the end of the previous year.

Distribution of Corporate Non-Performing Loans by Industry

In millions of RMB, except for percentages

Item	31 December 2016			31 December 2015		
	Amount	Percentage (%)	Non-performing loan ratio (%)	Amount	Percentage (%)	Non-performing loan ratio (%)
Manufacturing	**77,124**	**40.9**	**6.29**	74,522	42.0	5.45
Production and supply of power, heat, gas and water	**3,247**	**1.7**	**0.49**	2,785	1.6	0.47
Real estate	**11,086**	**5.9**	**2.47**	9,270	5.2	1.76
Transportation, logistics and postal services	**3,951**	**2.1**	**0.39**	5,210	2.9	0.58
Wholesale and retail	**63,140**	**33.4**	**15.62**	62,072	35.0	12.31
Water, environment and public utilities management	**810**	**0.4**	**0.34**	945	0.5	0.46
Construction	**6,004**	**3.2**	**3.31**	5,447	3.1	2.59
Mining	**13,275**	**7.0**	**5.77**	7,859	4.4	3.14
Leasing and commercial services	**3,783**	**2.0**	**0.68**	2,122	1.2	0.47
Finance	**177**	**0.1**	**0.10**	313	0.2	0.24
Information transmission, software and IT service	**140**	**0.1**	**0.59**	181	0.1	0.67
Others	**6,030**	**3.2**	**2.77**	6,727	3.8	3.09
Total	**188,767**	**100.0**	**3.52**	177,453	100.0	3.30

At 31 December 2016, the balance of non-performing loans increased most in mining and manufacturing, by RMB5,416 million and RMB2,602 million, respectively.

Changes to the Allowance for Impairment Losses

In millions of RMB

Item	Individually assessed	Collectively assessed	Total
At 1 January 2016	133,900	269,343	403,243
Charge for the year	74,169	4,759	78,928
– Addition	96,110	64,216	160,326
– Reversal	(21,941)	(59,457)	(81,398)
Write-offs and transfer-out	(73,949)	(8,797)	(82,746)
Transfer-in			
– Recoveries of loans and advances written-off in previous years	925	1,421	2,346
– Unwinding of discount on allowance	(1,730)	(479)	(2,209)
– Exchange difference	290	423	713
At 31 December 2016	**133,605**	**266,670**	**400,275**

Market risk

Market risk refers to the risk of losses in the on- and off-balance sheet businesses of banks as a result of an adverse change in market prices. Market risk comprises interest rate risk, exchange rate risk, stock price risk and commodity price risk. The Bank is exposed to market risks, primarily including interest rate risk and exchange rate risk. Our organizational structure of risk management comprises the Board of Directors and its risk management committee, senior management and its risk management committee, the Risk Management Department, the Asset and Liability Management Department and other departments (institutions) bearing market risks.

The Bank formulated market risk management policies for 2016, promulgated annual strategies for trading and investment as well as related market risk management, and amended some administrative measures on market risk management including segregation of trading book, valuation of treasury transactions, measurement of VaR and model validation, thereby further improving our market risk management system. The Bank also improved various functions of our market risk management IT system including pre-warning of limits and parameter management, and carried out comprehensive validation of Internal Model Approach. In 2016, default risk rose in the domestic bond market and bond interest rates and treasury bond futures experienced significant fluctuations. Substantial fluctuations were seen in major markets worldwide involving foreign exchange rates, bonds, commodities and stocks, affected by the "Brexit" vote and the American election. The Bank actively adopted various measures and appropriately controlled the size and duration of available-for-sale portfolio, keeping our exposure to proprietary transactions at a relatively low level. As a result, the Bank's exposure to market risks were stable.

Market Risk Exposure Limit Management

Our market risk exposure limits are classified into directive limits and indicative limits based on different effects.

In 2016, the Bank further enhanced market risk exposure limit management. The Bank refined the categorization of limits by setting different market risk exposure limits based on the types of products and risks. The Bank also measured, monitored and reported risk exposure automatically through the systems. During the reporting period, the risk exposure limits were within the designated ranges.

Segregation of Trading Book and Banking Book

To enhance the effectiveness of the market risk management and the accuracy of the measurement of regulatory capital for market risk, the Bank classified all of the on- and off-balance sheet assets and liabilities into either the trading book or banking book. The trading book includes the financial instruments and commodity positions held for trading or hedging purposes. Any other positions are classified into the banking book.

Market Risk Management for Trading Book

The Bank managed the market risk of the trading book through various methods such as Value at Risk (VaR), exposure limit management, sensitivity analysis, duration analysis, exposure analysis and stress testing.

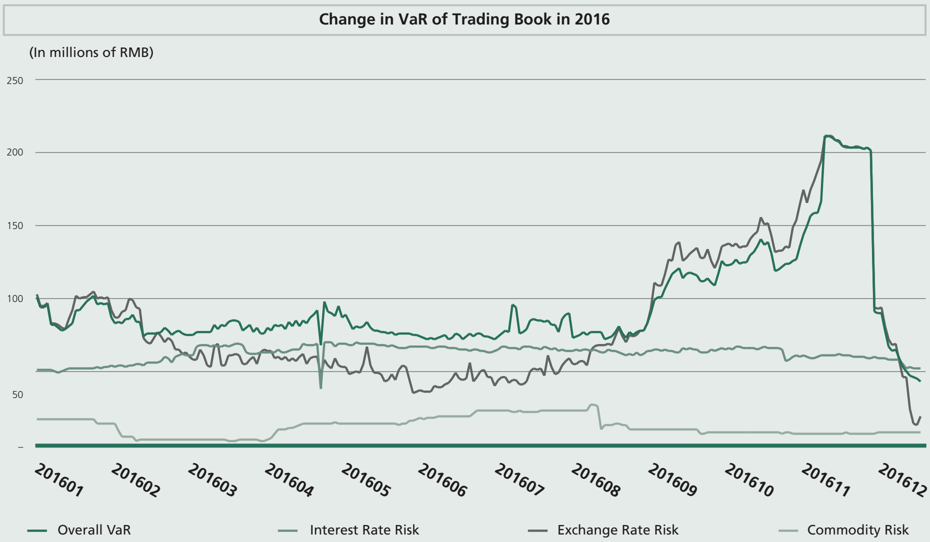
The Bank adopted a historical simulation method with a confidence interval of 99% based on a holding period of 1 day and historical data for 250 days to measure the VaR for the trading book of the Head Office and domestic and overseas branches of the Bank. Based on the differences between domestic and overseas markets, the Bank selected applicable parameters for the models and risk factors in order to reflect the actual levels of market risks. The Bank verified the accuracy and reliability of the risk measurement models through data analysis, parallel modeling and back-testing.

VaR Analysis for the Trading Book

In millions of RMB

	2016				2015			
Item	At the end of the period	Average	Maximum	Minimum	At the end of the period	Average	Maximum	Minimum
Interest rate risk	**53**	**63**	**71**	**39**	50	76	103	50
Exchange rate risk[1]	**20**	**86**	**213**	**14**	82	74	151	32
Commodity risk	**9**	**13**	**28**	**3**	18	29	53	9
Overall VaR	**44**	**96**	**213**	**44**	82	119	183	68

Note: 1. According to the Capital Rules for Commercial Banks (Provisional), VaR relating to gold was reflected in exchange rate risk.



During the reporting period, RMB interest rate remained at a low level, and the maturity structure of bonds portfolio in the trading book was shortened, resulting in a slight decrease in the VaR of interest rate risk. From September to November 2016, the Bank's gold position experienced rapid growth, resulting in a rapid increase in VaR of exchange rate risk. During mid-to-late December 2016, the Bank's holding position of gold was reduced, resulting in a sharp decrease in VaR. Besides, the VaR of commodity risk decreased because the volume of the silver portfolio in the trading book reduced by more than 50%.

Market Risk Management for Banking Book

The Bank managed market risk of the banking book through comprehensive use of relevant measures such as exposure limit management, stress testing, scenario analysis and gap analysis.

Interest Rate Risk Management

Interest rate risk refers to the risk of losses in our income or economic value from adverse movements in the benchmark or market interest rate. The interest rate risk of the banking book of the Bank primarily arises from the mismatch of the maturity or re-pricing dates of interest-rate-sensitive assets and liabilities in the banking book and inconsistencies in the change of the benchmark interest rate on which assets and liabilities are based.

In 2016, we commenced the construction of IT system for interest rate risk of the banking book. By introducing a mature, systematic and efficient computing engine, the Bank enriched the tools to measure interest rate risks and enhanced the accuracy and timeliness of the measurement of interest rate risks. In the aspect of pricing management, the Bank established a layered deposit pricing management mechanism while continually optimizing supporting policies, promoting the balanced development of deposit size and pricing, which substantially raised our capabilities of market-oriented and differentiated pricing.

Exchange Rate Risk Management

Exchange rate risk refers to the risk arising from currency mismatches of assets and liabilities. Exchange rate risk mainly consists of the trading exchange rate risk that could be hedged, and the exchange rate risk caused by structural assets and liabilities (the "structural exchange rate risk"), which are difficult to be prevented in operations.

In 2016, the Bank performed exchange rate risk exposure monitoring and sensitivity analysis regularly, and balanced foreign currency-denominated assets and liabilities operations, to enhance proper matching of foreign currency exposures. The Bank dealt with "Black Swan" events affecting market trends in advance, and flexibly adjusted the trading exchange rate risk exposure, while maintaining the structural exchange rate risk exposure stable. Therefore, the risk exposure of exchange rate of the Bank was controlled within a reasonable range.

Interest Rate Risk Analysis

At 31 December 2016, the accumulative negative gap with interest rate sensitivity due within one year amounted to RMB1,387,150 million, representing an increase of RMB852,244 million in absolute terms compared to the end of the previous year.

Interest Rate Risk Gap

In millions of RMB

	Within 1 month	1-3 months	3-12 months	Sub-total for 1 year or less	1-5 years	Over 5 years	Non-interest earning
31 December 2016	**(3,577,103)**	**392,162**	**1,797,791**	**(1,387,150)**	**595,675**	**1,991,228**	**(137,593)**
31 December 2015	(2,968,135)	554,253	1,878,976	(534,906)	42,874	1,627,830	(134,125)

Note: Please refer to "Note IV. 49. Financial Risk Management: Market Risk" to the Financial Statements for more details.

Interest Rate Sensitivity Analysis

In millions of RMB

	31 December 2016		31 December 2015	
Movements in basis points	**Movements in net interest income**	**Movements in other comprehensive income**	Movements in net interest income	Movements in other comprehensive income
Increased by 100 basis points	**(24,271)**	**(40,354)**	(16,780)	(38,949)
Decreased by 100 basis points	**24,271**	**40,354**	16,780	38,949

The interest rate sensitivity analysis above indicates the movements in net interest income and other comprehensive income for the next twelve months under the stated interest rate movements, assuming that there is a parallel shift in the yield curve and without taking into account any risk management measures adopted by the management to reduce interest rate risk.

Based on the composition of our assets and liabilities at 31 December 2016, if the interest rates instantaneously increase (or decrease) by 100 basis points, net interest income and other comprehensive income would decrease (or increase) by RMB24,271 million and RMB40,354 million, respectively.

Exchange Rate Risk Analysis

Our exchange rate risk is mainly the exposure risk arising from the exchange rate of USD against RMB. In 2016, the mid-point rate of RMB against USD depreciated accumulatively by 4,434 basis points or 6.83%. At the end of 2016, our foreign exchange positive exposure of on-balance sheet was USD9,954 million, representing an increase of USD7,968 million in absolute terms compared to the end of the previous year.

Foreign Exchange Exposure

In millions of RMB (USD)

	31 December 2016		31 December 2015	
	RMB	**USD equivalent**	RMB	USD equivalent
Net foreign exchange exposure of on-balance sheet financial assets/liabilities	**69,050**	**9,954**	(12,894)	(1,986)
Net foreign exchange exposure of off-balance sheet financial assets/liabilities	**(7,052)**	**(1,017)**	(10,654)	(1,641)

Notes: 1. Please refer to "Note IV. 49. Financial Risk Management: Market Risk" to the Financial Statements for more details.

2. As credit commitment has not been included in net foreign exchange exposure of off-balance sheet financial assets/liabilities, the comparative figures at the beginning of the period have been restated accordingly.

Exchange Rate Sensitivity Analysis

In millions of RMB

Currency	**Increase/decrease in Exchange rate of foreign Currency against RMB**	**Impact on profit before tax 31 December 2016**	31 December 2015
USD	+5%	**881**	(637)
	-5%	**(881)**	637
HKD	+5%	**863**	206
	-5%	**(863)**	(206)

Non-RMB denominated assets and liabilities of the Bank were primarily denominated in USD and HKD. Based on the on and off-balance sheet exchange rate exposure at the end of the reporting period, the profit before tax would increase (or decrease) by RMB881 million if USD appreciates (or depreciates) by 5% against RMB.

Liquidity Risk

Liquidity risk refers to the risk of being unable to timely acquire sufficient funds at a reasonable cost to settle amounts due, fulfill other payment obligations or satisfy other funding needs during the ordinary course of business.

The aims of the Bank's liquidity risk management are to effectively identify, measure, monitor and report liquidity risk by establishing a scientific and comprehensive risk management system; to fulfill the liquidity needs of assets, liabilities and off-balance sheet businesses and the payment obligations under ordinary operating conditions or under stress on a timely basis, while effectively balancing both capital efficiency and security of its liquidity; to strengthen the liquidity risk management and monitoring of its branches, subsidiaries and all business lines to effectively prevent the overall liquidity risk of the Group.

Liquidity Risk Management

The Bank closely monitored monetary policies and market changes, while strengthening its research and assessment on the macro-economic and financial environment, as well as factors that affected liquidity. The Bank strictly adhered to its limitation of risk tolerance and secured its liquidity with the balanced relationship among liquidity, security and profitability. During the reporting period, the Bank adjusted and refined the asset and liability structure, secured sources of deposits, strengthened initiative debt management and expanded channels of fund sources. The Bank also ensured efficient market financing channels and maintained the proportion of assets with high liquidity to satisfy the payment to customers. By strengthening the forecast, research and assessment, as well as the real-time monitoring, the Bank properly adjusted its fund position to ensure sufficient buffers, while enhancing the efficiency of fund operations and successfully addressing the liquidity problems caused by bond market fluctuations. Liquidity emergency response capability was enhanced by robust liquidity emergency management and the successful implementation of liquidity emergency drills. The Bank improved differentiated fund management policies in supporting the development of businesses such as free trade zones and inter-bank market. The Bank continuously optimized and enhanced the sophistication of liquidity risk management by improving the evaluation mechanism for liquidity forecast, carrying out liquidity cost sharing, establishing the mechanism of emergency capital injection into CIPS and facilitating the development of liquidity risk measurement IT system.

Liquidity Risk Analysis

In 2016, the PBOC upheld prudent monetary policies, adopted various measures, including Open Market Operations, Short-term Liquidity Operations (SLO), Standing Lending Facility (SLF), Medium-term Lending Facility (MLF), Pledged Supplementary Lending (PSL) and Deposit Reserve Ratio adjustments to achieve the targets of financial deleveraging, risk prevention and exchange rate stability while maintaining reasonable and sufficient liquidity in the markets. The Bank continuously strengthened the monitoring of monetary policies, changes in market liquidity, the business development of its asset and liability business and its liquidity condition, so as to increase its efficiency of fund utilization and ability to manage liquidity risk, on the condition that a secured level of overall liquidity was maintained. During the reporting period, the arrangement of cash flow for matured funds was reasonable and the overall liquidity of the Bank was sufficient, secured and under control.

Liquidity Gap Analysis

The table below presents our net position of liquidity as of the dates indicated.

In millions of RMB

	Past due	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
31 December 2016	**52,387**	**(9,355,146)**	**(62,220)**	**(510,004)**	**643,576**	**2,295,700**	**5,409,806**	**2,588,061**	**1,062,160**
31 December 2015	48,107	(8,194,380)	126,537	(263,526)	825,092	1,681,453	4,385,011	2,393,379	1,001,673

Note: Please refer to "Note IV. 49. Financial Risk Management: Liquidity Risk" to the Financial Statements for more details.

The Bank assessed liquidity risk through liquidity gap analysis. We moderately extended asset duration, and therefore the positive gap over five years increased by RMB1,024,795 million compared to the end of the previous year.

For details of Liquidity coverage ratio information of the Bank, please refer to "Appendix I Liquidity Coverage Ratio Information".

Operational Risk Management

Operational Risk Management

Operational risk refers to the risk of loss resulting from inadequate or problematic internal control procedures, from human or information system related factors, or from external affairs, including legal risk, but not including strategy risk or reputation risk.

In 2016, the Bank continuously strengthened operational risk management in key areas, including prevention and control of cases of violations, carrying out special rectification actions against telecommunication and internet frauds and illegal fund-raising, and pushing forward the rectification of problems discovered by internal and external supervision and inspection. The Bank deepened the application of operational risk management tools and further improved the reporting standards for operational risk. The Bank strengthened trainings on loss data criteria and intensively cleansed the loss data, to enhance the quality of loss data collected. The Bank proceeded with self-evaluation of risks within business lines and conducted special assessment for areas with high number of cases of violations, to enhance the capability to identify, prevent and control risks in key areas. The Bank formulated the management policy for IT risk, further specified the responsibilities of IT risk as one of the "Three Lines of Defense", and completed the impact analysis for the business of the Bank, sped up the construction of disaster recovery center, and regularly organized disaster recovery drills to beef up IT risk management and the ability to safeguard business continuity. AMA for operational risk was introduced into measurement of economic capital for operational risk. Through optimizing measurement model and improving system of risk tolerance indicators, the quantitative management of operational risk was taken to a higher level.

Legal Risk Management

Legal risk refers to any risk of banks suffering from adverse consequences including legal liabilities, loss of rights and reputational damage due to the breach of laws, administrative rules and regulations, or terms of contracts of its business operations and legal failure to duly regulate and exercise rights or external legal factors. Legal risk includes risk directly resulted from legal factors, as well as the risk associated with other forms of risks.

In 2016, the Bank adhered to the instructions specified in the *Construction Outlines on Governing Agricultural Bank of China according to the Law,* closely promoted the implementation of each task, and improved its legal risk management measures to improve its capability to prevent and control legal risk. The Bank promoted interpretation of new laws and regulations and accordingly amended and refined its internal rules and regulations to effectively regulate operations and management activities. The Bank intensified legal support to prevent and control the legal risk in projects associated with internet finance. In addition, we strengthened contract management by adjusting and refining a series of contract documents including those concerning the "Transition from Business Tax to Value-added Tax". Steady progress was made in centralized management of intellectual property rights, aiming to emphatically build a high-quality intellectual property protection system, so as to provide strong support for business development. The Bank enhanced the management of litigations and cases, by flexibly delegating to branches and tracking and overseeing the process of major cases, so that risk events could be resolved and legitimate rights and interests could be safeguarded to the full extent. The Bank compiled the *"7th Five-Year" Law Awareness Plan and the Reader for Bank Leadership to Learn and Apply the Laws*, carried out in-depth educational activities featuring the general knowledge of criminal laws, legal requirements and legal compliance, so as to enhance the legal awareness and law application capability of all employees constantly. In 2016, the Bank was awarded, among others things, the "Best Bank with Outstanding Legal Risk Management in China for 2015" by the China Banking Association.

Consolidated Risk Management

Consolidated risk management refers to comprehensive and continuous identification, measurement, monitoring, reporting and assessment on the risks of subsidiaries which are consolidated to our financial statements through a series of risk management procedures, methodologies and technologies and the adoption of effective management measures to keep the overall risks of the Group at a controllable level.

During the reporting period, the Bank continuously strengthened the consolidated risk management of subsidiaries and all risk indicators were in compliance with the regulatory requirements. The Bank organized self-assessment on the consolidated risk of subsidiaries and guided the subsidiaries to complete their own risk prevention and control work. Relevant policies and measures were formulated to refine the risk management mechanisms. The Bank collected consolidated risk information regularly to strength risk monitoring, analysis and reporting of subsidiaries.

Reputation Risk Management

Reputation risk refers to the risk resulting from negative feedback from related stakeholders due to the operation, management or other acts of the Bank or external events.

The Bank incorporated reputation risk management into our corporate governance and comprehensive risk management system, and continuously improved the mechanism and administrative measures of reputation risk management. The Bank prevented reputation risk and responded to reputation events in a proactive and effective manner, so as to minimize relevant losses and negative effects on the Bank. In 2016, the Bank allocated more personnel and resources for the prevention and control of reputation risk, to enhance the prevention and control of risks from public opinions effectively. The Bank conducted inspection on reputation risks to identify potential reputation risks, and strengthened monitoring analysis and anticipation of the publicity and public opinions. The Bank increased its efforts in monitoring new media, made efforts to collect public opinions swiftly and dealt with incidents that may affect our reputation in advance. The Bank intensified trainings on reputation risk prevention and control as well as media relationship management, provided training courses about reputation risk management and media response skills in the ABC University, and therefore improved the trainees' capacity in effectively responding to publicity. The Manual of Reputation Risk Prevention and Control and the Textbook of Reputation Risk Management were composed for our foundation-level employees to improve their reputation risk management awareness and media response ability. The Bank made emergency plan to control material reputation incidents, which optimized the prevention and control mechanism and specified responsibilities of the departments, strengthened vertical and horizontal collaboration and coordinated work of risk prevention and control to improve reputation risk management.

Country Risk Management

Country risk represents risk due to changes and incidents occurred in the economy, politics and society of a specific country or region, which results in the borrowers or debtors in that country or region incapable of or unwilling to pay their debts owed to the Bank or lead to business loss or other losses suffered by the Bank in that country or region.

We strictly complied with the regulatory requirements of the CBRC, involved country risk management into our comprehensive risk management system, and constantly improved the mechanisms, policies and IT system of country risk management. We managed country risk through a series of tools such as country risk evaluation and rating, risk limit approval, risk exposure calculation, market research analysis, monitoring and analysis of risk factors and stress testing. We carry out rating and limit verification of country risk annually and make timely adjustment in risk limit and control measures based on business needs and changes in risks.

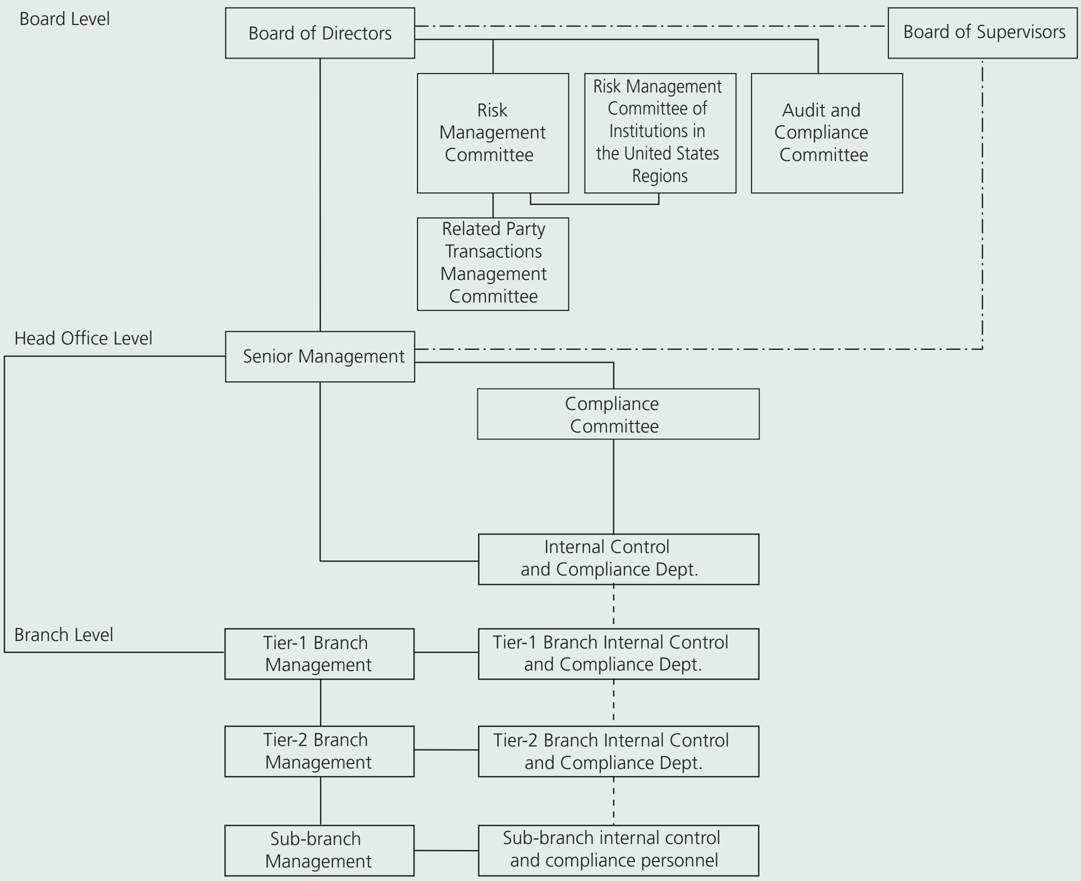
In 2016, in response to the complex and changing international situation, the Bank refined the country risk management system. The Bank closely monitored the daily changes of risk exposure, tracked, monitored, reported country risk continuously, adjusted country risk limit and control measures in a timely manner, and performed stress testing for country risk regularly. Therefore, the Bank maintained effective management and control over country risk, while promoting the strategy of internationalization.

Internal control

Internal control management system

In the development of our internal control management system, we focused on the establishment of four sub-systems, namely organization and system, rules and regulations, quality control and internal supervision.

(1) Based on the principles of ensuring independence and specialized functions, we strengthened our efforts in refining our internal control system. The Board of Directors of the Bank is responsible for developing sound and efficient internal control. The Audit and Compliance Committee, the Risk Management Committee, the Risk Management Committee of Institutions in the United States Regions and the Related Party Transactions Management Committee established under the Board of Directors are responsible for handling corresponding matters relating to internal control and assessing the effectiveness of the Bank's internal control. Our senior management is responsible for the daily operation of the Bank's internal control with support of the Compliance Committee established under it. The Board of Supervisors supervises the establishment and implementation of internal control by the Board of Directors and the senior management. Internal Control and Compliance departments at the Head Office, tier-1 and tier-2 branches, which are responsible for organizing and coordinating the establishment and implementation of the internal control and the relevant daily operations. We designate employees internal control and compliance positions at our sub-branches to handle the daily operations relating to implementation of the internal control.



Organizational structure for internal control

(2) We developed our group-wide rules and regulations which consist of the Articles of Association, basic systems, administrative measures and operating rules in accordance with our corporate governance mechanism. We formulated the *Basic Standards on Rule and Regulation Management* to overall plan the development of the rules and regulations while evaluating them on a regular basis. According to the regulatory requirements, we formulated the basic rules on internal control and policies of compliance, which specified the basic roles and responsibilities of internal control and compliance functions.

(3) We strengthened our synergies of internal control by adopting multi-pronged measures to facilitate the development of our quality control system. We achieved a transition from "institution-based" authorization to "post-based" authorization, which refined the controlling role of authorization in resource allocation. We established a comprehensive and multi-layered internal control and assessment system to motivate the initiative of all our branches in developing internal control systems. We formulated the *Administrative Measures on Rectification* which specified the standards for completion of rectification. We also included rectification work into our performance evaluation, so as to develop a new IT system of rectification.

(4) We established an internal supervision system which is operated by due diligence supervision among business departments, overall management and inspection by the Internal Control and Legal Compliance Department, and double-supervision by the Audit Office. All business departments performed due diligence supervision in their daily operations. Our Internal Control and Legal Compliance Department formulated management system for inspection and supervision, and carried out compliance risk monitoring. Through both on-site and off-site supervisions, we strengthened our internal control capability. The Audit Office performed audits and assessment on operations and management, business activities and operation performance of the Bank based on the risk-oriented principles.

Furthermore, the Bank fully leveraged the effects of compliance culture in guiding the development of its internal control management to explore and develop an effective mechanism that consists of six elements namely education and promotion, rules management, implementation, inspection and supervision, rectification and assessment for the development of compliance culture over the long term.

Establishment of internal control system

In 2016, we conscientiously implemented the *Internal Control Guidelines for Commercial Banks*. We strengthened the establishment of the Bank's internal control system to ensure compliance and prudent operation of our businesses in accordance with applicable laws and regulations.

(1) We continued to refine our rules and regulations. We implemented strict management on approval of setting up projects related to rules and regulations, regulated the management on issuing documents and improved quality of our rules and regulations through panel discussion and establishing contact stations at foundation-level branches. We also involved the comprehensive development of rules and regulations into our appraisal mechanism for overseas institutions. We conducted assessment and follow-up appraisal on a regular basis so that we can update the database of our rules and regulations in a timely manner and publish the list of effective rules quarterly. Through these efforts, we established our rule and regulation system appropriate to our business development and risk control.

(2) We strengthened the prevention and control of cases of violations. We formulated the *Administrative Measures for the Prevention and Control of Cases of Violations*, optimized our organizational framework, responsibilities and objects for prevention and control of cases of violations by setting out the specific requirements, and supervised the responsible departments to perform their duties.

(3) We promoted the compliance risk management. We prepared and issued the *Monitoring Report on Compliance Risk*, which involved a dimensional analysis on our compliance risk based on data. All our branches and departments performed their functions of compliance risk management in a timely manner strictly in accordance with established criteria. We strengthened compliance management for overseas institutions, through developing plans of rectification relating to anti-money laundering compliance for overseas institutions, and identifying the focus of compliance management for overseas institutions and improving directions.

(4) We improved the effects and quality of inspection and supervision. We conducted inspections on cases of violations to identify potential risks. We identified potential risks while assessing internal control-related deficiencies, so as to consolidate the foundation of risk management and control.

(5) We strengthened our rectification and accountability. We focused on rectification and accountability for new issues identified in 2016. We implemented measures in this relation to rectification and accountability for issues identified since 2015, and adopted measures of rectification for all issues identified since 2013. We established our rectification system that was operated by self-appraisal among responsible departments, review and approval by departments at higher-tier branches and holding the responsible employees accountable by the Inspection and Supervision Department, so as to promote our rectification and accountability work.

(6) We strengthened our efforts in developing our information technology. We leveraged the achievements from the establishment of our big data platform to continuously improve the functions of our internal control and compliance management information system and sped up the research and development of our compliance risk monitoring system. Through those, we aimed to realize a shift of our compliance risk management and control from an post-action model to a pre-action and on-going model, and from experience-based model to data-based or intelligent prediction model.

Anti-Money Laundering

In 2016, the Bank continuously improved the management system of anti-money laundering (“AML”) and solidified the foundation for AML management, so that the efficiency and level of AML management were elevated. We rolled out the model of centralized AML operation across the Bank, improved the rating-based management system for money laundering risk of customers, and optimized models and tools of AML risk monitoring to strengthen the ability to prevent and control money laundering and terrorist financing risks. We also carried out inspection over international money laundering risks, strengthened AML compliance management of overseas institutions, and promoted the IT system to monitor personnel on the list of international sanctions, so as to fulfill our legal obligations for international AML. In addition, technological support was increased as we launched a comprehensive reconstruction of our AML system to improve the efficiency and quality of AML data reporting. Promotion activities to mark the tenth anniversary of AML Law in China were held widely to strengthen AML education and training, raise the awareness of AML among our employees and foster a team of AML experts, so that we could perform our legal duties for AML effectively.

Self-appraisal Report on Internal Control

The Board of Directors has considered and approved the *2016 Self-appraisal Report on Internal Control of Agricultural Bank of China Limited*, details of which are published on the website of the Shanghai Stock Exchange.

Internal Control Audit Report

PricewaterhouseCoopers Zhong Tian LLP issued an unqualified internal control audit report based on its audit of the effectiveness of the Group's internal control over financial reporting as at 31 December 2016 in accordance with the relevant regulations, details of which are published on the website of the Shanghai Stock Exchange.

Capital Management

During the reporting period, the Bank closely followed the *Capital Plan of Agricultural Bank of China for 2016-2018* and the *Capital Adequacy Ratio Plan for Agricultural Bank of China for 2013-2018*. The Bank also adhered to the basic principle of capital management and the target of capital adequacy ratio, enhanced the management of capital constraint and capital returns, and established and improved its persistent capital management mechanism to ensure that the capital adequacy ratio is adequate to cover risk exposure, create value and comply with regulatory requirements. Moreover, the Bank implemented the advanced approach of capital management, and calculated the capital adequacy ratio by the advanced approach and other approaches during the parallel run period as required by the CBRC.

As one of the Global Systemically Important Banks, the Bank completed the annual updates of the *Recovery Plan of Agricultural Bank of China Limited* and the *Disposal Plan of Agricultural Bank of China Limited* in accordance with the requirements of the Financial Stability Board (FSB) and other relevant international and domestic regulatory requirements, which have been submitted to and approved by the working group for cross-border crisis management which is comprised of domestic and overseas regulatory authorities.

During the reporting period, the Bank expedited the establishment of internal capital adequacy assessment process (ICAAP), completed the internal capital adequacy assessment for 2016, and proceeded the specialized audit of ICAAP for 2016 in an effort to continuously improve the foundation for capital governance.

During the reporting period, the Bank continued to refine on- and off-balance sheet asset structure and further optimized the allocation of economic capital. Focused on the strategic objectives of value creation and structural optimization, the Bank enhanced its capital management consistently. Based on the improvement of the economic capital allocation among branches, the Bank refined the economic capital management and control mechanism for business lines to consolidate the capital constraint and improve the efficiency of resource allocation.

For details of the capital adequacy ratio of the Bank and credit risk exposures after risk mitigation, please refer to the *2016 Capital Adequacy Ratio Report* published on the websites of the Shanghai Stock Exchange (www.sse.com.cn) and the Hong Kong Stock Exchange (www.hkexnews.hk) by the Bank. For details of the leverage ratio of the Bank, please refer to "Appendix II Leverage Ratio Information".

Changes in Share Capital of Ordinary Shares

Details of Changes in Share Capital

Unit: Share

	31 December 2015		Increase/decrease during the reporting period (+,-)			31 December 2016	
	Number of Shares	Percentage[3] (%)	New Shares Issued	Others	Subtotal	Number of Shares	Percentage[3] (%)
1) Shares subject to restrictions on sales[1]	–	–	–	–	–	**–**	**–**
2) Shares not subject to restrictions on sales	324,794,117,000	100.00	–	–	–	**324,794,117,000**	**100.00**
1. RMB-dominated ordinary shares	294,055,293,904	90.54	–	–	–	**294,055,293,904**	**90.54**
2. Foreign-invested shares listed overseas[2]	30,738,823,096	9.46	–	–	–	**30,738,823,096**	**9.46**
Total number of shares	324,794,117,000	100.00	–	–	–	**324,794,117,000**	**100.00**

Notes:
1. *"Shares subject to restrictions on sales" refer to the shares held by shareholders who are subject to restrictions on sales in accordance with laws, regulations, rules or undertakings.*
2. *"Foreign-invested shares listed overseas" refers to the H shares as defined in the No.5 Standards on the Content and Format of Information Disclosure of Companies with Public Offerings – Content and Format of the Report of Change in Shareholding (Revision 2007) of the CSRC.*
3. *Figures in the "Percentage" column of the table above are rounded to the nearest decimal number.*

Details of Issuance and Listing of Securities

Issuance of Securities

For issuance of securities of the Bank during the reporting period, please refer to "Note IV. 35. Debt Securities Issued" to the consolidated financial statements for details.

Employee Shares

The Bank had no employee shares.

Particulars of Shareholders of Ordinary Shares

Number of Shareholders and Particulars of Shareholding

At the end of the reporting period, the Bank had a total of 477,453 shareholders, including 25,969 holders of H Shares and 451,484 holders of A Shares. As of 28 February 2017 (the last day of the month preceding the month in which the Bank's A Share annual report is published), the Bank had being a total of 459,746 shareholders, including 25,826 holders of H Shares and 433,920 holders of A Shares.

Particulars of shareholding of the top 10 shareholders (the shareholding of H Shares shareholders is based on the numbers of shares as set out in the register of members of the Bank maintained in its H Shares registrar)

Unit: Share

Total number of shareholders	477,453 (as set out in the registers of shareholders of A Shares and H Shares as of 31 December 2016)

Particulars of shareholding of the top 10 shareholders (the data below are based on the registers of shareholders as of 31 December 2016)

Name of shareholders	Nature of shareholders	Type of shares	Increase/ decrease during the reporting period (+,-)	Shareholding percentage (%)	Total number of shares held	Number of shares subject to restrictions on sales	Number of shares subject to pledge or locked-up
Huijin	State-owned	A Shares	–	40.03	130,005,103,782	–	None
MOF	State-owned	A Shares	–	39.21	127,361,764,737	–	None
HKSCC Nominees Limited	Overseas legal entity	H Shares	-8,265,204	9.03	29,313,402,236	–	Unknown
SSF	State-owned	A Shares	–	3.02	9,797,058,826	–	None
China Securities Finance Corporation Limited	State-owned legal entity	A Shares	1,023,072,608	1.88	6,106,876,866	–	None
Central Huijin Asset Management Ltd.	State-owned legal entity	A Shares	–	0.39	1,255,434,700	–	None
STANDARD CHARTERED BANK	Overseas legal entity	H Shares	–	0.37	1,217,281,000	–	Unknown
China Life Insurance Company Limited-Traditional-Ordinary insurance products	Other	A Shares	991,116,354	0.31	991,116,354	–	None
Wutongshu Investment Platform Co., Ltd.	State-owned legal entity	A Shares	–	0.30	980,723,700	–	None
Anbang Life Insurance Co., Ltd. – Steady Investment Portfolio	Other	A Shares	–	0.27	881,309,280	–	None

Notes:
1. *All the shares held by HKSCC Nominees Limited represent the total number of H Shares held by it as a nominee on behalf of all institutional and individual investors registered with it as of 31 December 2016.*
2. *Central Huijin Asset Management Ltd. is a wholly-owned subsidiary of Huijin. Apart from this, the Bank is not aware of any connections between the shareholders above or whether they are parties acting in concert.*
3. *The top 10 shareholders of ordinary shares of the Bank not subject to restrictions on sale are the same as the top 10 shareholders of ordinary shares of the Bank.*

Particulars of Substantial Shareholders

During the reporting period, the Bank's substantial shareholders and controlling shareholders of ordinary shares remained unchanged. The Bank had no *de facto* controller.

MOF

The MOF, established in October 1949, is a ministry responsible for macro-economic control and regulation under the State Council, and is empowered to perform its duties in respect of state finance and taxation policies.

As of 31 December 2016, the MOF held 127,361,764,737 shares of the Bank, accounting for 39.21% of the total share capital of the Bank.

Huijin

Huijin was established as a wholly state-owned company through state investment in accordance with the *Company Law of the* PRC on 16 December 2003 with a registered capital of RMB828,209 million. The registered address of Huijin is New Poly Plaza, 1 Chaoyangmen Beidajie, Dongcheng District, Beijing. The organizational code of Huijin is 911000007109329615 and its legal representative is Mr. DING Xuedong. The State Council has authorized Huijin to make equity investments in major state-owned financial institutions to preserve and increase the value of these state-owned financial assets. Huijin can exercise rights and assume obligations on major state-owned financial institutions as an investor on behalf of the State to the extent of its capital contribution. Huijin does not engage in other commercial activities nor intervene in the normal operations of major state-owned financial institutions which are controlled by Huijin.

As Huijin is not able to provide its audited financial report for 2016 until the completion of the audits of the financial statements of its investees, the following financial data are the audited data for 2015. As of 31 December 2015, the total assets of Huijin amounted to RMB3,921,529,682.5 thousand, total liabilities was RMB533,369,207.9 thousand, and the owners' equity was RMB3,388,160,474.6 thousand. The net profit for 2015 was RMB503,303,055.9 thousand. The net cash flows generated from operating activities, investment activities and financing activities for 2015 amounted to RMB19,812,492.5 thousand.

As of 31 December 2016, the direct shareholdings of Huijin in its investees were as follows:

No.	Name of Institutions	Shareholding of Huijin
1	China Development Bank Corporation	34.68%
2	Industrial and Commercial Bank of China Limited★☆[1]	34.71%
3	Agricultural Bank of China Limited★☆	40.03%
4	Bank of China Limited★☆	64.02%
5	China Construction Bank Corporation★☆	57.11%
6	China Everbright Group Ltd.	55.67%
7	China Everbright Bank Company Limited★☆	21.96%
8	China Export & Credit Insurance Corporation	73.63%
9	China Reinsurance (Group) Corporation☆	71.56%
10	New China Life Insurance Company Limited★☆	31.34%
11	China Jianyin Investment Limited	100.00%
12	China Galaxy Financial Holding Co., Ltd.	78.57%
13	Shenwan Hongyuan Group Co., Ltd.★	25.03%
14	China International Capital Corporation Limited ("CICC")☆[2]	28.45%
15	China Securities Co., Ltd. ("CSC")☆[3]	33.29%
16	China Investment Securities Co., Ltd. ("CISC")[2]	100.00%
17	Jiantou Zhongxin Asset Management Co., Ltd.	70.00%
18	Guotai Junan Investment Management Co., Ltd.	14.54%

Notes:

1. *★represents A share listed company; ☆represents H share listed company.*
2. *On 4 November 2016, Huijin and CICC entered into an equity transfer agreement, pursuant to which CICC agreed to acquire 100% equity interest of CISC by way of share issuance to Huijin. As at the end of 2016, the transaction had not been completed. Upon completion of the aforesaid transaction, Huijin will directly hold 58.58% equity interests in CICC, and CISC will become a wholly-owned subsidiary of CICC.*
3. *On 30 December 2016, CSC exercised the over-allotment option and the transaction was completed on 5 January 2017. Upon completion, Huijin directly holds 32.93% equity interests in CSC.*
4. *Apart from the investees above, Central Huijin Asset Management Ltd. is also a wholly-owned subsidiary of Huijin established in November 2015, with a registered address in Beijing and a registered capital of RMB5 billion. It engages in assets management business.*

As of the end of the reporting period, Huijin held 130,005,103,782 shares of the Bank, accounting for 40.03% of the total share capital of the Bank.

Except for MOF and Huijin, as of 31 December 2016, there was no other corporate shareholder who held 10% or more equity interest in the Bank.

Interests and short positions held by substantial shareholders and other persons

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

Unit: Share

Name	Capacity	Interests and short positions	Nature	Percentage of issued class shares (%)	Percentage of total issued shares (%)
MOF	Beneficial owner/nominee[1]	138,682,352,926 (A Shares)[2]	Long position	47.16%	42.70%
Huijin	Beneficial owner	131,260,538,482 (A Shares)[3]	Long position	44.64%	40.41%
BlackRock, Inc.	Interest of controlled entity	1,830,578,715 (H Shares)	Long position	5.96%	0.56%
	Custodian — corporation/ approved lending agent	17,456,000 (H Shares)	Short position	0.06%	0.01%
JPMorgan Chase & Co.	Interest of controlled entity	1,533,732,982 (H Shares)	Long position	4.98%	0.47%
	Custodian — corporation/ approved lending agent	287,181,519 (H Shares)	Short position	0.93%	0.09%
	Security interest	403,871,118 (H Shares)	Lending pool	1.31%	0.12%
Qatar Holding LLC	Beneficial owner	3,993,009,500 (H Shares)	Long position	12.99%	1.23%
Qatar Investment Authority	Interest of controlled entity[4]	3,993,009,500 (H Shares)	Long position	12.99%	1.23%

Notes:

1. *9,797,058,826 A Shares are held by the SSF, but the voting rights of these shares were transferred to the MOF according to the share subscription agreement dated 21 April 2010 and the Approval on the Proposed Transfer of State-owned Shares of the Agricultural Bank of China issued by the MOF on 5 May 2010.*
2. *According to the register of shareholders of the Bank as of 31 December 2016, the MOF held 127,361,764,737 A Shares of the Bank, accounting for 43.31% and 39.21% of the issued A Shares and the total issued shares of the Bank, respectively.*
3. *According to the register of shareholders of the Bank as of 31 December 2016, Huijin held 130,005,103,782 A Shares of the Bank, accounting for 44.21% and 40.03% of the issued A Shares and the total issued shares of the Bank, respectively.*
4. *Qatar Investment Authority is deemed to be interested in 3,993,009,500 H Shares held by Qatar Holding LLC, a wholly owned subsidiary of Qatar Investment Authority.*

Details of Preference Shares

Issuance and Listing of Preference Shares

Stock code of preference shares	Stock name of preference shares	Issuance date	Issuance price (in RMB)	Coupon rate of the initial dividend period	Number of preference shares issued	Listing date	Number of preference shares approved to be listed	Transfer deadline	Proceeds raised (in RMB)	Use of proceeds
360001	農行優1	2014/10/31	100 per share	6.00%	400 million shares	2014/11/28	400 million shares	N/A	40 billion	Replenish the additional tier-1 capital
360009	農行優2	2015/3/6	100 per share	5.50%	400 million shares	2015/3/27	400 million shares	N/A	40 billion	Replenish the additional tier-1 capital

For the terms and details of the issuance of the preference shares above, please refer to the announcements published by the Bank on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Bank.

Number of Holders of Preference Shares and their Shareholdings

As of the end of the reporting period, the Bank had 25 holders[1] of the preference shares "農行優1" (stock code: 360001). As of 28 February 2017 (being the last day of the month preceding the month in which the Bank's A Share annual report is published), the Bank had 25 holders of the preference shares "農行優1" (stock code: 360001).

1 *The number of the holders of preference shares was calculated by the number of qualified investors that hold the preference shares. When calculating the number of qualified investors, an asset management institution that purchases the preference shares through two or more products under its control will be counted as one.*

Particulars of shareholding of the top 10 holders of preference shares "農行優1" (stock code: 360001)

Unit: Share

Name of shareholders[1]	Nature of shareholders	Type of shares	Increase/ decrease during the reporting period[2] (+,-)	Number of preference shares	Shareholding percentage[3] (%)	Number of preference shares subject to pledge or lock-up
Bank of Communications Schroder Fund Management Co., Ltd.	Other	Domestic preference shares	–	60,000,000	15.00	None
China Merchants Fund Management Co., Ltd.	Other	Domestic preference shares	–	49,000,000	12.25	None
Beijing Tiandi Fangzhong Asset Management Co., Ltd.	Other	Domestic preference shares	–	35,000,000	8.75	None
Anbang Insurance Group Co., Ltd.	Other	Domestic preference shares	–	30,000,000	7.50	None
Ping An Life Insurance Co., Ltd.	Other	Domestic preference shares	–	30,000,000	7.50	None
PICC Life Insurance Company Limited	Other	Domestic preference shares	–	30,000,000	7.50	None
Beijing International Trust Co., Ltd.	Other	Domestic preference shares	–	30,000,000	7.50	None
Zhonghai Trust Co., Ltd.	Other	Domestic preference shares	–	20,000,000	5.00	None
Bank of Ningbo Co., Ltd.	Other	Domestic preference shares	–	15,000,000	3.75	None
Bank of Beijing Scotiabank Asset Management Co., Ltd.	Other	Domestic preference shares	–	12,000,000	3.00	None

Notes:

1. *Anbang Life Insurance Co., Ltd. is a subsidiary of Anbang Insurance Group Co., Ltd., and Anbang Life Insurance Co., Ltd. – Steady Investment Portfolio is managed by Anbang Life Insurance Co., Ltd.. Save as mentioned above, the Bank is not aware of any connections between the above shareholders of preference shares, and between the above shareholders of preferences shares and the top 10 shareholders of ordinary shares, or whether they are parties acting in concert.*
2. *"Increase/decrease during the reporting period (+,-)" refers to the change of shareholding due to secondary market transactions.*
3. *"Shareholding percentage" refers to the percentage of "農行優1" held by the shareholders of preference shares to the total number of "農行優1" (i.e., 400 million shares).*

As of the end of the reporting period, the Bank had 28 holders of preference shares "農行優2" (stock code: 360009). As of 28 February 2017 (being the last day of the month preceding the month in which the Bank's A Share annual report is published), the Bank had 28 holders of preference shares "農行優2" (stock code: 360009).

Particulars of shareholding of the top 10 holders of preference shares "農行優2" (Stock code: 360009)

Unit: Share

Name of shareholders[1]	Nature of shareholder	Type of shares	Increase/ decrease during the reporting period[2] (+,-)	Number of preference shares	Shareholding percentage[3] (%)	Number of preference shares subject to pledge or lock-up
China Life Insurance Company Limited	Other	Domestic preference shares	–	50,000,000	12.50	None
China National Tobacco Corporation	Other	Domestic preference shares	–	50,000,000	12.50	None
Beijing Chance Capital Management Co., Ltd.	Other	Domestic preference shares	–	25,000,000	6.25	None
Maxwealth Fund Management Co., Ltd.	Other	Domestic preference shares	–	25,000,000	6.25	None
China Mobile Communications Corporation	Other	Domestic preference shares	–	20,000,000	5.00	None
Shanghai Wisdom Asset Management Co., Ltd.	Other	Domestic preference shares	–	20,000,000	5.00	None
Bank of Communications Schroder Fund Management Co., Ltd.	Other	Domestic preference shares	–	20,000,000	5.00	None
Bank of China Limited, Shanghai Branch	Other	Domestic preference shares	–	20,000,000	5.00	None
China National Tobacco Corporation Jiangsu Province Company	Other	Domestic preference shares	–	20,000,000	5.00	None
China National Tobacco Corporation Yunnan Province Company	Other	Domestic preference shares	–	20,000,000	5.00	None

Note:

1. *China National Tobacco Corporation Jiangsu Province Company and China National Tobacco Corporation Yunnan Province Company are wholly-owned subsidiaries of China National Tobacco Corporation. China Life Insurance Company Limited – Dividend distribution – Individual dividend – 005L – FH002 Hu is managed by China Life Insurance Company Limited. Save as mentioned above, the Bank is not aware of any connections between the above shareholders of preference shares, and between the above shareholders of preferences shares and the top 10 shareholders of ordinary shares, or whether they are parties acting in connect.*
2. *"Increase/decrease during the reporting period (+,-)" refers to the change of shareholding due to secondary market transactions.*
3. *"Shareholding percentage" refers to the percentage of "農行優2" held by the shareholders of preference shares to the total number of "農行優2" (i.e., 400 million shares).*

The preferences shares "農行優1" and "農行優2" of the Bank are shares not subject to restrictions on sale, and the top 10 shareholders of preferences shares "農行優1" and "農行優2" who are not subject to restrictions on sale are the same as the top 10 shareholders of preferences shares.

Profit Distribution of Preference Shares

Dividends on the preference shares will be paid in cash and shall be paid annually. When the Bank resolves to cancel part or all of the dividends to holders of preference shares, the undistributed dividends shall not be accumulated to subsequent dividend periods. The holders of preference shares of the Bank, upon receiving dividends at the agreed rate, shall not participate in the distribution of the remaining profit attributable to the shareholders of ordinary shares.

During the reporting period, on 11 March 2016, the Bank paid cash dividends of RMB5.50 (tax inclusive) per share and RMB2.2 billion (tax inclusive) in aggregate (calculated by a coupon rate of 5.50%) to holders of "農行優2" (stock code: 360009) whose names appeared on the register of members at the close of business on 10 March 2016. On 7 November 2016, the Bank paid cash dividends of RMB6.00 (tax inclusive) per share and RMB2.4 billion (tax inclusive) in aggregate (calculated by a coupon rate of 6%), to holders of "農行優1" (stock code: 360001) whose names appeared on the register of members at the close of business on 4 November 2016.

On 13 March 2017, the Bank paid cash dividends of RMB5.50 (tax inclusive) per share and RMB2.2 billion (tax inclusive) in aggregate (calculated by a coupon rate of 5.50%) to holders of "農行優2" (stock code: 360009) whose names appeared on the register of members at the close of business on 10 March 2017.

For details of the distribution of dividends above, please refer to the announcements of the Bank published on the website of the Shanghai Stock Exchange and the website of the Bank.

Redemption and Conversion of Preference Shares

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

Restoration of Voting Rights of Preference Shares

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

Accounting Policies

In accordance with *International Accounting Standard 32 – Financial Instruments: Presentation*, the Bank is of the view that the terms of preference shares "農行優1" (stock code: 360001) and "農行優2" (stock code: 360009) meet the definition of equity instruments.

Basic Information

Name	Position	Gender	Age	Tenure
Incumbent Directors				
ZHOU Mubing	Chairman of the Board of Directors, Executive Director	Male	59	2016.07-2019.07
ZHAO Huan	Vice Chairman of the Board of Directors, Executive Director, President	Male	53	2016.03-2019.03
LOU Wenlong	Executive Director, Executive Vice President	Male	59	2012.12-2018.12
ZHAO Chao	Non-executive Director	Male	58	2012.02-2018.02
ZHOU Ke	Non-executive Director	Male	50	2014.07-2017.07
ZHANG Dinglong	Non-executive Director	Male	60	2015.01-2018.01
CHEN Jianbo	Non-executive Director	Male	53	2015.01-2018.01
HU Xiaohui	Non-executive Director	Male	57	2015.01-2018.01
XU Jiandong	Non-executive Director	Male	53	2015.02-2018.02
WEN Tiejun	Independent Non-executive Director	Male	65	2011.05-2017.06
Francis YUEN Tin-fan	Independent Non-executive Director	Male	64	2013.03-2019.03
XIAO Xing	Independent Non-executive Director	Female	46	2015.03-2018.03
LU Jianping	Independent Non-executive Director	Male	53	2015.06-[2]
WANG Xinxin	Independent Non-executive Director	Male	64	2016.05-2019.05
Incumbent Supervisors				
YUAN Changqing	Chairman of the Board of Supervisors, Supervisor Representing Shareholders	Male	55	2015.06-2018.06
WANG Xingchun	Supervisor Representing Shareholders	Male	52	2014.06-2017.06
XIA Taili	Supervisor Representing Employees	Male	54	2014.12-2017.12
LIU Chengxu	Supervisor Representing Employees	Male	55	2016.07-2019.07
XIA Zongyu	Supervisor Representing Employees	Male	52	2016.07-2019.07
LI Wang	External Supervisor	Male	52	2015.06-2018.06
LV Shuqin	External Supervisor	Female	66	2015.06-2018.06

Name	Position	Gender	Age	Tenure
Incumbent Senior Management				
ZHAO Huan	Vice Chairman of the Board of Directors, Executive Director, President	Male	53	2016.03-
GONG Chao	Secretary of the Party Discipline Committee	Male	57	2012.03-[3]
LOU Wenlong	Executive Director, Executive Vice President	Male	59	2012.09-
WANG Wei	Executive Vice President	Male	54	2013.12-
GUO Ningning	Executive Vice President	Female	46	2016.06-
KANG Yi	Executive Vice President	Male	50	2017.01-
ZHANG Keqiu	Secretary to the Board of Directors	Female	53	2015.06-
LI Zhicheng	Chief Risk Officer	Male	54	2017.02-
Former Directors, Supervisors and Senior Management				
LIU Shiyu	Former Chairman of the Board of Directors, Former Executive Director	Male	55	2014.12-2016.02
CAI Huaxiang	Former Executive Director, Former Executive Vice President	Male	57	2015.09-2016.09[4]
Frederick MA Si-hang	Former Independent Non-executive Director	Male	65	2011.04-2016.05
ZHENG Xin	Former Supervisor Representing Employees	Male	58	2011.07-2017.01
LI Zhenjiang	Former Executive Vice President	Male	46	2013.10-2016.03
LIN Xiaoxuan	Former Executive Vice President	Male	52	2015.09-2016.12

Notes:

1. *Please refer to "Changes in Directors, Supervisors and Senior Management" in this section for the information relating to the changes in Directors, Supervisors and senior management of the Bank.*
2. *Mr. LU Jianping resigned as an Independent Non-executive Director and a member of relevant special committees of the Board due to work arrangements in December 2015. Mr. LU Jianping will continue to perform his duty as an Independent Non-executive Director until the CBRC ratifies the qualification of a newly nominated Independent Non-executive Director to meet the quorum that the number of independent directors of the Bank shall not be less than one third of the Board.*
3. *On 18 July 2016, Mr. GONG Chao resigned as an Executive Vice President of the Bank. He remains as the Secretary of the Party Discipline Committee of the Bank.*
4. *The term of office of Mr. CAI Huaxiang as an Executive Director of the Bank is set out in the table above. His term of office as an Executive Vice President of the Bank began in February 2010.*

Biography of Directors, Supervisors and Senior Management

Biography of Directors

ZHOU Mubing Chairman of the Board of Directors, Executive Director

Mr. ZHOU Mubing holds a doctor's degree in Economics from Renmin University of China and is a senior economist. Mr. ZHOU has served as the Chairman of the Board of Directors and an Executive Director of the Bank since July 2016. Mr. ZHOU successively worked in several places, including the production team of Rongchang County of Sichuan Province, Sichuan Rongchang No. 4 Middle School and Sichuan Finance and Economics College as a teacher, and the State Commission for Restructuring the Economic Systems. Mr. ZHOU served successively in several positions in Industrial and Commercial Bank of China, including assistant president of the Hainan Branch and concurrently president of the Yangpu Branch, director of Policy and Research Department of the head office and president of the Fujian Branch. Mr. ZHOU served successively as deputy chief executive, acting chief executive and chief executive of Yubei District in Chongqing Municipality, director general of General Office of Chongqing Municipal Government, and secretary general of Chongqing Municipal Government. Mr. ZHOU was appointed as vice mayor of Chongqing Municipal Government in March 2004 and vice chairman of the CBRC in December 2010.

ZHAO Huan Vice Chairman of the Board of Directors, Executive Director, President

Mr. ZHAO Huan received a bachelor's degree in engineering from Xi'an Jiaotong University and holds a certificate of senior economist. He has served as the Vice Chairman, an Executive Director and the President of the Bank since March 2016. Mr. ZHAO previously served in China Construction Bank, successively as deputy director and director of Business Management Division of Banking Credit Department, director of General Administration Division of Corporate Business Department, Deputy General Manager of Corporate Business Department, Vice President of Xiamen Branch, General Manager of Corporate Business Department, and President of Shanghai Branch. He has served as a member of senior management of China Construction Bank since December 2010 and served as the Executive Vice President of China Construction Bank since May 2011. Since January 2014, Mr. ZHAO has served successively as executive director of China Everbright Group Limited and China Everbright Group Ltd., and executive director and president of China Everbright Bank Company Limited. He is concurrently the vice chairman of the 8th session of the Committee of the China Institute of Rural Finance and the chairman of the Payment & Clearing Association of China.

LOU Wenlong Executive Director, Executive Vice President

Mr. LOU Wenlong holds a bachelor's degree and is a senior economist. He has served as a member of senior management of the Bank since August 2012. He has served as an Executive Vice President of the Bank since September 2012 and an Executive Director and Executive Vice President of the Bank since December 2012. Mr. LOU previously served as the secretary of the Youth League Committee, head of Students' Affairs Division and chief of the Teaching and Researching Office of Urban Finance of Zhejiang Banking College. Mr. LOU later served in several positions in the PBOC, including secretary of Youth League Committee of the Head Office of Zhejiang Branch, vice division chief and division chief of Zhejiang Branch, director and assistant commissioner of Banking Inspection Division, Hangzhou Financial Supervision Office of Shanghai Branch, and deputy head of the supervisory team for China Construction Bank of Banking Supervision Department I of PBOC. He was then appointed to several positions successively in the CBRC, including deputy director and then director of Banking Supervision Department II in September 2005, and director-general of Beijing Office in February 2009. He is concurrently the head of management department of Shanghai Branch of the Bank, a guest professor with Capital University of Economics and Business, the vice chairman of the 8th session of the Committee of the China Institute of Rural Finance and a member of the 3rd executive council of the Association for Relations Across the Taiwan Straits.

ZHAO Chao Non-executive Director

Mr. ZHAO Chao holds a bachelor's degree and is a statistician. He currently works with Central Huijin Investment Ltd. and has served as a Non-executive Director of the Bank since February 2012. Mr. Zhao started working with the Bureau of Statistics of Shanxi Province in 1982, and served successively as vice director of Finance and Trade Division, Bureau of Statistics of Shanxi Province; director of Business and Trade Division and Legislation Division, State-owned Assets Supervision and Administration Bureau of Shanxi Province; director of Supervision and Inspection Division, Policies and Legislation Department of National State-owned Assets Supervision and Administration Bureau; director of Property Rights Legal Affairs Division, the MOF State-owned Capital Basic Management Department; counsel of Lottery Management Division, the MOF Department of Policy Planning; secretary general of the MOF General Department, vice director of the MOF Investment Appraisal and Censoring Center, and vice counsel of the MOF Department of Treaty and Law.

ZHOU Ke Non-executive Director

Mr. ZHOU Ke holds a bachelor's degree. He currently works with Central Huijin Investment Ltd.. He has served as a Non-executive Director of the Bank since July 2014. Mr. ZHOU started working with the MOF in 1988, and served successively as deputy director of Water Resources Division of Department of Agriculture; director of the Science and Technology Division, director of Project Management Department III and director of Policy Research Department of the National Agricultural Comprehensive Development Office; deputy director of the National Agricultural Comprehensive Development Evaluation Center, and deputy director of the National Agricultural Comprehensive Development Office.

ZHANG Dinglong Non-executive Director

Mr. ZHANG Dinglong received a doctor's degree in law from Minzu University of China. He currently works with Central Huijin Investment Ltd.. Mr. ZHANG has served as a Non-executive Director of the Bank since January 2015. He used to serve as deputy director (in charge) of Issue Division of the Liaison Office of the Rural Policy Research Office of the Secretariat of the Central Committee and Rural Development Research Center of the State Council; division head and deputy director of the Rural Economy Research Department; director of the Secretariat Department, vice secretary (temporary) of Prefectural Party Committee in Yulin, Guangxi Zhuang Autonomous Region; director of the Secretariat Department, deputy director of the Security Committee and chairman of the Labor Committee of State Council Research Office. He is a representative of the 11th and 12th National People's Congress and a special supervisor of the Supreme People's Court.

CHEN Jianbo Non-executive Director

Mr. CHEN Jianbo received a doctor's degree in management from Renmin University of China. He currently works with Central Huijin Investment Ltd.. Mr. CHEN has served as a Non-executive Director of the Bank since January 2015. He used to serve as an assistant research fellow and deputy director of the Rural Policy Research Office of the Secretariat of the Central Committee and the Enterprise Research Division of the Development Research Department of the Rural Development Research Center of the State Council, director and research fellow of the Rural Department of the Development Research Center of the State Council, counsel of the Central Financial Affairs Leading Group Office and the Rural Group 1 of the Central Rural Affairs Leading Group Office.

HU Xiaohui Non-executive Director

Mr. HU Xiaohui holds a bachelor's degree and is an economist. He currently works with Central Huijin Investment Ltd.. Mr. HU has served as a Non-executive Director of the Bank since January 2015. He used to be a deputy director of Xiangtan Group, deputy director (in charge) of Yiyang Group, deputy director (in charge) of the general office, deputy director and director of the general division, director of the Division I, assistant commissioner, secretary of the party committee, deputy counsel, deputy inspection commissioner and discipline inspection team leader of Office of the Finance Discipline Inspection Commissioner of MOF in Hunan Province.

XU Jiandong Non-executive Director

Mr. XU Jiandong holds a bachelor's degree. He currently works with Central Huijin Investment Ltd.. Mr. XU has served as a Non-executive Director of the Bank since February 2015. He used to work with the State Administration of Foreign Exchange (the "SAFE") successively in several positions, including deputy director of the Market Exchange Rate Division of the Balance of Payment Department, director of the Banking Foreign Exchange Balance of Payment Management Division of the Balance of Payment Department, deputy counsel of the Balance of Payment Department. He also used to serve as deputy director of the Financial Affairs Office of Jilin Province and deputy counsel of the Management and Inspection Department of the SAFE.

WEN Tiejun Independent Non-executive Director

Mr. WEN Tiejun holds a Ph.D. degree in management. He has served as an Independent Non-executive Director of the Bank since May 2011. He currently serves as second-grade professor and deputy director of the Academic Committee of Renmin University of China, executive president of the Institute of Advanced Study of Sustainable Development, director of China Rural Economy and Finance Research Institute and head of Rural Construction Center. He has also served as a member of the National Environment Advisory Committee, ministerial adviser and advisory expert of the Ministry of Commerce, the State Forestry Administration, State Administration of Grain, Beijing and Fujian Province of the PRC. Mr. WEN was elected as vice president of the Chinese Association of Agricultural Economics in 2007 and a member of the Disciplinary Assessment Team under the Academic Degree Commission of the State Council of the PRC since 2008. He was previously a researcher of the Research Center for Rural Economy of Ministry of Agriculture of the PRC, deputy secretary general of the China Society of Economic Reform and the head of School of Agricultural Economics and Rural Development of Renmin University of China.

Francis YUEN Tin-fan   Independent Non-executive Director

Mr. Francis YUEN Tin-fan received a bachelor's degree in economics from University of Chicago and is a member of the Shanghai Municipal Committee of CPPCC. He is now a non-executive vice chairman of Pacific Century Regional Developments Limited, and has served as an Independent Non-executive Director of the Bank since March 2013. Mr. YUEN previously served as the chief executive of the Hong Kong Stock Exchange, vice chairman and executive director of Pacific Century Group, chairman and board representative of Pacific Century Group Japan Co., Ltd., vice chairman and executive director of PCCW Limited, vice chairman of Pacific Century Premium Developments Limited, executive chairman of Pacific Century Insurance Holdings Limited, vice chairman and executive director of Pacific Century Regional Developments Limited and a non-executive director of Kee Shing (Holdings) Limited (currently known as Gemini Investments (Holdings) Limited) and an independent non-executive director of China Pacific Insurance Group Co., Ltd. Mr. YUEN is also an independent non-executive director of China Foods Limited, chairman of the board of trustees of the Hong Kong Centre for Economic Research, chairman of the advisory committee of Ortus Capital Management Limited, and a member of the board of trustees of the University of Chicago and Fudan University in Shanghai.

XIAO Xing   Independent Non-executive Director

Ms. XIAO Xing holds a Ph.D. degree in accounting. She is currently the chair of Accounting Department of School of Economics and Management, professor and tutor for Ph.D. candidates of Tsinghua University. She has served as an Independent Non-executive Director of the Bank since March 2015. During her tenure, she visited Harvard University, Massachusetts Institute of Technology, University of Wisconsin for study or as a senior visiting scholar. She was elected as a Fulbright scholar in 2011. Ms. XIAO Xing used to serve as a member of the expert panel of China Development Bank, an independent consultant for the World Bank and an independent director of Beijing Thunisoft Corporation Limited. She concurrently serves as a committee member of China National MPAcc Education Steering Committee, a board member of the Finance and Cost Sub-society of the Accounting Society of China, a member of the Teaching Collaboration Committee for Accounting of Universities in Beijing, vice editor of China Accounting and Finance Review, an editor and editorial board member of China Accounting Review, and an independent director of GoerTek Inc. and Dohia Home Textile Co., Ltd., respectively.

LU Jianping Independent Non-executive Director

Mr. LU Jianping holds a doctor's degree in law and is currently the dean of the School of Law, professor and tutor for Ph.D. candidates of Beijing Normal University. He has served as an Independent Non-executive Director of the Bank since June 2015. He used to serve as director of the International Economic Law Department, associate dean of the Foreign Trade College and director of the Public Management Department of Zhejiang University and executive director of Criminal Law Science Research Center of Renmin University of China. He serves concurrently as director of China Law Society, vice president of Criminology Research Committee of China Law Society, director of International Association of Penal Law and standing vice chairman of China branch of International Association of Penal Law, and director of International Society of Social Defence.

WANG Xinxin Independent Non-executive Director

Mr. WANG Xinxin holds a master's degree in law and is currently a teacher in the Economic Law Teaching and Research Office of the School of Law, professor and tutor for Ph.D. candidates of Renmin University of China. He has served as an Independent Non-executive Director of the Bank since May 2016. Previously, he worked in NPC Financial and Economic Committee as a member of the Drafting Group for Enterprise Bankruptcy Law and the Drafting Group for Amendments to the Partnership Enterprise Law. He serves concurrently as director of Bankruptcy Law Research Center of Renmin University of China, president of Beijing Bankruptcy Law Society, honorary president of Bankruptcy and Reorganization Research Institute of Law Society of Shandong Province, consultant for the Bankruptcy Law Research Institute of the Shanghai Law Society, and the managing director of Economic Law Research Institute of the China Law Society. Mr. WANG Xinxin is a consultant in the Drafting Group for Judicial Interpretations of Bankruptcy Law and one of the first chief researchers of Judicial Case Research Institute of the Supreme People's Court. He also serves as an independent director of each of Hubei Filihua Quartz Glass Co., Ltd. and Jolywood (Suzhou) Sunwatt Co., Ltd.

Biography of Supervisors

YUAN Changqing Chairman of the Board of Supervisors, Supervisor Representing Shareholders

Mr. YUAN Changqing holds an international MBA degree from the University of Hong Kong and is a senior economist. He has served as the Chairman of the Board of Supervisors of the Bank since June 2015. Since June 2000, he previously served as the president of Xinjiang Branch and Henan Branch of the Industrial and Commercial Bank of China and the general manager of Human Resources Department of Industrial and Commercial Bank of China. From December 2008, he served as the secretary of the Party Discipline Committee of China Everbright Group Limited. From August 2012, he served as the executive director, vice president, secretary of the Party Discipline Committee of China Everbright Group Limited (during September 2011 to September 2014, he also served as the Chairman of Everbright Securities Co., Ltd). From December 2014, he served as the vice general manger and secretary of the Party Discipline Committee of China Everbright Group Ltd..

WANG Xingchun Supervisor Representing Shareholders

Mr. WANG Xingchun received a master's degree in economics from the Graduate School of the PBOC and is a senior economist. He has served as a Supervisor Representing Shareholders of the Bank since June 2014. Mr. WANG previously served successively in several positions in the Bank, including deputy director of the Policy Research Division of the Research Office, director of the Policy Research Division of the Development Planning Department, assistant to general manager of the Development Planning Department and the Market Development Department, deputy general manager of the Market Development Department and deputy general manager of Training Department. He was appointed as vice president of Tianjin Training Institute of the Bank in February 2002, general manager of the Legal Affairs Department of the Bank in November 2003, general manager of the Legal and Compliance Department of the Bank in June 2006, general manager of the Legal Affairs Department of the Bank in July 2008, supervisor representing employees and general manager of the Legal Affairs Department of the Bank in April 2009, supervisor representing employees and branch principal of the Audit Office's Affiliated Office of the Bank in March 2011, branch principal of the Audit Office's Affiliated Office of the Bank in July 2011, and director of Office of the Board of Supervisors in March 2014.

XIA Taili　Supervisor Representing Employees

Mr. XIA Taili holds a bachelor's degree. He has served as a Supervisor Representing Employees of the Bank since December 2014. He used to serve as deputy director of the General Division in the Third Discipline Inspection Office of the Central Commission for Discipline Inspection, and at the same time as deputy secretary of the CPC County Committee in Zhangpu County, Fujian Province. He used to serve in several positions with the Central Commission for Discipline Inspection, including director level inspector, supervisor and deputy director of the General Division in the Third Discipline Inspection Office, director level inspector and supervisor of the Second Discipline Inspection Office, director of the Second Division and the General Division in the Second Discipline Inspection Office, deputy bureau level discipline inspection commissioner and supervisor in the Second Discipline Inspection Office, deputy bureau level discipline inspection commissioner and supervisor in the Seventh Discipline Inspection Office and general manager of the Inspection Work Leading Group Office of the Bank. He served as the deputy secretary of the CPC Discipline Committee and general manager of the Inspection and Supervision Department of the Bank since April 2014. He has served as the general manager of the Inspection and Supervision Office of the Bank since March 2015.

LIU Chengxu　Supervisor Representing Employees

Mr. LIU Chengxu holds a master's degree and is a senior economist. He has served as a Supervisor Representing Employees of the Bank since July 2016. Mr. LIU Chengxu used to serve as the deputy director of the Science, Research and Foreign Affairs Division, Education Department of the State Ministry of Machinery and Electronics Industry, and deputy director of the College Division, Education Department of the Ministry of Machinery Industry. He then served in several positions in the State Administration of Machinery Industry, including deputy director of the Education Division of the Enterprise Reform Department, director-level consultant, and vice director of the Intellectual Property Rights Office. Mr. LIU Chengxu also served as the director-level consultant of the Enterprise Cadre Office in the Organization Department of the CPC Central Committee, and director-level consultant and concurrently deputy director, director and vice counsel of the Fifth Cadre Bureau of the Organization Department of the CPC Central Committee. Mr. LIU Chengxu was appointed as the general manager of the Human Resources Department of the Bank in April 2012.

XIA Zongyu Supervisor Representing Employees

Mr. XIA Zongyu holds a master's degree and is a senior economist. Mr. XIA has served as a Supervisor Representing Employees of the Bank since July 2016. He used to serve in several positions in the Executive Office of the Bank, including deputy director of the General Division, deputy director and director of the Policy Research Division, and director of the Document Management Division. Mr. XIA was appointed to several positions in the Bank, including deputy general manager of the Executive Office in October 2003, principal of the Sannong Retail Banking Department in April 2008, general manager of the Sannong Retail Banking Department in July 2008 and vice president of Fujian Branch in June 2009. He was appointed as principal of the Labour Union Affairs Department in November 2012 and general manager of the Labour Union Affairs Department in January 2013.

LI Wang External Supervisor

Mr. LI Wang holds a doctor's degree in law. He has served as an External Supervisor of the Bank since June 2015. He has worked in the School of Law of Tsinghua University since November 1997 and is now a professor and tutor for Ph.D. candidates. He previously worked as a teaching assistant at the Faculty of Law of Kyoto University and as a lawyer at Sakamoto Law Firm in Japan, Oh-Ebashi LPC & Partners in Japan and J&R Law Firm in Beijing. He concurrently serves as a lawyer at the Tiantai Law Firm and an independent director at Beijing Capital Land Ltd..

LV Shuqin External Supervisor

Ms. LV Shuqin holds a bachelor's degree. She has served as an External Supervisor of the Bank since June 2015. Since July 2014, she has been a partner of Union Power CPAs Co., Ltd. and currently she is also an independent director of WanXiang Doneed Co., Ltd. She previously worked as an accountant in charge of materials in the industrial management department of Xiping County of Henan Province. She also served as the deputy director of general office of China Logistics Publishing House of the Ministry of Material Supplies, the director of finance department, assistant to the general manager, chief accountant of China Wood Company of the Ministry of Material Supplies, the head of the audit department of Huajian Accounting Firm and the planning and development department of China Audit Certified Public Accountants LLP, the deputy chief accountant of Zhongrui Yuehua Certified Public Accountants LLP and the deputy head of China Audit Asia Pacific Certified Public Accountants LLP.

Biography of Senior Management

For detailed biographies of Mr. ZHAO Huan and Mr. LOU Wenlong, please see "Biography of Directors" in this section. The biographies of other senior management members are as follows:

GONG Chao Secretary of the Party Discipline Committee

Mr. GONG Chao received a master's degree in economics from Xi'an Jiaotong University and is a senior economist. He has served as the Secretary of the Party Discipline Committee of the Bank in December 2011 and as an Executive Vice President and the Secretary of the Party Discipline Committee of the Bank since March 2012. Mr. GONG has been the Secretary of the Party Discipline Committee of the Bank since July 2016. Mr. GONG previously served as the deputy director of the personnel department of Agricultural Development Bank of China, deputy director of the Administrative Affairs Department and the Executive General Office of the SSF, and vice president of the Beijing Branch of Agricultural Development Bank of China. Mr. GONG was appointed as general manager of the human resources department of Agricultural Development Bank of China in September 2006.

WANG Wei Executive Vice President

Mr. WANG Wei received a doctor's degree in economics from Southwestern University of Finance and Economics and is a senior economist. He has served as a member of senior management of the Bank since December 2011 and an Executive Vice President of the Bank since December 2013. Mr. WANG previously served in several positions in the Bank, including deputy president of Ningxia Branch, deputy president of Gansu Branch, president of Gansu Branch, president of Xinjiang Branch and president of Xinjiang Production and Construction Corps Branch, general manager of the General Office of the Bank and president of Hebei Branch, general manager of the Internal Control and Compliance Department, general manager of the Human Resources Department and chief officer of the Sannong Business. He is concurrently the vice chairman of the fifth committee of Chinese Society of Financial Ideological and Political Work and a member of the fourth national standing committee of Chinese Financial Association.

GUO Ningning   Executive Vice President

Ms. GUO Ningning received a doctor's degree in economics from Tsinghua University. She has served as an Executive Vice President of the Bank since June 2016. Ms. GUO previously served in several positions in Bank of China Limited ("BOC"), including deputy director of risk management division of the credit management department, director of unified credit management division and director of policy and regulation management division of the risk management department, deputy general manager of the risk management department, vice president of Jiangsu branch, and chief risk officer of the financial markets unit of the head office. From April 2011, Ms. GUO successively served in several positions in BOC, including general manager of the financial markets unit of the head office, general manager of the Hong Kong trading center, and president of Hong Kong branch and president of Singapore branch of BOC. She is concurrently the vice president of the National Association of Financial Market Institutional Investors.

KANG Yi   Executive Vice President

Mr. KANG Yi received a bachelor's degree of economics from Shanghai University of Finance and Economics and a bachelor of law degree from Wuhan University. Mr. KANG has served as an Executive Vice President of the Bank since January 2017. Mr. KANG previously served in several positions in China Construction Bank Corporation ("CCB"), including deputy director of project evaluation division of Hubei branch, vice president and president of Three Gorges branch and vice president of Hubei branch. From April 2007, he successively served as the president of Gansu branch and Fujian branch of CCB, and general manager of personal deposit and investment department and corporate banking department of the head office of CCB. In August 2015, Mr. KANG was appointed as director of the wholesale business and general manager of corporate banking department of CCB.

ZHANG Keqiu Secretary to the Board of Directors

Ms. ZHANG Keqiu received a master's degree in economics from Nankai University. Ms. ZHANG is a senior accountant and an expert entitled to Government Special Allowance granted by the State Council. She has served as the secretary to the Board of Directors of the Bank since June 2015. Ms. ZHANG had previously served in various positions in the Bank, including deputy director of Funds Division and director of System Management Division of the International Business Department, director of Finance Division of Finance and Accounting Department, general manager of Business Department of Beijing Branch and chief representative of London Representative Office. She was appointed as deputy general manager of Finance and Accounting Department in April 2004, deputy general manager of Accounting and Settlement Department in May 2006, deputy general manager of Planning and Finance Department in April 2008, deputy general manager of Finance and Accounting Department and special resident auditor in Beijing Branch and Tianjin Branch concurrently in November 2008, general manager of Asset and Liability Management Department of the Bank in August 2009, general manager of Finance and Accounting Department of the Bank in June 2011. Ms. ZHANG has served as the chief financial officer and general manager of Finance and Accounting Department of the Bank since November 2012. Ms. ZHANG is concurrently a deputy secretary-general of executive committee of the Banking Accounting Society of China.

LI Zhicheng Chief Risk Officer

Mr. LI Zhicheng holds a master's degree in economics from Shaanxi College of Finance and Economics. Mr. LI has served as the Chief Risk Officer since February 2017. Mr. Li previously served in several positions in the Bank, including assistant president of Wuhan Cadre Management College of the Bank, deputy director of Research Office of the Bank and vice president of Hebei Branch. From June 2005, Mr. LI successively served as director of Research Office of the Bank, president of Jilin Branch and president of Jiangsu Branch, respectively. From July 2014, Mr. LI served as Chief Investment Officer of the Bank and concurrently held the position of general manager of Hong Kong Branch.

Changes in Directors, Supervisors and Senior Management

Changes in Directors

On 21 February 2016, Mr. LIU Shiyu resigned as the Chairman of the Board of Directors and an Executive Director of the Bank due to work arrangements.

On 8 March 2016, Mr. ZHAO Huan was elected as an Executive Director of the Bank, and Mr. WANG Xinxin was elected as an Independent Non-executive Director of the Bank, both at the 2016 First Extraordinary General Meeting of the Bank. Mr. ZHAO Huan was also elected as the Vice Chairman of the Board of Directors on the same day. The qualification of Mr. ZHAO Huan was ratified by the CBRC on 24 March 2016. The qualification of Mr. WANG Xinxin was ratified by the CBRC on 13 May 2016. Mr. Frederick MA Si-hang resigned as an Independent Non-executive Director of the Bank upon the ratification of the qualification of Mr. WANG Xinxin by the CBRC.

On 27 June 2016, Mr. ZHOU Mubing was elected as an Executive Director of the Bank at the 2015 Annual General Meeting of the Bank. Mr. ZHOU Mubing was also elected as the Chairman of the Board of Directors on the same day. The qualification of Mr. ZHOU Mubing was ratified by the CBRC on 1 July 2016.

On 14 September 2016, Mr. CAI Huaxiang resigned as an Executive Director of the Bank due to work arrangements.

Changes in Supervisors

On 7 May 2016, Mr. XIA Zongyu resigned as a Supervisor Representing Employees and a member of the Finance and Internal Control Supervision Committee of the Board of Supervisors due to the expiry of his term of office.

On 5 July 2016, Mr. LIU Chengxu and Mr. XIA Zongyu were elected as Supervisors Representing Employees of the Bank at the Employee Representatives Meeting of the Bank.

On 26 August 2016, Mr. LIU Chengxu was elected as a member of the Due Diligence Supervision Committee of the Board of Supervisors, and Mr. XIA Zongyu was elected as a member of the Finance and Internal Control Supervision Committee of the Board of Supervisors, both at the fourth meeting of the Board of Supervisors of the Bank in 2016.

On 9 January 2017, Mr. ZHENG Xin resigned as a Supervisor Representing Employees of the Bank and a member of the Finance and Internal Control Supervision Committee of the Board of Supervisors due to his age.

Changes in Senior Management

On 21 January 2016, Mr. ZHAO Huan was appointed as the President of the Bank by the Board. The qualification of Mr. ZHAO Huan was ratified by the CBRC on 4 March 2016.

On 3 March 2016, Mr. LI Zhenjiang resigned as an Executive Vice President of the Bank due to work arrangements.

On 28 April 2016, Ms. GUO Ningning was appointed as an Executive Vice President of the Bank by the Board. The qualification of Ms. GUO Ningning was ratified by the CBRC on 6 June 2016.

On 18 July 2016, Mr. GONG Chao, an Executive Vice President and the Secretary of the Party Discipline Committee, resigned as an Executive Vice President of the Bank due to work arrangements, but still remains as the Secretary of the Party Discipline Committee.

On 14 September 2016, Mr. CAI Huaxiang resigned as an Executive Vice President of the Bank due to work arrangements.

On 22 November 2016, Mr. KANG Yi was appointed as an Executive Vice President of the Bank by the Board. The qualification of Mr. KANG Yi was ratified by the CBRC on 24 January 2017.

On 16 December 2016, Mr. LIN Xiaoxuan resigned as an Executive Vice President of the Bank due to work arrangements.

On 28 February 2017, Mr. LI Zhicheng was appointed as the Chief Risk Officer of the Bank by the Board.

Annual Remuneration

According to relevant government regulations, since 1 January 2015, the remuneration of the Chairman of the Board of Directors, the President, the Chairman of the Board of Supervisors as well as the Executive Vice Presidents of the Bank shall be paid in line with the *Interim Administration Measures for the Remuneration of Person in-charge in State-controlled Financial Enterprises*, and the Bank has followed accordingly. Remuneration of the members mentioned above for 2016 is subject to confirmation and will be disclosed in further announcement.

The remuneration paid to Directors, Supervisors and senior management for 2016 is set out in the table below.

Name	Position	Tenure	Remuneration paid in 2016 (Unit: RMB Ten Thousand)				Whether receiving remuneration from shareholders or other related parties (Y/N)
			Remuneration paid (before tax) (1)	Social insurance, enterprise annuity and housing fund payable by the Bank (2)	Director's fee/ Supervisor's fee (3)	Total (4)=(1)+(2)+(3)	
ZHOU Mubing	Chairman of the Board of Directors, Executive Director	2016.07-2019.07	28.26	8.49	–	36.75	N
ZHAO Huan	Vice Chairman of the Board of Directors, Executive Director, President	2016.03-2019.03	48.44	15.89	–	64.33	N
LOU Wenlong	Executive Director, Executive Vice President	2012.12-2018.12	43.60	15.52	–	59.12	N
ZHAO Chao	Non-executive Director	2012.02-2018.02	–	–	–	–	Y
ZHOU Ke	Non-executive Director	2014.07-2017.07	–	–	–	–	Y
ZHANG Dinglong	Non-executive Director	2015.01-2018.01	–	–	–	–	Y
CHEN Jianbo	Non-executive Director	2015.01-2018.01	–	–	–	–	Y
HU Xiaohui	Non-executive Director	2015.01-2018.01	–	–	–	–	Y
XU Jiandong	Non-executive Director	2015.02-2018.02	–	–	–	–	Y
WEN Tiejun	Independent Non-executive Director	2011.05-2017.06	–	–	41.00	41.00	Y
Francis YUEN Tin-fan	Independent Non-executive Director	2013.03-2019.03	–	–	38.00	38.00	Y
XIAO Xing	Independent Non-executive Director	2015.03-2018.03	–	–	36.87	36.87	Y
LU Jianping	Independent Non-executive Director	2015.06-	–	–	–	–	N
WANG Xinxin	Independent Non-executive Director	2016.05-2019.05	–	–	21.10	21.10	Y
YUAN Changqing	Chairman of the Board of Supervisors, Supervisor Representing Shareholders	2015.06-2018.06	48.44	15.80	–	64.24	N
WANG Xingchun	Supervisor Representing Shareholders	2014.06-2017.06	–	–	–	–	N
XIA Taili	Supervisor Representing Employees	2014.12-2017.12	–	–	3.00	3.00	N
LIU Chengxu	Supervisor Representing Employees	2016.07-2019.07	–	–	1.50	1.50	N
XIA Zongyu	Supervisor Representing Employees	2013.05-2016.05 2016.07-2019.07	–	–	2.75	2.75	N

			Remuneration paid in 2016 (Unit: RMB Ten Thousand)				
Name	Position	Tenure	Remuneration paid (before tax) (1)	Social insurance, enterprise annuity and housing fund payable by the Bank (2)	Director's fee/ Supervisor's fee (3)	Total (4)=(1)+(2)+(3)	Whether receiving remuneration from shareholders or other related parties (Y/N)
LI Wang	External Supervisor	2015.06-2018.06	–	–	28.00	28.00	Y
LV Shuqin	External Supervisor	2015.06-2018.06	–	–	28.00	28.00	Y
GONG Chao	Secretary of the Party Discipline Committee	2012.03-	43.60	15.52	–	59.12	N
WANG Wei	Executive Vice President	2013.12-	43.60	15.52	–	59.12	N
GUO Ningning	Executive Vice President	2016.06-	29.06	9.67	–	38.73	N
KANG Yi	Executive Vice President	2017.01-	3.63	1.13	–	4.76	N
ZHANG Keqiu	Secretary to the Board of Directors	2015.06-	87.90	24.47	–	112.37	N
LI Zhicheng	Chief Risk Officer	2017.02-	–	–	–	–	N

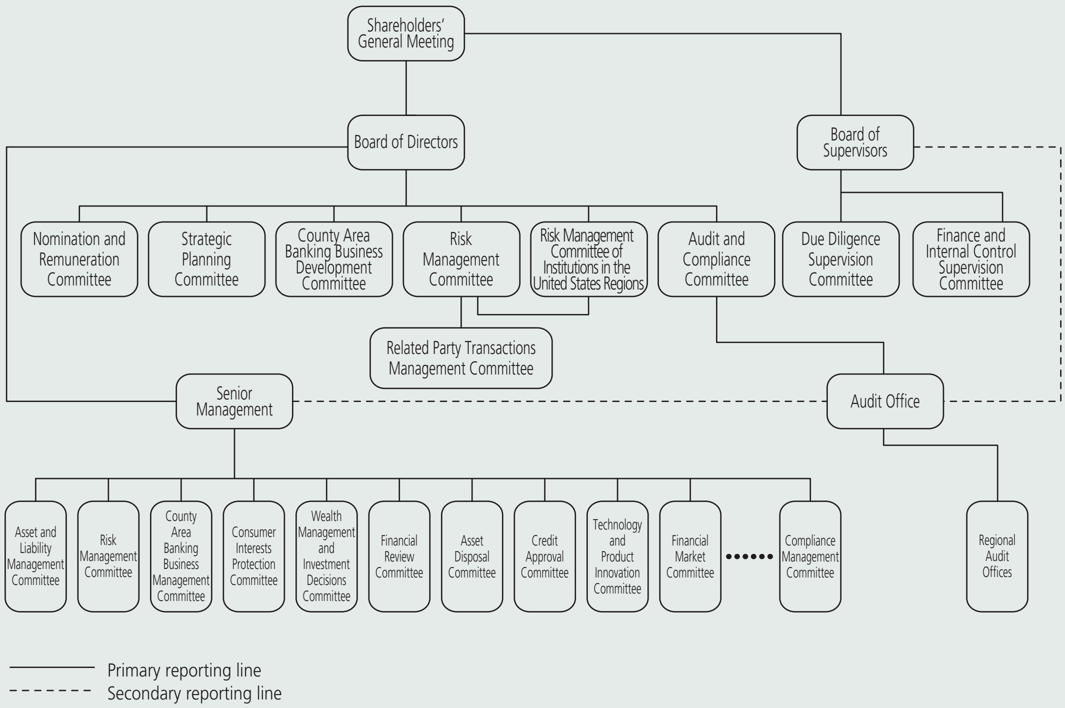
Notes:

1. *The Directors, Supervisors and senior management members of the Bank who are also our employees are entitled to receive emoluments from the Bank. The emoluments include salary, bonus and contributions to all kinds of social insurance and housing fund payable by the Bank. The Independent Non-executive Directors of the Bank are entitled to receive director's fee and allowances. The External Supervisors of the Bank are entitled to receive supervisor's fee and allowances. The Chairman of the Board, Executive Directors and senior management members of the Bank did not receive any remuneration from any subsidiary of the Bank. For Supervisors Representing Employees of the Bank, the amount set forth above only includes fees for their services as Supervisors.*
2. *Mr. ZHAO Chao, Mr. ZHOU Ke, Mr. ZHANG Dinglong, Mr. CHEN Jianbo, Mr. HU Xiaohui and Mr. XU Jiandong, as our Non-executive Directors, did not receive any remuneration from the Bank.*
3. *Mr. LIU Shiyu received a remuneration of RMB112.1 thousand during his term of office in the Bank in 2016.*
4. *Mr. CAI Huaxiang received a remuneration of RMB400.6 thousand during his term of office in the Bank in 2016.*
5. *The director's fee of Mr. Frederick MA Si-hang, a former Independent Non-executive Director, was RMB150.1 thousand in 2016.*
6. *Mr. WANG Xingchun did not receive any remuneration of part-time position from the Bank in 2016 as our Supervisor Representing Shareholders.*
7. *The supervisor's fee of Mr. ZHENG Xin, a former Supervisor Representing Employees of the Bank, was RMB30 thousand in 2016.*
8. *Mr. LI Zhenjiang received a remuneration of RMB152.9 thousand during his term of office in the Bank in 2016.*
9. *Mr. LIN Xiaoxuan received a remuneration of RMB591.2 thousand during his term of office in the Bank in 2016.*
10. *The total remuneration paid to the Directors, Supervisors and senior management by the Bank in 2016 was RMB8,424.5 thousand.*

At the end of the reporting period, Mr. ZHENG Xin, a former Supervisor of the Bank, held 375,000 A Shares of the Bank. Other than him, no Directors, Supervisors or senior management members held any shares of the Bank. During the reporting period, none of the Directors, Supervisors and senior management members of the Bank held any share options of the Bank, or were granted restricted shares of the Bank.

We continuously promoted the modernization of our corporate governance system and capacities, followed the principle that governance bodies operate independently, counterbalance effectively, cooperate and coordinate efficiently, and constantly optimized the operation mechanism of rational decision-making of the Board of Directors, efficient implementation of the senior management and strict supervision of the Board of Supervisors.

During the reporting period, we have strictly complied with the requirements of applicable laws, regulations, and regulatory rules of places where the Bank's shares are listed. The Risk Management Committee of Institutions in the United States Regions (responsibilities of which are concurrently assumed by the Risk Management Committee) was newly established by the Board of Directors. The composition of the Board of Directors, Board of Supervisors and the special committees thereunder have been adjusted, and various corporate governance tasks were performed in depth to consistently enhance the capabilities of strategy implementation, risk management, internal control, transparency and in other aspects.



Note: Responsibilities of the Risk Management Committee of Institutions in the United States Regions are concurrently assumed by the Risk Management Committee.

Corporate Governance Structure Chart of the Bank

Corporate Governance Code

During the reporting period, we complied with all the principles and code provisions stipulated in the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules.

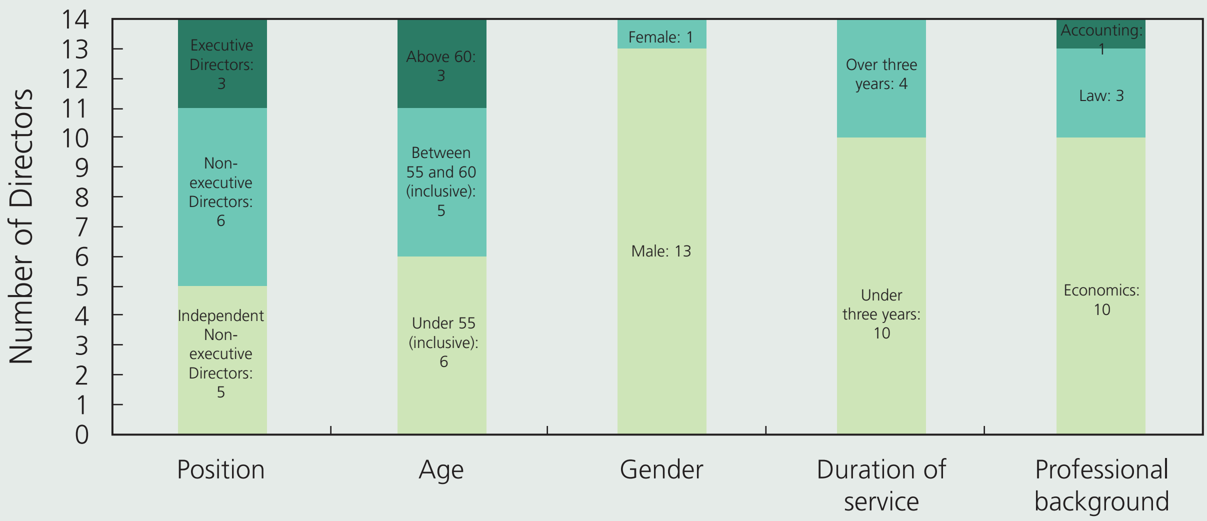
The Board of Directors has actively performed its corporate governance duties, and is responsible for formulating the amendments to the Articles of Association, Rules of Procedures of the Shareholders' General Meeting and Rules of Procedures of the Board of Directors, establishing relevant corporate governance systems, and continuously evaluating and improving the corporate governance of the Bank. The Board of Directors has established several special committees which perform their functions strictly in accordance with the applicable requirements of corporate governance.

Board of Directors and Special Committees

Composition of the Board of Directors

At the end of the reporting period, the Board of Directors comprised 14 members, including three Executive Directors, namely Mr. ZHOU Mubing, Mr. ZHAO Huan and Mr. LOU Wenlong; six Non-executive Directors, namely Mr. ZHAO Chao, Mr. ZHOU Ke, Mr. ZHANG Dinglong, Mr. CHEN Jianbo, Mr. HU Xiaohui and Mr. XU Jiandong; and five Independent Non-executive Directors, namely Mr. WEN Tiejun, Mr. Francis YUEN Tin-fan, Ms. XIAO Xing, Mr. LU Jianping and Mr. WANG Xinxin. Details of the incumbent Directors are set out in "Directors, Supervisors and Senior Management".

We have formulated the board diversity policy, which specifies the position of the Bank in upholding the diversity of the Board of Directors, and the approaches adopted by us to achieve such diversity. We appreciate and acknowledge the benefits of diversity of the Board of Directors, and regarded diversity of the Board of Directors as a critical factor in achieving our strategic goals, maintaining our competitive strengths and achieving our sustainable development. We consider various factors, including talents, skills, industry experience, cultural and education background, gender, age and race, when deciding the composition of the Board of Directors. All appointments of Directors shall be decided with reference to talents, skills and experience required for the overall operation of the Board of Directors.



Particulars of Diversity of the Board of Directors

Functions of the Board of Directors

The primary functions of the Board of Directors include, but are not limited to, the following:

- convening of the Shareholders' General Meetings and reporting to the Shareholders' General Meetings;
- implementation of the resolutions of the Shareholders' General Meetings;
- decision on development strategy (including development strategy of the County Area Banking Business);
- decision on business plan and investment plan;
- formulation of proposal of annual financial budgets and financial accounts;
- formulation of profit distribution and loss appropriation plans;
- formulation of plan of increase or reduction of registered capital;
- formulation of plan of issuance of corporate bonds or other securities and listing plan;
- formulation of plan of merger, division, dissolution and changes in the corporate form of the Bank;
- formulation of plan of repurchase of the ordinary shares;
- formulation of general management systems and policies, and supervision of the implementation of the general management systems and policies;
- formulation and improvement of the general management system of risk management and internal control of the Bank; review and approval of general risk management report and plan on allocation of risk-based capital of the Bank, and evaluation of effectiveness and improvement of risk management;
- formulation of amendments to the Articles of Association, Rules of Procedures of Shareholders' General Meetings and Rules of Procedures of Board of Directors and establishment of the relevant corporate governance system;
- assessment and improvement of the corporate governance of the Bank;
- decision on matters concerning the preference shares of the Bank in issue as authorized by Shareholders' General Meetings, including but not limited to repurchase, conversion and distribution of dividends; and
- other functions conferred by laws, administrative regulations, departmental rules and the Articles of Association or authorized by Shareholders' General Meetings.

Meetings of the Board of Directors

The Board of Directors considers matters by way of board meetings. During the reporting period, the Board of Directors convened a total of 14 meetings, at which 54 proposals were considered and approved, including the 2015 annual report, the 2015 corporate social responsibility report and the nominations of Directors.

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

Number of attendance in person[1]/meetings requiring attendance

			Meetings of Special Committees of the Board of Directors						
Directors	Shareholders' General Meetings	Meetings of the Board of Directors	Strategic Planning Committee	County Area Banking Business Development Committee	Nomination and Remuneration Committee	Audit and Compliance Committee	Risk Management Committee	Related Party Transactions Management Committee	Risk Management Committee of Institutions in the United States Regions
Executive Directors									
ZHOU Mubing		7/7	3/3						
ZHAO Huan	1/1	11/11	3/3	2/2	2/2				
LOU Wenlong	2/2	14/14	6/6	3/3					
Non-executive Directors									
ZHAO Chao	2/2	14/14	6/6				6/6	1/1	1/1
ZHOU Ke	2/2	13/14		3/3	5/6		5/6		0/1
ZHANG Dinglong	2/2	14/14	6/6	3/3		4/4			
CHEN Jianbo	2/2	14/14	6/6	3/3			6/6		1/1
HU Xiaohui	2/2	14/14	6/6	3/3		4/4			
XU Jiandong	2/2	14/14			6/6		6/6		1/1
Independent Non-executive Directors									
WEN Tiejun	2/2	13/14	5/6	3/3	5/6	4/4			
Francis YUEN Tin-fan	2/2	13/14				4/4	6/6	1/1	1/1
XIAO Xing	2/2	14/14		2/3	6/6	4/4			
LU Jianping	2/2	11/14			4/6		4/6	1/1	0/1
WANG Xinxin	1/1	8/8			2/2		2/2		1/1
Resigned Directors									
LIU Shiyu		1/1	1/1						
CAI Huaxiang	2/2	8/9	3/4				2/4		
Frederick MA Si-hang	1/1	4/6			1/3	1/2	1/3	0/1	

Note: 1. *Attendance in person includes attendance on site and attendance by way of electronic communication such as telephone and video conference. During the reporting period, Directors who did not attend the meetings of the Board of Directors or special committees thereof in person had appointed other Directors as proxies to attend and to vote at the meetings.*

Independence of and Performance of Duties by Independent Non-executive Directors

As at the end of the reporting period, the qualification, number and composition of the Independent Non-executive Directors were in compliance with the applicable regulatory requirements. The Independent Non-executive Directors are not involved in any business or financial interests of the Bank or its subsidiaries, and do not take any managerial position in the Bank. We have received annual independence confirmations from all Independent Non-executive Directors and confirmed their independence.

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

During the reporting period, the Independent Non-executive Directors did not raise objection to any resolution of the Board of Directors or special committees. Details of the performance of the Independent Non-executive Directors were disclosed in the *Working Report of Independent Directors for the Year*, which was published on the website of the Shanghai Stock Exchange.

Special Committees of the Board of Directors

The Board of Directors has established the Strategic Planning Committee, the County Area Banking Business Development Committee, the Nomination and Remuneration Committee, the Audit and Compliance Committee, the Risk Management Committee (with the Related Party Transactions Management Committee thereunder) and the Risk Management Committee of Institutions in the United States Regions (responsibilities of which are concurrently assumed by the Risk Management Committee). During the reporting period, the Board of Directors made the following adjustments to the composition of the special committees of the Board of Directors:

Mr. ZHOU Mubing was appointed as the chairman of the Strategic Planning Committee;

Mr. ZHAO Huan was appointed as a member and the chairman of the County Area Banking Business Development Committee and a member of each of the Strategic Planning Committee and the Nomination and Remuneration Committee;

Ms. XIAO Xing was appointed as the chairman of the Audit and Compliance Committee;

Mr. WANG Xinxin was appointed as a member of each of the Nomination and Remuneration Committee, the Risk Management Committee and the Related Party Transactions Management Committee;

Mr. LIU Shiyu resigned as the chairman and a member of the Strategic Planning Committee;

Mr. Frederick MA Si-hang resigned as the chairman and a member of the Audit and Compliance Committee and a member of each of the Nomination and Remuneration Committee, the Risk Management Committee and the Related Party Transactions Management Committee; and

Mr. CAI Huaxiang resigned as a member of the Strategic Planning Committee and the Risk Management Committee.

Strategic Planning Committee

At the end of the reporting period, the Strategic Planning Committee of the Board of Directors comprised eight Directors, including Mr. ZHOU Mubing (Chairman), Mr. ZHAO Huan (Vice Chairman), Mr. LOU Wenlong (Executive Director) and Mr. ZHAO Chao, Mr. ZHANG Dinglong, Mr. CHEN Jianbo, Mr. HU Xiaohui (all are Non-executive Directors) and Mr. WEN Tiejun (Independent Non-executive Director). Mr. ZHOU Mubing, the Chairman of the Board of Directors, has been appointed as the chairman of the Strategic Planning Committee. The primary duties of the Strategic Planning Committee are to review the overall development strategy and specific strategic development plans, major investment and financing plans, mergers and acquisitions plans and other material matters critical to the development of the Bank and make suggestions to the Board of Directors.

During the reporting period, the Strategic Planning Committee convened six meetings and considered fifteen proposals, including the fixed assets investment budget of the Bank for 2016 and the final financial accounts for 2015, and provided opinions and suggestions on the final financial accounts, profit distribution plans and reform and development plans.

County Area Banking Business Development Committee

At the end of the reporting period, the County Area Banking Business Development Committee of the Board of Directors comprised eight Directors, including Mr. ZHAO Huan (Vice Chairman), Mr. LOU Wenlong (Executive Director), Mr. ZHOU Ke, Mr. ZHANG Dinglong, Mr. CHEN Jianbo and Mr. HU Xiaohui (all are Non-executive Directors), Mr. WEN Tiejun and Ms. Xiao Xing (both are Independent Non-executive Directors). Mr. ZHAO Huan, the Vice Chairman of the Board of Directors, has been appointed as the chairman of the County Area Banking Business Development Committee. The primary duties of the County Area Banking Business Development Committee are to review the strategic development plan, policies, basic management rules and the risk strategic plan of the County Area Banking Business and other major matters critical to the development of the County Area Banking Business. It is also responsible for monitoring the implementation of our County Area Banking Business strategic plan, policies and basic management rules, evaluating the services provided in connection with County Area Banking Business, and making suggestions to the Board of Directors.

During the reporting period, the County Area Banking Business Development Committee convened three meetings and reviewed three reports in relation to the operation of the County Area Banking Business and the differentiated credit policies for Sannong. It has conducted thorough discussions and studies on the development of the County Area Banking Business and differentiated credit policies for Sannong and provided opinions and suggestions.

Nomination and Remuneration Committee

At the end of the reporting period, the Nomination and Remuneration Committee of the Board of Directors comprised seven Directors, including Mr. ZHAO Huan (Vice Chairman), Mr. ZHOU Ke, Mr. XU Jiandong (both are Non-executive Directors), Mr. WEN Tiejun, Ms. XIAO Xing, Mr. LU Jianping and Mr. WANG Xinxin (all are Independent Non-executive Directors). Mr. WEN Tiejun is the chairman of the Nomination and Remuneration Committee. The primary duties of the Nomination and Remuneration Committee are to formulate standards and procedures for election of directors, chairmen and members of special committees and senior management members and submit the proposed candidates and their qualifications to the Board of Directors for approval, and to formulate the remuneration policies for directors, supervisors and senior management members, and submit the remuneration packages to the Board of Directors for consideration.

The Articles of Association set out the procedures and methods of the nomination of Directors and have specific requirements for the appointment of Independent Non-executive Directors. Please refer to articles 135 and 145 of the Articles of Association for details. The Articles of Association are published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Bank. During the reporting period, the Bank appointed our Directors in strict compliance with the Articles of Association.

When nominating candidates of Directors, the Nomination and Remuneration Committee mainly takes into account their qualifications, compliance record with laws, administrative regulations, rules and the Articles of Association, capability of diligent performance, understanding of the operation and management of the Bank and willingness to accept supervision of their performance by the Board of Supervisors of the Bank and the requirement of the diversity of the Board of Directors. The quorum of the meeting of the Nomination and Remuneration Committee shall be more than half of all its members, and any resolution at such meeting shall be passed by favorable votes from more than half of its members.

During the reporting period, the Nomination and Remuneration Committee convened six meetings and considered nine proposals including the nominations of Directors and the appointment of the Executive Vice President of the Bank.

Audit and Compliance Committee

At the end of the reporting period, the Audit and Compliance Committee of the Board of Directors comprised five Directors, namely Mr. ZHANG Dinglong and Mr. HU Xiaohui (both are Non-executive Directors), Mr. WEN Tiejun, Mr. Francis YEUN Tin-fan and Ms. XIAO Xing (all are Independent Non-executive Directors). Ms. XIAO Xing is the chairwoman of the Audit and Compliance Committee. The primary duties of the Audit and Compliance Committee are to supervise, inspect and review our internal audit, financial information and internal control, and to provide advice and suggestions to the Board of Directors.

The performance of the Audit and Compliance Committee was disclosed in the *Annual Performance Report of Audit and Compliance Committee*, which was published on the website of the Shanghai Stock Exchange.

Risk Management Committee

At the end of the reporting period, the Risk Management Committee of the Board of Directors comprised seven Directors, including Mr. ZHAO Chao, Mr. ZHOU Ke, Mr. CHEN Jianbo and Mr. XU Jiandong (all are Non-executive Directors) and Mr. Francis YUEN Tin-fan, Mr. LU Jianping and Mr. WANG Xinxin (all are Independent Non-executive Directors). Mr. Francis YUEN Tin-fan is the chairman of the Risk Management Committee. The primary duties of the Risk Management Committee are to review our risk strategies, risk management policies, risk management reports and proposals on deployment of risk-based capital, to supervise and assess the performance of relevant senior management members and risk management departments in respect of risk management, and to make suggestions to the Board of Directors.

During the reporting period, the Risk Management Committee convened six meetings, reviewed four proposals including administrative measures on stress testing and market risk management policies, and listened to nine reports including the overall risk condition of the Bank and the operation of IRB system and its validation. The Risk Management Committee reviewed the overall risk condition of the Bank regularly and provided advice and suggestions on the market risk management policies and control and management of credit risk.

Related Party Transactions Management Committee

At the end of the reporting period, the Related Party Transactions Management Committee of the Board of Directors comprised four Directors, including Mr. ZHAO Chao (Non-executive Director) and Mr. Francis YUEN Tin-fan, Mr. LU Jianping and Mr. Wang Xinxin (all are Independent Non-executive Directors). Mr. Francis YUEN Tin-fan is the chairman of the Related Party Transactions Management Committee. The primary duties of the Related Party Transactions Management Committee are to identify related parties of the Bank, review our general management system for related party transactions, review and record the related party transactions, and make suggestions to the Board of Directors.

During the reporting period, the Related Party Transactions Management Committee convened one meeting, considered the proposal of list of related parties of the Bank, and listened to the report in relation to the management of related party transactions of the Bank. The Related Party Transactions Management Committee reviewed and approved the information of related parties of the Bank and provided advice and suggestions on the enhancement of the management of our related parties and our related party transactions.

Risk Management Committee of Institutions in the United States Regions

In April 2016, the Board of Director considered and approved the Proposal on the Risk Management Committee of the Board to Concurrently Assume the Responsibilities of the Risk Management Committee of Institutions in the United States Regions, which provided that the Risk Management Committee of the Board of Directors shall concurrently assume the Responsibilities of the Risk Management Committee of Institutions in the United States Regions. As of the end of the reporting period, the Risk Management Committee of Institutions in the United States Regions of the Board of Directors of the Bank comprised seven directors, including Mr. ZHAO Chao, Mr. ZHOU Ke, Mr. CHEN Jianbo and Mr. XU Jiandong (all are Non-executive Directors) and Mr. Francis YUEN Tin-fan, Mr. LU Jianping and Mr. WANG Xinxin (all are Independent Non-executive Directors). Mr. Francis YUEN Tin-fan is the chairman of the Risk Management Committee of Institutions in the United States Regions of the Board of Directors. The primary duties of the Risk Management Committee of Institutions in the United States Regions are to periodically review and approve risk management policies in relation to businesses in the United States regions and to supervise risk management framework and implementation of relevant policies on businesses in the United States.

During the reporting period, the Risk Management Committee of Institutions in the United States Regions of the Board of Directors convened one meeting (jointly with the Risk Management Committee of the Board of Directors) and listened to the report on business and risk compliance management of the New York Branch of the Bank. The Risk Management Committee of Institutions in the United States Regions periodically discussed the risk status of the businesses in the United States and provided advice and suggestions related thereto.

Specific Statement and Independent Opinion of Independent Non-executive Directors on the Guarantee Business of the Bank

Specific Statement and Independent Opinion of Independent Non-executive Directors on the Guarantee Business of the Bank

Pursuant to the relevant provisions set forth in the *Notice Regarding Certain Issues of Regulating Fund Transfers Between Listed Companies and Their Related Parties and the Guarantee Business of Listed Companies (Zheng Jian Fa [2003] No. 56)* issued by the CSRC and the relevant requirements of the Shanghai Stock Exchange, as the Independent Non-executive Directors of Agricultural Bank of China Limited, we have reviewed the guarantee business of the Bank based on the principles of justice, fairness and objectivity, and hereby issue our specific statements and opinions as follows:

According to our review, the guarantee business of the Bank is mainly to issue letters of guarantee, which has been approved by the PBOC and the CBRC as one of the ordinary businesses of the Bank. As of 31 December 2016, the balance of the guarantee business of the Bank (including letters of guarantee issued and guarantees by the Group) amounted to RMB229,177 million.

The Bank has attached great importance to the risk management of the guarantee business and formulated strict regulations in respect of the credit position of guarantees, and the operational procedure and approval process of the guarantee business. We believe that the Bank has effectively controlled the risks on the guarantee business.

Independent Non-executive Directors of Agricultural Bank of China Limited
WEN Tiejun, Francis YUEN Tin-fan, XIAO Xing, LU Jianping and WANG Xinxin

Responsibilities of Directors on Consolidated Financial Statements

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

During the reporting period, the Bank complied with relevant laws, regulations and the requirements of the listing rules of places where the Bank's shares are listed, and published the annual report of 2015, and the first quarterly report, the interim report and the third quarterly report of 2016.

Risk management and internal control

The Board of Directors is responsible for establishing sound and effective risk management and internal control measures and supervising and assessing the implementation of our internal control, the risk management systems and the risk level as well as reviewing the effectiveness of such systems. Such systems are in place to provide reasonable, though not absolute, assurance against material misstatement or loss, and to manage rather than eliminate the risk of failure to achieve business objectives. During the reporting period, the Board of the Directors has reviewed the adequacy and effectiveness of the risk management and internal control measures through the Audit and Compliance Committee, Risk Management Committee, Risk Management Committee of Institutions in the United States Regions and Related Party Transactions Management Committee established under it. Based on consideration and review of reports from the relevant special committees of the Board of Directors, the Board of the Directors considers that our risk management and internal control is adequate and effective.

For details of the Bank's risk management and internal control, please refer to "Discussion and Analysis – Risk Management and Internal Control".

Training of Directors and Secretary to the Board of Directors

In 2016, the Directors of the Bank participated in special trainings on supply-side structural reform, management of collaterals, anti-money laundering compliance management and corporate governance organized by the Bank, PricewaterhouseCoopers and other institutions as well as the training sessions for directors and supervisors organized by the Beijing Branch of the CSRC as required by the Hong Kong Listing Rules and the PRC regulatory requirements. The Directors also improved their professional expertise through publishing professional articles, attending forums and seminars, teaching and visiting overseas and domestic banks and our branches. During the reporting period, Ms. ZHANG Keqiu, the secretary to the Board of Directors and the company secretary of the Bank, attended relevant professional trainings with more than fifteen hours, which was in compliance with the relevant regulatory requirements.

Senior Management

The senior management is the executive body of the Bank, and is accountable to the Board of Directors and supervised by the Board of Supervisors. The separation of powers between the senior management and the Board of Directors are in strict compliance with the Articles of Association and other corporate governance regulations.

According to the Articles of Association, the President is entitled to exercise the following powers:

- taking charge of the Bank's operations and management, and organizing the implementation of the resolutions of the Board of Directors;

- conducting or authorizing other senior management members and principal officers of internal functional departments and branch offices to conduct the daily operations and management of the Bank within the scope authorized by the Board of Directors;

- drafting the fundamental management rules and policies and formulating specific rules of the Bank (excluding internal auditing rules);
- drafting the Bank's business and investment plans and implementing such plans upon approval by the Board of Directors;
- drafting plans for annual financial budgets and financial accounts, risk-based capital allotment, profit distribution and loss appropriation, increase or decrease of registered capital, issuance and listing of bond or other securities and repurchase of shares, and making suggestions to the Board of Directors;
- deciding on the set-up of the internal functional departments of the Bank, and the establishment of tier-1 branches, branches and other institutions directly under the Head Office and overseas institutions of the Bank, and making suggestions to the Board of Directors;
- proposing to the Board of Directors the appointment or dismissal of the executive vice presidents and other senior management members (except secretary to the Board of Directors);
- appointing or dismissing the principal officers of internal functional departments of the Bank (except the principal officers of internal auditing department) and the principal officers of branches;
- determining the compensation and performance appraisal of the principal officers of internal departments of the Bank (except the principal officers of internal auditing department) and the principal officers of branch offices, and conducting compensation review and performance evaluation;
- determining the salary, welfare, incentive and penalty of staff of the Bank, and deciding or authorizing the subordinate management members to appoint or dismiss staff of the Bank;
- upon the occurrence of material events in connection with business operations such as a run on the Bank, taking emergency measures, and reporting immediately to the government regulatory authorities of banking industry under the State Council, the Board of Directors and the Board of Supervisors;
- exercising other powers conferred by the relevant laws, administrative regulations, departmental rules, and the Articles of Association of the Bank and the authorities resolved to be exercised by the President pursuant to the Shareholders' General Meeting and the Board of Directors.

During the reporting period, the Bank reviewed the implementation of the *Authorization Plan to the President by the Board of Directors*, and no approval was conducted beyond the authority of the President.

Shareholders' General Meeting

During the reporting period, the Bank held one extraordinary general meeting and one annual general meeting at which eleven resolutions were considered and approved and three reports were reviewed at those meetings. Detailed information is as follows:

On 8 March 2016, we held the first Extraordinary General Meeting for 2016 in Beijing at which four resolutions were considered and approved, including the fixed assets investment budget for 2016 and the issuance plan of tier-2 capital instruments.

On 27 June 2016, we held the 2015 Annual General Meeting in Beijing at which seven resolutions were considered and approved, including the 2015 work report of the Board of Directors, 2015 work report of the Board of Supervisors, the final financial accounts for 2015, the profit distribution plan for 2015, and listened to three reports, including the 2015 work report of independent Directors, 2015 report on the implementation of the *Authorization Plan to the Board of Directors by the General Meeting of Shareholders* and the report on the management of connected transactions. The Chairman of the Bank had not been appointed upon the convening of the 2015 Annual General Meeting, and therefore Mr. ZHAO Huan, the Vice Chairman, served as the acting Chairman according to our Articles of Association.

These general meetings of the Bank were convened and held in accordance with the laws, regulations and listing rules of Hong Kong and the PRC. Directors, Supervisors and the senior management members of the Bank attended the meetings and discussed with shareholders about matters concerned by the shareholders. The Bank published the announcements on the poll results and legal advice on the above general meetings in a timely manner in accordance with regulatory requirements. The announcements on the poll results of general meetings were published on the website of the Hong Kong Stock Exchange on 8 March 2016 and 27 June 2016, respectively, and on the website of the Shanghai Stock Exchange and in the newspaper designated by the Bank for information disclosure on 9 March 2016 and 28 June 2016, respectively.

Chairman and President of the Bank

Pursuant to code provision A.2.1 of the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules and the Articles of Association, the roles of the Chairman and the President of the Bank shall be separate. The Chairman shall not be held concurrently by the legal representative or the person-in-charge of any controlling shareholder of the Bank.

Mr. ZHOU Mubing serves as the Chairman of the Board of Directors and the legal representative of the Bank, and is responsible for material matters such as business strategies and overall development of the Bank.

Mr. ZHAO Huan serves as the President of the Bank and is responsible for the daily management of business operation of the Bank. The President is appointed by, and accountable to, the Board of Directors, and shall perform duties in accordance with the Articles of Association and the authorization of the Board of Directors.

The roles of the Chairman and the President are separate and independent, with clear division of responsibilities.

Securities Transactions by Directors and Supervisors

The Bank has adopted a code of conduct for securities transactions by Directors and Supervisors with terms no less exacting 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 has confirmed that they have complied with such code of conduct throughout the year ended 31 December 2016.

Terms of Directors

The Bank strictly complies with the requirements of the Hong Kong Listing Rules and its Articles of Association in respect of the election and term of Directors. Each Director shall be elected at the Shareholders' General Meetings with a term of three years from the date of ratification by the CBRC. A Director may serve consecutive terms if being re-elected upon the expiration of the previous term, and the consecutive term shall commence from the date of approval at the Shareholders' General Meeting. The maximum term of office of an Independent Non-executive Director shall be six years.

Appraisal and Incentive Mechanisms for Senior Management

For the details of the appraisal and incentive systems for senior management during the reporting period, please refer to "Report of the Board of Directors — Remuneration of Directors, Supervisors and Senior Management".

Auditors' Engagement and Remuneration

As approved by the 2015 Annual General Meeting of the Bank, the Bank engaged PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as the domestic and international auditors of the Bank for 2016, respectively. These auditors have provided audit services for the Bank for four consecutive years in 2013, 2014, 2015 and 2016.

In 2016, the Bank paid a total fee of RMB140.85 million to PricewaterhouseCoopers and its network member firms by the Group for services provided to the Group, including RMB121.99 million for consolidated financial statements audit service, RMB9.78 million for internal control audit service and RMB9.08 million for non-audit professional service.

Shareholders' Rights

Convening of Extraordinary General Meetings

The Bank protects shareholders' rights strictly in compliance with the regulatory requirements and basic corporate governance rules. Shareholders who individually or jointly hold more than 10% of the total voting shares of the Bank (the "Requesting Shareholders") may propose to the Board of Directors to convene an extraordinary general meeting in writing. If the Board of Directors refuses to convene an extraordinary general meeting or fails to give its responses within 10 days upon receipt of the proposal, the Requesting Shareholders may propose to the Board of Supervisors to convene an extraordinary general meeting in writing. If the Board of Supervisors fails to give the notice of such extraordinary general meeting within the prescribed period, it shall be deemed to have failed to convene and preside over such meeting, and shareholders who individually or jointly hold 10% or more of the total voting shares of the Bank for not less than 90 days shall be entitled to convene and preside over an extraordinary general meeting.

Enquiries to the Board of Directors

Shareholders of the Bank may deliver enquiries to the Board of Directors and have the right to obtain the relevant information pursuant to the Articles of Association. Shareholders may inspect copies of the minutes of the Shareholders' General Meetings free of charge during the business hours of the Bank. If any shareholder requests to obtain from the Bank a copy of the relevant minutes, the Bank shall send such copy within seven days after receiving reasonable fees. Shareholders who request to inspect or obtain the relevant information shall provide the Bank with written documents evidencing the class and number of shares held by them, and the Bank shall provide such information upon verification of such shareholders. The Office of the Board of Directors is responsible for day to day affairs of the Board of Directors. If shareholders have any enquiries, please contact the Office of the Board of Directors.

Proposals to the Shareholders' General Meetings

Shareholders who individually or jointly hold more than 3% of the total voting shares of the Bank (the "Proposing Shareholders") may submit proposals to the Shareholders' General Meetings. Proposing Shareholders shall submit proposals in writing 10 days prior to the date of Shareholders' General Meetings. The Office of the Board of Directors is responsible for organizing Shareholders' General Meetings, preparing documents and taking minutes of the meetings.

Special regulations of holders of preference shares

The holders of preference shares are entitled to vote in the event of the following: (1) any amendments to the provisions regarding preference shares in the Articles of Association; (2) any decrease or series of decreases representing in aggregate more than 10% of the registered capital of the Bank; (3) any merger, division, dissolution or change in corporate form of the Bank; (4) any issuance of preference shares by the Bank; (5) any other circumstances specified by laws, regulations and the Articles of Association.

In the event of any of the circumstances above, holders of preference shares shall have the right to attend Shareholders' General Meetings and the Bank shall provide online voting. The notice of such meetings shall be delivered to holders of preference shares prior to convention of the meeting following notice procedure for holders of ordinary shares set forth in the Articles of Association.

When the Bank fails to pay dividends on preference shares for a total of three financial years or for two consecutive financial years, holders of preference shares shall have the right to attend the Shareholders' General Meetings and vote with holders of ordinary shares jointly, starting from the day following the date on which the Shareholders' General Meeting resolves to not distribute dividends on preference shares as agreed in the profit distribution plan of that year. The voting rights shall be restored until the date on which all dividends for such preference shares of that year are distributed.

Significant Changes to the Articles of Association during the reporting period

There was no significant change to the Articles of Association during the reporting period.

Information Disclosure and Investor Relations

Information Disclosure

During the reporting period, the Bank formulated the *Administrative Measures on Suspension or Exemption of Information Disclosure of Agricultural Bank of China Limited* in an effort to refine our information disclosure policy system. Following regulatory requirements and based on our experiences from disclosure practices, the Bank improved the information disclosure working mechanism and standardized the preparation and disclosure procedures of information disclosure documents. The Bank followed up the changes of regulatory requirements and best practices, and tracked the hot topics in the capital market. The Bank also increased voluntary information disclosure and enhanced the transparency of information disclosure. In 2016, we published over 250 documents for information disclosure on the Shanghai Stock Exchange and the Hong Kong Stock Exchange.

In 2016, the Bank continued to strengthen the management of inside information and enhance the compliance awareness of insiders. We also arranged annual internal examination on insider transactions and carried out insider registration and filling.

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

Investor Relationship

In 2016, the Bank continuously enhanced communication with the investors. The Bank held over one hundred investors' meetings to deliver significant information to the investors, such as development plan, business operation and financial indicators of the Bank, and effectively enhanced investors' recognition on the value of the Bank. Meanwhile, the Bank listened to suggestions from investors to constantly enhance our management quality and operating results. Through results press conferences for announcements, roadshows, participating in business summits concerning the capital market, investors' visits to our Bank and interacting with investors through hotlines, responding to investors' queries on the "E-platform" of the Shanghai Stock Exchange and through emails, the Bank established comprehensive and effective communication channels connecting our shareholders and effectively protected the rights of all the shareholders, especially the rights to know and to participate of our minority shareholders.

If investors have any enquiries, or any aforesaid proposals, enquiries or resolutions, please contact:

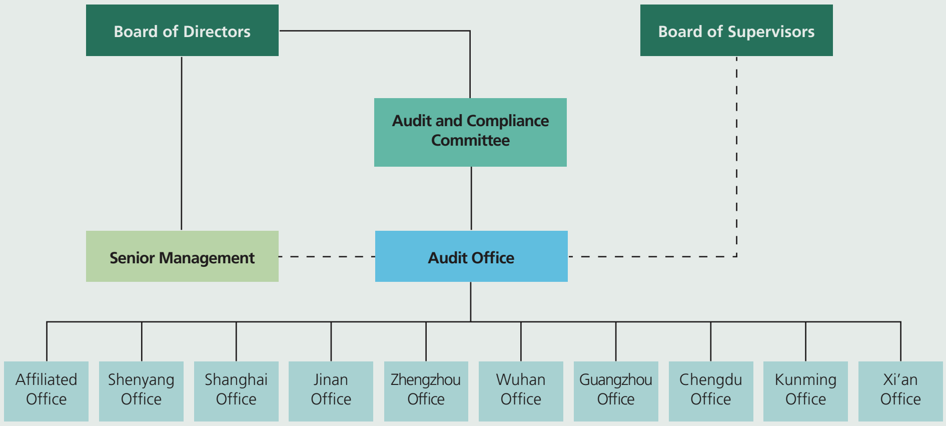
The Board Office of Agricultural Bank of China Limited

Address:	No. 69, Jianguomen Nei Avenue, Dongcheng District, Beijing, China
Telephone:	86-10-85109619
Facsimile:	86-10-85108557
E-mail:	ir@abchina.com

Internal Audit

We have established an audit department which is accountable to the Board of Directors and its Audit and Compliance Committee and under the guidance of the Board of Supervisors and the senior management. The audit department performs audits and assessments on operations and management, business activities and operation performance of the Bank based on the risk-oriented principles. The audit department consists of the Audit Office at the Head Office and ten regional offices. The Audit Office is responsible for the organization, management and reporting of internal audit works of the Bank. The regional offices under the Audit Office perform internal audit for their respective branches and shall be accountable to and report to the Audit Office.

The chart below shows the organizational structure of internal audit system of the Bank:



During the reporting period, the Bank conducted risk audits on certain branches focusing on credit, financial and accounting, credit card and employee behavior management. The Bank carried out audit and investigation on various aspects, including anti-money laundering, performance appraisal, procurement management, internal controls re-assessment, New Basel Capital Accord, small-sum loan companies, protection of consumer rights, information security and IT investment. The Bank steadily improved the audits made to overseas institutions and standardized the audit on the due diligence of the senior management. The Bank carried out follow-up audits on the rectification of key problems identified during the audit of the previous year. The Bank also further applied the information technology platform in internal auditing, strengthened management basics of audit works, and improved the professional capabilities of its audit team.

Principal Business and Business Review

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

In particular, please refer to "Discussion and Analysis — Business Review", "Discussion and Analysis — Risk Management and Internal Control" and "Discussion and Analysis — Reform and Development Plan for 2016 to 2020" for the Bank's business review, discussion and analysis of the performance for the reporting year, principal risks and uncertainties faced by the Bank and future business development of the Bank. Please refer to "Discussion and Analysis — Financial Statement Analysis" for the analysis of the financial key performance indicators. Please refer to "Report of the Board of Directors — Consumer Interests Protection" and "Report of the Board of Directors — Corporate Social Responsibility" for the environmental and social performance and policies of the Bank. Please refer to "Discussion and Analysis — Risk Management and Internal Control" for the compliance with the relevant laws and regulations that would have a significant impact on the Bank. Please refer to "Discussion and Analysis — Human Resources Management and Organization Management", "Report of the Board of Directors — Consumer Interests Protection" and "Corporate Governance — Investor Relationship" for the Bank's key relationships with its employees, clients and shareholders.

Profits and Dividends Distribution

The Bank's profits for the year ended 31 December 2016 are set out in "Discussion and Analysis — Financial Statement Analysis".

Upon approval at the 2015 Annual General Meeting held on 27 June 2016, the Bank distributed cash dividend of RMB1.668 (tax inclusive) per ten shares, with a total amount of RMB54,176 million (tax inclusive), to shareholders of A Shares and H Shares on our registers of members at the close of business on 6 July 2016.

The Board of Directors proposed distribution of cash dividends of RMB1.70 (tax inclusive) for each ten shares of 324,794,117,000 ordinary shares for 2016 with a total amount of RMB55,215 million (tax inclusive). The distribution plan will be submitted for approval at the 2016 Annual General Meeting. Once approved, the above mentioned dividends will be paid to the holders of A Shares and H Shares, whose names appear on the share registers of the Bank after the close of market on 12 July 2017. The register of transfers of H Shares will be closed from 7 July 2017 to 12 July 2017 (both days inclusive). In order to qualify for the proposed distribution of cash dividends, holders of H Shares are required to deposit the transfer documents together with the relevant share certificates at the H Share registrar of the Bank, Computershare Hong Kong Investor Services Limited located at Rooms 1712-1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong at or before 4:30 p.m. on 6 July 2017. Dividends of A Shares and H Shares is expected to be paid on 13 July 2017 and 3 August 2017, respectively. A separate announcement will be published if there is any change to the aforesaid dates.

The table below sets out the Bank's cash dividend payment for the preceding three years.

In millions of RMB, except for percentages

	2015	2014	2013
Cash dividend (tax inclusive)	54,176	59,113	57,489
Cash dividend payment ratio[1] (%)	30.0	32.9	34.6

Note: 1. Representing cash dividend (tax inclusive) divided by the net profit attributable to shareholders of ordinary shares of the Bank for the reporting period.

Pursuant to the *Notice of the State Administration of Taxation on Issues Concerning Individual Income Tax Collection and Management after the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348)*, the resident individuals outside the PRC who are the shareholders of the shares issued in Hong Kong by domestic non-foreign invested enterprises enjoy preferential tax rate in accordance with the tax conventions between Mainland China and the country where the residents reside and the tax arrangements between the Mainland China and Hong Kong (Macau). Individual shareholders will be generally subject to a withholding tax rate of 10% when domestic non-foreign invested enterprises which issue shares in Hong Kong distribute dividends to their shareholders, unless otherwise required by the regulations of relevant tax laws and tax conventions.

Pursuant to the *Notice on the Issues Concerning Withholding the Enterprises Income Tax on the Dividends Paid by Chinese Resident Enterprises to H Share Holders Who Are Overseas Non-resident Enterprises (Guo Shui Han [2008] No. 897)* of the State Administration of Taxation, the Bank is obliged to withhold and pay enterprise income tax at the rate of 10% from dividend paid or payable for H Shares when distributing dividend to non-resident enterprise shareholders of H Shares.

No tax is payable in Hong Kong in respect of dividends paid by the Bank according to the current practice of the Hong Kong Inland Revenue Department.

Shareholders are recommended to consult their tax advisers regarding the tax implication in the PRC, Hong Kong and other tax implications arising from their holding and disposal of H Shares of the Bank.

Implementation of the Cash Dividend Policy

The formulation and implementation of the Bank's cash dividend policy complies with its Articles of Association and the resolutions of the Shareholders' General Meetings. The relevant decision making procedure and mechanism are complete while the distribution standards and proportion are clearly stated. Independent Non-executive Directors have diligently fulfilled their duties and expressed their opinions. The minority shareholders of the Bank have opportunities to fully express their opinions and appeals, and their legitimate interests have been adequately protected.

Reserves

Details of the changes of reserves for the year ended 31 December 2016 are set out in "Consolidated Statement of Changes in Equity" in the consolidated financial statements.

Financial Summary

Summary of operating results, assets and liabilities for each of the five years ended 31 December 2016 is set out in "Basic Corporate Information and Major Financial Indicators".

Donations

During the year ended 31 December 2016, the Bank's external donations (domestically) amounted to RMB37,710.8 thousand.

Fixed Assets

Changes in fixed assets for the year ended 31 December 2016 are set out in "Note IV. 25. Property and Equipment" to the consolidated financial statements.

Subsidiaries

Particulars of the Bank's principal subsidiaries as of 31 December 2016 are set out in "Discussion and Analysis — Business Review".

Share Capital and Public Float

As of 31 December 2016, the Bank's total share capital of ordinary shares amounted to 324,794,117,000 shares, including 294,055,293,904 A Shares and 30,738,823,096 H Shares. As of the date of this annual report, the Bank maintained sufficient public float in compliance with the minimum requirement of the Hong Kong Listing Rules and the waiver granted by the Hong Kong Stock Exchange upon the Bank's listing.

Purchase, Sale or Redemption of the Bank's Shares

For the year ended 31 December 2016, neither the Bank nor its subsidiaries purchased, sold or redeemed any of its listed shares.

Pre-emptive Rights

There is no mandatory provision in relation to pre-emptive rights in the Articles of Association. According to the Articles of Association, the Bank is entitled to increase its registered capital by issuing shares through public or non-public offering, allotting new shares to the existing shareholders (except holders of the Bank's preference shares), transferring the capital reserve funds to increase share capital and through other methods as permitted by laws, administrative regulations and relevant authorities.

Major Customers

For the year ended 31 December 2016, the five largest customers of the Bank accounted for less than 30% of the interest income and other operating income of the Bank.

Use of Proceeds

All the proceeds were used to strengthen the Bank's capital base to support the ongoing growth of its business as disclosed in the relevant prospectuses and offering documents.

Major Projects

For the year ended 31 December 2016, the Bank had no significant projects invested by non-raised capital.

Directors' and Supervisors' Interests in Material Transactions, Arrangements or Contracts

For the year ended 31 December 2016, none of the Bank's Directors or Supervisors or parties related to such Directors and Supervisors had any material interests, whether directly or indirectly, in any material transaction, arrangement or contract regarding the Bank's business to which the Bank or any of its subsidiaries was a party. None of its Directors or Supervisors has entered into any service contract with the Bank or any of its subsidiaries, pursuant to which the Bank needs to pay compensation (other than statutory compensation) for terminating the contract within one year.

Directors' Interests in Competing Businesses

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

Directors' and Supervisors' Rights to Acquire Shares or Debentures

For the year ended 31 December 2016, the Bank did not grant any rights to acquire shares or debentures to any Director or Supervisor, nor were any of such rights exercised by any Director or Supervisor. Neither the Bank nor its subsidiaries entered into any agreement or arrangement enabling the Directors or Supervisors to acquire benefits by means of the acquisition of shares or debentures of the Bank or any other body corporate.

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

As of the end of 2016, Mr. ZHENG Xin, a former Supervisor of the Bank, held 375,000 A Shares of the Bank. Except for him, none of the Directors or Supervisors of the Bank had any interests or short positions (including interests and short positions in which they are deemed to have under such provisions of the Securities and Futures Ordinance of Hong Kong) in the shares, underlying shares or debentures of the Bank or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance of Hong Kong) which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance of Hong Kong, or any interests or short positions which were required to be recorded in the register referred to in Section 352 of the Securities and Futures Ordinance of Hong Kong, or any interests or short positions which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the *Model Code for Securities Transactions by Directors of Listed Issuers* as set out in Appendix 10 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 Substantial Shareholders".

Related Party Transactions

In 2016, we actively managed related party transaction as a listed company under the regulatory rules, and steadily proceeded with various works related to the management of related party transactions. Investigations and researches on related party transactions were carried out, and new methods to manage related party transactions were explored. We promoted the group-wide management model for related party transactions management and clearly defined the report process of the information on related party transactions at the subsidiary level. We continuously optimized our IT system to enhance the IT-based related party transaction management. During the reporting period, the related party transactions of the Bank were conducted on normal commercial terms and in accordance with laws and regulations. We did not offer more favorable price to related parties than the price available to non-related parties for transactions of the same category, and no impairment of the interest of the Bank or the minority shareholders was identified.

In 2016, we conducted various connected transactions with connected persons of the Bank (as defined in the Hong Kong Listing Rules) in the ordinary course of business. Pursuant to the applicable provisions under the Hong Kong Listing Rules, those transactions were exempt from the reporting, annual review, announcement and independent shareholders' approval requirements.

We extended loans to related natural persons (as defined in the *Administrative Measures on Information Disclosure of Listed Companies issued* by the CSRC) in 2016. Such loans were in compliance with our pricing policies and guarantees were provided for such loans. As of 31 December 2016, the total balance of such loans amounted to RMB4,908.6 thousand, and the conditions for such loans were normal.

For the related party transactions defined under applicable accounting standards, please refer to "Note IV. 45. Related Party Relations and Transactions" to the consolidated financial statements.

Remuneration of Directors, Supervisors and Senior Management

The remuneration of senior management shall be reviewed and approved by the Board of Directors while the remuneration of Directors and Supervisors shall be considered and approved by the Shareholders' General Meetings. For details of the detailed remuneration standards, please refer to "Directors, Supervisors and Senior Management — Annual Remuneration". After annual assessment, performance-based annual remunerations of Directors, Supervisor and senior management members shall be determined with reference to the assessment results. After their terms for performance assessment, term incentive bonus shall be determined with reference to the assessment results in their terms of office. The term incentive bonus shall be settled in three years as deferred payment. The Bank did not formulate any share incentive plan for Directors, Supervisors and senior management members.

Permitted Indemnity Provisions

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

During the reporting period, the Bank has renewed the liability insurance for its Directors, Supervisors and senior management members.

Equity-linked Agreement

Save for the preference shares 農行優1 (stock code: 360001) and 農行優2 (stock code: 360009) issued by the Bank on 31 October 2014 and 6 March 2015, respectively, the Bank did not enter into, nor did there subsist, any other equity-linked agreement as of 31 December 2016.

The Bank has set the events triggering mandatory conversion of the preference shares of 農行優1 and 農行優2 into ordinary A Shares, respectively, in accordance with relevant regulations, including:

(i) If the Common Equity Tier-1 ("CET 1") capital adequacy ratio of the Bank decreases to 5.125% (or below), the preference shares will be fully or partially converted into ordinary A Shares, in order to restore the Bank's CET 1 capital adequacy ratio to above 5.125%;

(ii) All preference shares issued will be converted into ordinary A Shares upon the earlier occurrence of the following two situations:

   (a) the CBRC is of the view that the Bank can no longer subsist if the preference shares are not converted;

   (b) relevant authority considers that the Bank could not subsist without capital injection from public sector or any support to the same effect.

If any of the triggering events above happens and all the preference shares of 農行優1 and 農行優2 need to be converted into ordinary A Shares at the initial conversion price, the number of ordinary A Shares upon conversion will not exceed 32,921,810,699. No events have happened so far which would trigger the mandatory conversion of the preference shares of 農行優1 or 農行優2 into ordinary A Shares.

Financial, Business and Family Relationship among Directors

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

Employee Benefit Plans

For details of employee benefit plans of the Bank, please refer to "Note IV. 36. Other Liabilities" to the consolidated financial statements.

Management Contracts

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

Auditors

The consolidated financial statements of the Group for 2016 prepared in accordance with CASs and IFRSs have been audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, respectively, in accordance with the China Standards on Auditing and International Standards on Auditing, both of which are unqualified audit opinions.

Consumer Interests Protection

Adhering to the principle of "Putting Customers First with Consistent Services", the Bank continuously improved customer experience with a focus on the key processes of customer service. The Bank also optimized its overall consumer rights protection mechanism by increasing the resource allocated thereto and establishing the institutions responsible therefore. The Bank implemented relevant laws and regulations thoroughly and proactively protect property security, right of information, right of choice, right of fair trade, right of claim, right of education, right of respect and information safety of consumers. The Bank formulated the *Administrative Measures of Agricultural Bank of China for Processing Complaints from Retail Customers (Trial)*, and establish a comprehensive and dynamic customer complaint management mechanism with an extensive coverage. The Bank continued to deeply promote educational promotions regarding financial knowledge and initiated activities such as the Financial Knowledge for the Public, the Month of Financial Knowledge and the Promotion of Financial Knowledge, to raise the public awareness on risk prevention. The Bank issued the *Management Measures of Agricultural Bank of China for Specialized Sales Area in the Outlets and Audio and Video* to manage the specialized sales area and regulate audio and video recordings. The Bank carried out education of customer information protection throughout the Group, and issued the *Notice of Customer Information Protection* to the relevant employees. The Bank also required relevant employees to sign *Commitment of Customer Information Protection*. The Bank also promoted the legal knowledge, responsibilities and key issues in respect of customer information protection, which raised the sense of responsibility and the risk awareness throughout the Bank.

Corporate Social Responsibility

During the reporting period, the Bank followed the core value of "Integrity, Stability and Sound Operation" and proactively undertook corporate social responsibilities under the principle of "giving priority to responsibilities, benefiting the general public, taking the lead in fulfilling responsibilities, promoting the well-being of the society". Meanwhile, the Bank promoted the agricultural supply-side structural reform and enhanced services for Sannong. Great efforts were made to support national strategies and infrastructure construction initiatives, such as "the Belt and Road Initiative", the "Coordinated Development of the Beijing-Tianjin-Hebei Region", the "Yangtze River Economic Belt" and the development of small and micro enterprises. The Bank actively kept in line with the development plan for areas in poverty and undertook the responsibilities to provide financial assistance for areas in poverty. Striving to build itself into a leading bank in green finance, the Bank also took initiative to cooperate with the International Finance Corporation (IFC) to research and establish the standards of the bank for the securitization of green credit assets, successfully led the issuance of the first green assets-backed security listed on the stock exchange in China. The Bank developed a system of green credit indicators of the Bank to give preferential support to environment-friendly industries with low resource consumption and high added value. The Bank also provided support for the post-disaster recovery in places such as Hubei and Hunan, and carried out various public welfare activities such as the "Young Bankers" and "Reward Donation Campaign", among other efforts to make active contributions to the community. In 2016, the Bank ranked the fourth among the Top 500 Bank Brands by *the Banker*, and maintained a leading position among peers in terms of increase in brand value. The Bank earned social recognition and good reputation while maintaining its own business development.

In addition, no environmental laws and regulations would have a significant impact on the Bank in the view of the business nature of the Bank currently.

Please refer to the 2016 Corporate Social Responsibility Report of the Bank published separately for further details.

By Order of the Board of Directors
ZHOU Mubing
Chairman of the Board

28 March 2017

Composition of the Board of Supervisors

As at the end of the reporting period, the Board of Supervisors comprised eight Supervisors, including two Supervisors Representing Shareholders, namely Mr. YUAN Changqing and Mr. WANG Xingchun, four Supervisors Representing Employees, namely Mr. ZHENG Xin, Mr. XIA Taili, Mr. LIU Chengxu and Mr. XIA Zongyu, and two External Supervisors, namely Mr. LI Wang and Ms. LV Shuqin. The Chairman of the Board of Supervisors is Mr. YUAN Changqing. Details of the incumbent Supervisors are set out in "Directors, Supervisors and Senior Management".

Functions and Authorities and Operation of the Board of Supervisors

The main functions and authorities of the Board of Directors include, among other things:

- supervising the performance of the Board of Directors and senior management, supervising and enquiring the due diligence of Directors and senior management members, and urging Directors and senior management members to rectify their behaviors detrimental to the interest of the Bank;
- proposing to dismiss or initiate litigation against Directors and senior management members who violate laws, administrative regulations and the Articles of Association or the resolutions of the Shareholders' General Meetings;
- carrying out off-office audit of Directors and senior management members when necessary;
- supervising the financial activities, business decisions, risk management and internal control of the Bank, and providing guidance to the work of internal auditing department;
- checking financial information including the financial reports, business reports and profit distribution plans prepared by the Board of Directors for submission to the Shareholders' General Meetings, and appointing certified accountants and auditors on behalf of the Bank to review such information if any problem is detected;
- supervising the implementation of strategic plans, policies and general management system for the development of the County Area Banking Business;
- submitting proposals to the Shareholders' General Meetings;
- nominating the Supervisors representing shareholders, external Supervisors and independent Directors;
- formulating the amendments to the Rules of Procedures of the Board of Supervisors;
- other functions as conferred by laws, administrative regulations, departmental rules and the Articles of Association or as authorized by the Shareholders' General Meetings.

The Board of Supervisors considers matters at the meetings of the Board of Supervisors. The meetings of the Board of Supervisors consist of regular meetings and extraordinary meetings. Regular meetings of the Board of Supervisors shall be convened at least four times each year.

The Office of Board of Supervisors is the office to carry out regular tasks of the Board of Supervisors. It is responsible for arranging meetings of the Board of Supervisors and special committees thereof and preparing documents and minutes for those meetings, as well as conducting daily supervision according to the requirements of the Board of Supervisors.

The Bank has established the Due Diligence Supervision Committee and the Finance and Internal Control Supervision Committee under the Board of Supervisors.

Due Diligence Supervision Committee

At the end of the reporting period, the Due Diligence Supervision Committee comprised five Supervisors, namely Mr. YUAN Changqing, Mr. WANG Xingchun, Mr. XIA Taili, Mr. LIU Chengxu and Mr. LI Wang. The Chairman of the Due Diligence Supervision Committee was Mr. YUAN Changqing.

The Due Diligence Supervision Committee shall operate under the authorization of the Board of Supervisors and report to the Board of Supervisors.

The main responsibilities of the Due Diligence Supervision Committee are as follows:

- developing working plans and implementation plans regarding the supervision on the due diligence of the Board of Directors, the senior management, Directors and senior management members, and implementing the plans upon approval of the Board of Supervisors;
- commenting on supervising the due diligence of the Board of Directors, the senior management, Directors and senior management members, and making suggestions to the Board of Supervisors;
- developing plans for off-office audit of Directors and senior management members when necessary, and organizing the implementation of the plans upon approval of the Board of Supervisors;
- making recommendations to the Board of Supervisors on the candidates for Supervisor representing shareholders, external Supervisors, independent Directors and members of the special committees under the Board of Supervisors;
- drafting evaluation methods for Supervisors, organizing performance assessment of Supervisors and making suggestions to the Board of Supervisors;
- studying and handling issues or documents reported or provided by the Board of Directors, the senior management, Directors and senior management members;
- other matters authorized by the Board of Supervisors.

Finance and Internal Control Supervision Committee

At the end of the reporting period, the Finance and Internal Control Supervision Committee comprised four Supervisors, namely, Mr. YUAN Changqing, Mr. ZHENG Xin, Mr. XIA Zongyu and Ms. LV Shuqin. The Chairman of the Finance and Internal Control Supervision Committee was Mr. YUAN Changqing.

The Finance and Internal Control Supervision Committee shall operate under the authorization of the Board of Supervisors and report to the Board of Supervisors.

The main responsibilities of the Finance and Internal Control Supervision Committee are as follows:

- developing working plans and implementation plans of the Board of Supervisors regarding the supervision on the finance and internal controls, and organizing the implementation of the plans upon approval of the Board of Supervisors;
- supervising the implementation of development, policies and general management systems for the County Area Banking Business strategic plans, assessing the implementation results, and making suggestions to the Board of Supervisors;
- checking the financial reports and business reports of the Bank and the profit distribution plan formulated by the Board of Directors, and making suggestions to the Board of Supervisors;
- drafting plans for supervising and inspecting financial activities, operating decisions, risk management and internal control of the Bank by the Board of Supervisors, organizing the implementation of the plans upon approval of the Board of Supervisors, and proposing to the Board of Supervisors on engaging external auditors for auditing the Bank's financial position if necessary;
- guiding the work of internal auditing department of the Bank;
- studying and handling issues or documents reported or provided by the Board of Directors, the senior management, Directors and senior management members;
- other matters authorized by the Board of Supervisors.

Meetings of the Board of Supervisors and its Special Committees

During the reporting period, the Board of Supervisors held five meetings, considered and approved 17 proposals including the annual report for 2015 and its abstract, and listened to 12 work reports.

The Finance and Internal Control Supervision Committee held five meetings to consider and approve one proposal, namely, the 2016 dividend payment scheme for the second tranche of the preference shares.

The Due Diligence Supervision Committee held four meetings to consider and approve six proposals, including the 2015 implementation plan on due diligence evaluation for the Board of Directors, the Board of Supervisors, the senior management and the member thereof.

The attendance of Supervisors at meetings of the Board of Supervisors and its special committees during the reporting period is listed below:

Number of attendance in person[1]/meeting requiring attendance

		Special Committees under the Board of Supervisors	
Supervisors	**Meeting of the Board of Supervisors**	**Due Diligence Supervision Committee**	**Finance and Internal Control Supervision Committee**
YUAN Changqing	5/5	4/4	5/5
WANG Xingchun	4/5	4/4	
LIU Chengxu	2/2	1/1	
XIA Taili	4/5	3/5	
XIA Zongyu	4/5		3/3
LI Wang	5/5	4/5	
LV Shuqin	5/5		5/5
Former Supervisors			
ZHENG Xin	5/5		5/5

Notes:
1. *Attendance in person includes attendance on site and attendance by way of electronic communication such as telephone and video conference.*
2. *For details of changes in Supervisors, please refer to "Changes in Directors, Supervisors and Senior Management".*

Work of Board of Supervisors

During the reporting period, the Board of Supervisors performed its duties of supervision diligently as required by the applicable laws and regulations and the Articles of Association. The Board of Supervisors explored new approaches to improve the effectiveness of supervision so as to safeguard the interests of the shareholders and the Bank, and further reinforce its supervision and counterbalance functions in corporate governance.

Supervising and promoting due diligence of the Board of Directors, the Board of Supervisors, the senior management and members thereof

The Board of Supervisors paid equal attention to the annual due diligence evaluation and the specific due diligence evaluation. We strengthened the supervision over the strategic management of the Board of Directors and the senior management as well as the implementation of the State's economic and financial policies and resolutions of the Shareholders' General Meeting. We carried out specialized investigation and assessment on the performance of risk management and implementation of the development strategy of Urban Area Banking Business. We delivered our inspection opinions and suggestions for improvement to the Board of Directors and senior management, and received positive feedbacks. Annual assessment on due diligence of the Board of Directors, senior management and the members thereof was conducted through procedures such as daily collection of due diligence information, questionnaire survey, personal due diligence report and annual due diligence conversation. Based on the above, the Board of Supervisors prepared annual performance evaluation reports. The Board of Supervisors also explored new approaches of due diligence supervision, including setting up the reminder and conversation mechanism of due diligence supervision for newly-appointed Directors and senior management members, so as to promote their understanding of the Board of Supervisors and urge them to perform duties in compliance with relevant laws and regulations.

Enhancing financial supervision to improve corporate governance and operational efficiency

The Board of Supervisors focused on the supervision of annual operation plan, material financial decisions and its implementations. We continuously strengthened the supervision over financial activities, operation decisions and risk management through ways including listening to reports, conducting on-site investigation, monitoring and analysing, kept communication with external auditors and reviewed the financial reports and 2015 profit distribution plan of the Bank. We also supervised the implementation of the Bank's strategic development plans, policies and basic management rules and regulations for the County Area Banking Business and issued assessment report to promote business development. The Board of Supervisor conducted specialized supervision on credit risk management, disposal of non-performing loans, economic capital management, management of fixed assets investment and consolidation management, as well as investigation and supervision on the Bank's collateral management. Based on the above, the Board of Supervisors prepared its analysis report and provided advice for the Board of Directors and the senior management so as to promote the construction of relevant systems, reinforce the basics management and the compliance culture, and enhance efficiency of economic capital resource allocation and the overall management and operational efficiency.

Supervising risks and internal control to support a sustainable and healthy development

The Board of Supervisors paid close attention to the specialized management of credit risk and risk related to cases of violations. Through listening to the special reports submitted by the risk department, internal audit department and internal control and compliance department, we supervised the rectification of problems identified during internal and external inspections. The Board of Supervisors strengthened its guidance on the internal audit. The Chairman of the Board of Supervisors listened to the working reports of the audit department and risk audit reports, provided advice, attached great importance to the application of audit results and supported the safeguarding function of internal audit for business development of the Bank. In view of the declining asset quality and severe situation of prevention and control of risk related to cases of violations in the Bank, the Board of Supervisors advised the Board of Directors and senior management to adopt effective measures to enhance the risk management and effectiveness of internal control.

Reinforcing self-construction and the basics of supervision

The Board of Supervisors reminded the Board of Directors and senior management the key concerned issues in the form of the Supervision Proposals and promote effective implementation of the suggestions. Vacancies on the Board of Supervisors were filled in a timely manner. The Board of Supervisors had leveraged the professional capabilities of the supervisors in organizing specialized inspections and researches. The Board of Supervisors strengthened the communication with the Board of Directors and the senior management by convening joint meetings with the Board of Directors to notify the performance evaluation results. Members of the Board of Directors and the senior management were invited to attend the meetings of the Board of Supervisors. Through which, the Board of Supervisors explored its communication channels and enhanced the effectiveness of supervision.

The Board of Supervisors was awarded "20 Board of Supervisors of Listed Companies with Best Practice" in the election jointly organized by the China Association for Public Companies, the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

Work of External Supervisors

During the reporting period, Mr. LI Wang and Ms. LV Shuqin, as External Supervisors of the Bank, performed their supervisory duties diligently in accordance with the Articles of Association. They reviewed the relevant proposals and working reports, and carry out supervising inspections. They attended all meetings of the Board of Supervisors and special committees thereof in person, and provided professional, strict and independent advice and opinions. The External Supervisors played active roles in enhancing the corporate governance and improving the operation management of the Bank.

Independent Opinions of the Board of Supervisors

Operation Compliance

During the reporting period, the Bank strictly adhered to operation compliance in accordance with applicable laws and regulations, and further optimized its internal control system. Members of the Board of Directors and the senior management performed their duties diligently. The Board of Supervisors did not find any act by the members of the Board of Directors and the senior management in performance of their duties that might breach the laws, regulations and the Articles of Association or impair the interest of the Bank.

Annual Report

The preparation and review procedures of this annual report were in compliance with laws, administrative regulations and regulatory requirements. The annual report gives a true, accurate and complete view of the consolidated financial position and operating results of the Group.

County Area Banking Business

During the reporting period, the operations of the County Area Banking Division was in compliance with regulatory requirements.

Asset Acquisition and Disposal

During the reporting period, the Board of Supervisors did not find any insider trading or any act which might result in the impairment of the interests of the shareholders or loss of the Bank's assets in the process of asset acquisition or disposal by the Bank.

Related Party Transactions

During the reporting period, the Board of Supervisors did not find any act in the related party transactions that might result in the impairment of the interests of the Bank.

Internal Control

The Board of Supervisors had no objection to the conclusion of the *2016 Internal Control Assessment Report of Agricultural Bank of China Limited*.

Due Diligence Evaluation of Directors, Supervisors and Members of Senior Management

The due diligence evaluation results of all the incumbent Directors, Supervisors and members of senior management for 2016 were satisfactory.

Saved as disclosed above, the Board of Supervisors had no objection to the matters subject to its supervision during the reporting period.

By Order of the Board of Supervisors
YUAN Changqing
Chairman of the Board of Supervisors

28 March 2017

Material Litigations and Arbitrations

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

As of 31 December 2016, the value of the claims of the pending litigations or arbitrations in which the Bank was involved as a defendant, a respondent or a third person amounted to approximately RMB6,873 million. The management of the Bank believes that we have fully accrued provision for potential losses arising from the aforesaid litigations or arbitrations, and they will not have any material adverse effect on our financial position or operating results.

Major Asset Acquisition, Disposal and Merger

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

Implementation of Share Incentive Plan

During the reporting period, the Bank did not implement any share incentive scheme, including management share appreciation rights scheme and employee share ownership scheme.

Material Related Party Transactions

During the reporting period, the Bank did not enter into any material related party transaction.

Details and Performance of Material Contracts

Material custody, contract and lease

During the reporting period, the Bank did not enter into any material custody, contracting or leasing arrangements on the assets of other companies, which were subject to disclosure, and no other companies entered into any material custody, contracting or leasing arrangements on our assets, which were subject to disclosure.

Material guarantees

The provision of guarantees is one of the off-balance-sheet businesses of the Bank in its ordinary and usual course of business. During the reporting period, the Bank did not have any material guarantee that was required to be disclosed, except for the financial guarantee services within the business scope as approved by the PBOC and the CBRC.

Misappropriation of Funds by Controlling Shareholders and Other Related Parties

None of our controlling shareholders or other related parties misappropriated any of our funds.

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

In the recent three years, there was no penalty from securities regulatory authorities in relation to incumbent Directors, Supervisors and senior management of the Bank, or former Directors, Supervisors and senior management of the Bank during the reporting period.

During the reporting period, neither the Bank nor any of our Directors, Supervisors and members of senior management was investigated by competent authorities, subject to coercive measures by authorities or disciplinary authorities, transferred to judicial authorities for prosecution or held criminally liable, investigated, punished, barred from the market or disqualified by the CSRC, subject to material administrative punishments imposed by environmental protection, safe production supervision, tax or other administrative authorities, or publicly denounced by any stock exchanges.

Integrity of the Bank and Controlling Shareholders

There were no judicial decisions in effect to be performed, or any outstanding debt with large amount matured and to be paid, by the Bank or its controlling shareholders.

Material Equity Investments and Material Non-equity Investments in Progress

During the reporting period, the Bank did not have any material equity or non-equity investment.

Targeted Poverty Alleviation

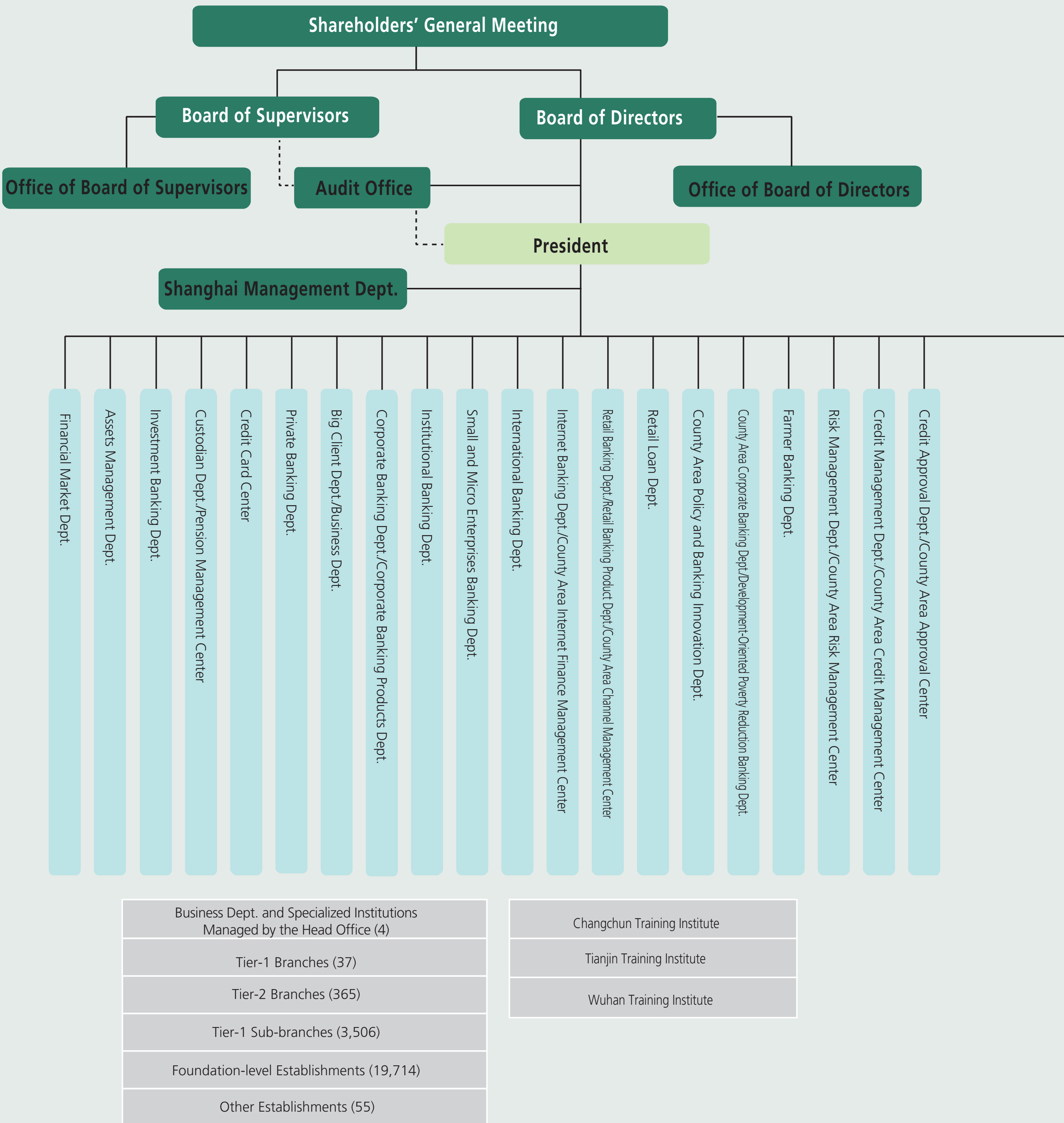
For the details of targeted poverty alleviation during the reporting period, please refer to "Discussion and Analysis – County Area Banking Business – Financial Poverty Alleviation".

Commitments

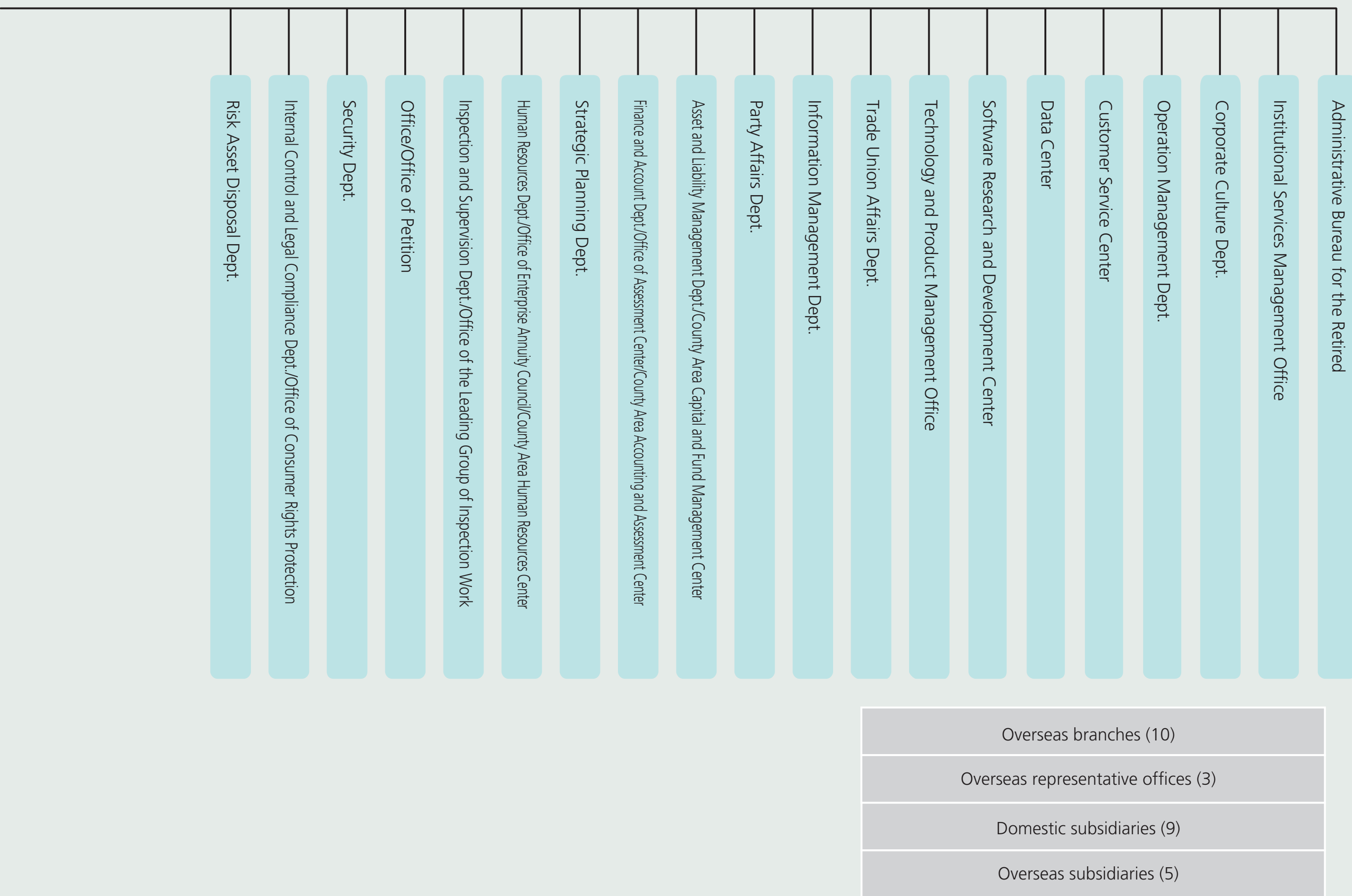
Subject of commitment	Commitment	Details of commitment	Date of commitment	Due date of commitment	Performance up to date
Huijin	Non-competition commitment	(1) So long as Huijin continues to hold any of our shares or is deemed to be a controlling shareholder or a connected person of a controlling shareholder or de facto controller of the Bank in accordance with the laws or listing rules of China or of the place where our shares are listed, it will not engage or participate in any competing commercial banking activities in China or abroad. If Huijin engages or participates in any competing commercial banking activities or activities which evolve into competing commercial banking activities in China or abroad, it will immediately cease to participate in, manage or engage in such competing commercial banking activities. (2) If Huijin obtains any governmental approval, authorization or license to operate commercial banking activities directly, or obtains any other opportunities to operate commercial banking activities, Huijin will immediately relinquish such approval, authorization or license, and will not operate any commercial banking activities. (3) Notwithstanding the above provisions (1) and (2), Huijin, as a state-owned investment vehicle established by the PRC government to invest in financial/banking industry, may through its investments in other companies and in any form (including but not limited to its wholly-owned entities, joint ventures, contractual joint ventures, or through its direct or indirect ownership of shares or other interests in such companies) operate or participate in any competing commercial banking activities in China or abroad.	15 July 2010	Valid for long-term	Continuous commitment and duly performed

Subject of commitment	Commitment	Details of commitment	Date of commitment	Due date of commitment	Performance up to date
		(4) Huijin, as a state-owned investment vehicle established by the PRC government to invest in financial/banking industry, will treat its investments in commercial banks on an equal footing, and will not confer upon any commercial banks any governmental approval, authorization or license to operate commercial banking activities or any business opportunities it obtains or may obtain, nor will it take advantage of its status as a holder of our shares or the information obtained by virtue of such status to make decisions or judgments against us or in favor of other commercial banks, and will avoid such circumstances arising. It will exercise its shareholder's rights in our maximum or best interests as if we were its sole investment in a commercial bank, and will exercise its commercial judgment as our shareholder to maximize our best interests, and such judgment shall not be affected by its investments in other commercial banks.			
SSF	Lock-up commitment	The purchased shares held by the SSF are subject to a lock-up period of five years commencing on the transaction completion date or three years commencing on the pricing date of our initial public offering, whichever is longer. Prior to the first anniversary following the expiration of the lock-up period, the SSF is allowed to transfer no more than 30% in aggregate of the purchased shares (including any split shares, bonus shares and allocated shares attached thereto) and prior to the second anniversary of the expiration of the lock-up period, the SSF is allowed to transfer no more than 60% in aggregate of the purchased shares (including any split shares, bonus shares and allocated shares attached thereto), provided that our initial public offering is completed within five years following the transaction completion date.	21 April 2010	21 April 2017	Not due and duly performed

Organizational Chart



Organizational Chart



Domestic Institutions

- **BEIJING BRANCH**

ADD: 13 Chaoyangmenbei Dajie
Dongcheng District
Beijing 100010
PRC
TEL: 010-68358266
FAX: 010-61128239

- **TIANJIN BRANCH**

ADD: No. 3 6 Zijinshan Road
Hexi District
Tianjin 300074
PRC
TEL: 022-23338701
FAX: 022-23338733

- **HEBEI BRANCH**

ADD: 39 Ziqiang Road
Shijiazhuang
Hebei Province 050000
PRC
TEL: 0311-87016962
FAX: 0311-87019961

- **SHANXI BRANCH**

ADD: 33 Southern Inner Ring
Street West
Taiyuan
Shanxi Province 030024
PRC
TEL: 0351-6240801
FAX: 0351-4956999

- **INNER MONGOLIA BRANCH**

ADD: 83 Zhelimu Road
Hohhot
Inner Mongolia 010010
PRC
TEL: 0471-6903401
FAX: 0471-6904750

- **LIAONING BRANCH**

ADD: 27 Qingnian North Street
Shenyang
Liaoning Province 110013
PRC
TEL: 024-22550004
FAX: 024-22550007

- **JILIN BRANCH**

ADD: 926 Renmindajie
Changchun
Jilin Province 130051
PRC
TEL: 0431-82093001
FAX: 0431-82093517

- **HEILONGJIANG BRANCH**

ADD: 131 Xidazhijie
Nangang District
Harbin
Heilongjiang Province 150006
TEL: 0451-86208845
FAX: 0451-86216843

- **SHANGHAI BRANCH**

ADD: 9 Yincheng Road
Pudong New District
Shanghai 200120
PRC
TEL: 021-53961888
FAX: 021-53961900

- **JIANGSU BRANCH**

ADD: 357 Hongwu Road
Nanjing 210002
PRC
TEL: 025-84571888
FAX: 025-84577017

List of Branches and Institutions

- **ZHEJIANG BRANCH**

ADD: 100 Jiangjing Road
Jianggan District
Hangzhou
Zhejiang Province 310003
PRC
TEL: 0571-87226000
FAX: 0571-87226177

- **ANHUI BRANCH**

ADD: 448 Changjiang Zhonglu
Hefei
Anhui Province 230061
PRC
TEL: 0551-62843573
FAX: 0551-62843573

- **FUJIAN BRANCH**

ADD: 177 Hualin Road
Fuzhou
Fujian Province 350003
PRC
TEL: 0591-87909908
FAX: 0591-87909620

- **JIANGXI BRANCH**

ADD: 339 Zhongshan Road
Nanchang
Jiangxi Province 330008
PRC
TEL: 0791-86693775
FAX: 0791-86693972

- **SHANDONG BRANCH**

ADD: 168 Jingqi Road
Ji'nan
Shandong Province 250001
PRC
TEL: 0531-85858888
FAX: 0531-82056558

- **HENAN BRANCH**

ADD: 16 Outer Ring Road
CBD Zhengdong
New District
Zhengzhou
Henan Province 450016
PRC
TEL: 0371-69196850
FAX: 0371-69196724

- **HUBEI BRANCH**

ADD: Block A
Jinjin Garden
66 Zhongbei Road
Wuchang District
Wuhan
Hubei Province 430071
PRC
TEL: 027-87326666
FAX: 027-87326693

- **HUNAN BRANCH**

ADD: 540 Furong Zhonglu
Section 1
Changsha
Hunan Province 410005
PRC
TEL: 0731-84300265
FAX: 0731-84300261

- **GUANGDONG BRANCH**

ADD: 425 East Zhujiang Road
Zhujiang New Town
Tianhe District
Guangzhou
Guangdong Province 510623
PRC
TEL: 020-38008008
FAX: 020-38008210

- **GUANGXI BRANCH**

ADD: 56 Jinhu Road
Nanning
Guangxi Autonomous Region 530028
PRC
TEL: 0771-2106036
FAX: 0771-2106035

- **HAINAN BRANCH**

ADD: 26 Binhai Avenue
Haikou
Hainan Province 570125
PRC
TEL: 0898-66777728
FAX: 0898-66791452

- **SICHUAN BRANCH**

ADD: 666 Tianfu Third Road
Chengdu
Sichuan Province 610000
PRC
TEL: 028-61016035
FAX: 028-61016019

- **CHONGQING BRANCH**

ADD: 103 Xinhua Road
Yuzhong District
Chongqing 400011
PRC
TEL: 023-63551188
FAX: 023-63844275

- **GUIZHOU BRANCH**

ADD: 201 South Zhonghua Road
Guiyang
Guizhou Province 550002
PRC
TEL: 0851-5221069
FAX: 0851-5221069

- **YUNNAN BRANCH**

ADD: 36 Chuangjin Road
Kunming
Yunnan Province 650051
PRC
TEL: 0871-63203405
FAX: 0871-63203584

- **TIBET BRANCH**

ADD: 44 West Jinzhu Road
Lhasa
Tibet 850000
PRC
TEL: 0891-6959822
FAX: 0891-6959822

- **SHAANXI BRANCH**

ADD: 31 Tangyan Road
Gaoxin District
Xi'an
Shaanxi Province 710065
PRC
TEL: 029-88990821
FAX: 029-88990819

- **GANSU BRANCH**

ADD: 108 North Jinchang Road
Lanzhou
Gansu Province 730030
PRC
TEL: 0931-8895082
FAX: 0931-8895040

- **QINGHAI BRANCH**

ADD: 96 Huanghe Road
Xining
Qinghai Province 810001
PRC
TEL: 0971-6145105
FAX: 0971-6114575

- **NINGXIA BRANCH**

ADD: 95 West Jiefang Street
Xingqing District
Yinchuan
Ningxia Autonomous Region 750001
PRC
TEL: 0951-6027614
FAX: 0951-6027430

List of Branches and Institutions

- **XINJIANG BRANCH**

ADD: 66 South Jiefang Road
Urumqi 830002
PRC
TEL: 0991-2369407
FAX: 0991-2815229

- **XINJIANG PRODUCTION AND CONSTRUCTION CORPS BRANCH**

ADD: 173 South Jiefang Road
Urumqi 830002
PRC
TEL: 0991-2217109
FAX: 0991-2217300

- **DALIAN BRANCH**

ADD: 10 Zhongshan Road
Zhongshan District
Dalian
Liaoning Province 116001
PRC
TEL: 0411-82510089
FAX: 0411-82510646

- **QINGDAO BRANCH**

ADD: 19 Shandong Road
Qingdao
Shandong Province 266071
PRC
TEL: 0532-85802215
FAX: 0532-85814102

- **NINGBO BRANCH**

ADD: 518 East Zhongshan Road
Ningbo
Zhejiang Province 315040
PRC
TEL: 0574-87363537
FAX: 0574-87363537

- **XIAMEN BRANCH**

ADD: 98–100 Jiahe Road
Siming District
Xiamen
Fujian Province 361009
PRC
TEL: 0592-5578855
FAX: 0592-5578899

- **SHENZHEN BRANCH**

ADD: 5008 East Shennan Road
Shenzhen
Guangdong Province
518001
PRC
TEL: 0775-25590960
FAX: 0755-25572255

- **TIANJIN TRAINING INSTITUTE**

ADD: 88 Weijin Nanlu
Nankai District
Tianjin 300381
PRC
TEL: 022-23381289
FAX: 022-23389307

- **CHANGCHUN TRAINING INSTITUTE**

ADD: 1408 Qianjin Street
Chaoyang District
Changchun
Jilin Province 130012
PRC
TEL: 0431-86822002
FAX: 0431-86822002

- **WUHAN TRAINING INSTITUTE**

ADD: 186 Zhongbei Road
Wuchang District
Wuhan
Hubei Province 430077
PRC
TEL: 027-86783669
FAX: 027-86795502

List of Branches and Institutions

- **SUZHOU BRANCH**
ADD: 65 Shishan Road
New District
Suzhou
Jiangsu Province 215011
PRC
TEL: 0512-68258999
FAX: 0512-68417800

- **ABC-CA FUND MANAGEMENT CO., LTD.**
ADD: 7/F, Lujiazui Business Plaza
1600 Century Road
Pudong New District
Shanghai 200122
PRC
TEL: 021-61095588
FAX: 021-61095556

- **ABC FINANCIAL LEASING CO., LTD.**
ADD: 5–6/F, 518 East Yan'an Road
Huangpu District
Shanghai 200001
PRC
TEL: 021-20686888
FAX: 021-58958611

- **ABC LIFE INSURANCE CO., LTD.**
ADD: Block A, Minsheng Financial Center
28 Jianguomen Nei Avenue
Dongcheng District
Beijing 100005
PRC
TEL: 010-82828899
FAX: 010-82827966

- **ABC HUBEI HANCHUAN RURAL BANK LIMITED LIABILITY COMPANY**
ADD: 32 Xinzheng Road
Xinhe Town
Hanchuan
Hubei Province 431600
PRC
TEL: 0712-8412338
FAX: 0712-8412338

- **ABC HEXIGTEN RURAL BANK LIMITED LIABILITY COMPANY**
ADD: Middle Section
Jiefang Road
Jingpeng Township
Hexigten 025350
TEL: 0476-2331111
FAX: 0476-2331111

- **ABC ANSAI RURAL BANK LIMITED LIABILITY COMPANY**
ADD: Shop A-02,
Jinmingmeidi Community
Yingbin Road
Ansai County
Shaanxi Province 717400
PRC
TEL: 0911-6229906
FAX: 0911-6229906

- **ABC JIXI RURAL BANK LIMITED LIABILITY COMPANY**
ADD: 340 Longchuan Road
Huayang Town
Jixi County
Xuancheng
Anhui Province 245300
PRC
TEL: 0563-8158913
FAX: 0563-8158916

- **ABC XIAMEN TONG'AN RURAL BANK LIMITED LIABILITY COMPANY**
ADD: No.185–199 Zhaoyuan Community
Committee Complex Building
Zhaoyuan Road
Tong'an District
Xiamen
Fujian Province 361100
PRC
TEL: 0592-7319223
FAX: 0592-7319221

- **ABC ZHEJIANG YONGKANG RURAL BANK LIMITED LIABILITY COMPANY**
ADD: 1/F, Jinsong Building
Headquarters Center
Yongkang
Zhejiang Province 321300
PRC
TEL: 0579-87017378
FAX: 0579-87017378

Overseas Institutions

- **HONG KONG BRANCH**

ADD: 25/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong
TEL: 00852-28618000
FAX: 00852-28660133

- **DUBAI INTERNATIONAL FINANCIAL CENTRE (DIFC) BRANCH**

ADD: Office 2901, Level 29
Al Fattan Currency House
Tower 2, DIFC, Dubai
UAE
TEL: 00971-45676900
FAX: 00971-45676910

- **SINGAPORE BRANCH**

ADD: 7 Temasek Boulevard
#30-01/02/03, Suntec Tower 1
Singapore 038987
TEL: 0065-65355255
FAX: 0065-65387960

- **TOKYO BRANCH**

ADD: Yusen Building
2-3-2 Marunouchi 100-0005
Japan
TEL: 0081-3-62506911
FAX: 0081-3-62506924

- **SEOUL BRANCH**

ADD: 14.SFC, 136, Sejong-daero
Jung-gu
Seoul 04520
Korea
TEL: 0082-2-37883900
FAX: 0082-2-37883901

- **FRANKFURT BRANCH**

ADD: Ulmenstrasse 37-39
60325 Frankfurt am Main
Germany
TEL: 0049-69-401255-211
FAX: 0049-69-401255-209

- **NEW YORK BRANCH**

ADD: 277 Park Ave, 30th Floor
New York
NY, 10172
USA
TEL: 001-212-8888998
FAX: 001-646-7385291

- **SYDNEY BRANCH**

ADD: Level 18, Chifley Tower
2 Chifley Square
Sydney NSW 2000
Australia
TEL: 0061-2-82278888
FAX: 0061-2-82278800

List of Branches and Institutions

- **LUXEMBOURG BRANCH**

ADD: 65, Boulevard Grande-Duchesse Charlotte, Luxembourg. L-1331.
TEL: 00352-279559900
FAX: 00352-279550005

- **DUBAI BRANCH**

ADD: Unit: 201-203, Floor 2
Emaar Business Park Building 1
Dubai, UAE
TEL: 00971-45676901
FAX: 00971-45676910

- **AGRICULTURAL BANK OF CHINA (UK) LIMITED**

ADD: 7/F, 1 Bartholomew Lane
London
EC2N 2AX
UK
TEL: 0044-20-73748900
FAX: 0044-20-73746425

- **AGRICULTURAL BANK OF CHINA (LUXEMBOURG) LIMITED**

ADD: 65, Boulevard Grande-Duchesse Charlotte
Luxembourg L-1331
TEL: 00352-279559900
FAX: 00352-279550005

- **AGRICULTURAL BANK OF CHINA (MOSCOW) LIMITED**

ADD: 4/F, 5 Lesnaya Str.
Moscow, 125047
the Russian Federation
TEL: 007-499-9295599
FAX: 007-499-9290180

- **ABC INTERNATIONAL HOLDINGS LIMITED**

ADD: 16/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong
TEL: 00852-36660000
FAX: 00852-36660009

- **CHINA AGRICULTURAL FINANCE CO., LTD.**

ADD: 26/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong
TEL: 00852-28631916
FAX: 00852-28661936

- **VANCOUVER REPRESENTATIVE OFFICE**

ADD: Suite 2220, 510W. Georgia Street,
Vancouver, BC V6B OM3,
Canada
TEL: 001-604-6828468
FAX: 001-888-3899279

- **HANOI REPRESENTATIVE OFFICE**

ADD: Unit V502-503, 5/F, Pacific Place
83B Ly Thuong Kiet Street
Hoan Kiem District
Hanoi, Vietnam
TEL: 0084-4-39460599
FAX: 0084-4-39460587

- **TAIPEI REPRESENTATIVE OFFICE**

ADD: 3203, No.333, Keelung Road
Sec.1, Xinyi District
Taipei City, 11012, Taiwan
TEL: 00886-2-27293636
FAX: 00886-2-23452020

Appendix I Liquidity Coverage Ratio Information

The Bank disclosed the following information of liquidity coverage ratio in accordance with relevant regulations of the CBRC.

Regulatory Requirements of Liquidity Coverage Ratio

In accordance with the Rules on Liquidity Risk Management of Commercial Banks (Provisional), it is required that the liquidity coverage ratio of commercial banks should reach 100% by the end of 2018. During the transition period, the liquidity coverage ratio should reach 60%, 70%, 80% and 90% by the end of 2014, 2015, 2016 and 2017, respectively. Eligible commercial banks were encouraged to fulfill the requirements in advance within the transition period. In addition, in accordance with the Rules on Disclosure for Liquidity Coverage Ratio Information of Commercial Banks, commercial banks are required to disclose the liquidity coverage ratio information at the same frequency as issuing the financial report, and to disclose the simple average of the liquidity coverage ratio based on monthly data in every quarter before 2017.

Liquidity Coverage Ratio

The Bank calculated the liquidity coverage ratio in accordance with the Rules on Liquidity Risk Management of Commercial Banks (Provisional) and applicable calculation requirements. The average of monthly liquidity coverage ratio of the Bank was 139.8% in the fourth quarter of 2016, representing an increase of 2.1 percentage points over the previous quarter. The liquidity coverage ratio increased mainly due to the combined effects of the increase in local government bonds investments, resulting in growth in high-quality liquid assets, and the increase in inflows from fully performing exposures, resulting in lower total net cash outflows. Our liquidity coverage ratio in the fourth quarter of 2016 reflected an upward-downward-upward spiral. The liquidity coverage ratio increased at the end of October 2016 as compared to the previous month as a result of the balance of unsecured wholesale fundings (which resulted in a reduction in cash outflows) and the increase in cash inflows generated from fully performing contractual obligations; at the end of November 2016, under the effect of the decrease in cash inflows resulting from higher decrease in the secured lending (e.g. reverse repos), the liquidity coverage ratio decreased as compared to the previous month; at the end of December 2016, the liquidity coverage ratio increased as compared to the previous month resulting from a growth in high-quality liquid assets, and the increase in inflows from secured lending (e.g. reverse repos and borrowed securities) and fully performing exposures. The averages of the observations of the liquidity coverage ratio and individual line items over the fourth quarter in 2016 are as follows:

Appendix I Liquidity Coverage Ratio Information

In ten thousands of RMB, except for percentages

Item		Total Unweighted Value	Total Weighted Value
HIGH-QUALITY LIQUID ASSETS			
1	Total high-quality liquid assets (HQLA)		425,385,964
CASH OUTFLOWS			
2	Retail deposits and deposits from small business customers, of which:	950,394,193	87,132,767
3	*Stable deposits*	158,133,056	7,906,653
4	*Less stable deposits*	792,261,137	79,226,114
5	Unsecured wholesale funding, of which:	584,289,863	232,637,766
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	176,205,780	42,812,020
7	*Non-operational deposits (all counterparties)*	405,177,433	186,919,096
8	*Unsecured debt*	2,906,650	2,906,650
9	Secured wholesale funding		2,967,032
10	Additional requirements, of which:	172,751,961	40,384,832
11	*Outflows related to derivative exposures and other collateral requirements*	27,876,371	27,876,371
12	*Outflows related to loss of funding on secured debt products*	309,488	309,488
13	*Credit and liquidity facilities*	144,566,102	12,198,973
14	Other contractual funding obligations	25,931,308	625,791
15	Other contingent funding obligations	89,339,522	36,971,748
16	TOTAL CASH OUTFLOWS		400,719,936
CASH INFLOWS			
17	Secured lending (e.g. reverse repos and borrowed securities)	16,716,916	16,716,916
18	Inflows from fully performing exposures	87,228,962	50,993,432
19	Other cash inflows	28,964,681	28,724,791
20	TOTAL CASH INFLOWS	132,910,559	96,435,139
			Total Adjusted Value
21	TOTAL HQLA		425,385,964
22	TOTAL NET CASH OUTFLOWS		304,284,797
23	LIQUIDITY COVERAGE RATIO (%)		139.8%

Appendix II Leverage Ratio Information

At the end of December 2016, the Bank's leverage ratio, calculated in accordance with the Rules for the Administration of the Leverage Ratio of Commercial Banks (amended) by CBRC, was 6.27%, above the regulatory requirement.

In millions of RMB, except for percentages

Item	**31 December 2016**	30 September 2016	30 June 2016	31 March 2016
Tier 1 capital, net	**1,310,934**	1,304,269	1,250,239	1,256,927
Adjusted on-and off-balance sheet assets	**20,902,972**	20,294,518	19,965,373	19,684,797
Leverage ratio	**6.27%**	6.43%	6.26%	6.39%

In millions of RMB

No.	Item	Balance
1	Total consolidated assets	19,570,061
2	Adjustment for consolidation	(78,404)
3	Adjustment for clients' assets	–
4	Adjustments for derivatives	2,276
5	Adjustment for securities financing transactions	–
6	Adjustment for off-balance sheet items	1,416,692
7	Other adjustments	(7,653)
8	**Adjusted on-and off-balance sheet assets**	**20,902,972**

Appendix II Leverage Ratio Information

In millions of RMB, except for percentages

No.	Item	Balance
1	On-balance sheet assets (excluding derivatives and securities financing transactions)	19,137,246
2	Less: deductions from Tier 1 capital	(7,653)
3	**Adjusted on-balance sheet assets (excluding derivatives and securities financing transactions)**	19,129,593
4	Replacement cost of all derivatives (net of eligible margin)	19,847
5	Potential exposure of all derivatives	13,889
6	Gross-up of collaterals deducted from the balance sheet	–
7	Less: receivables assets resulting from providing eligible margin	–
8	Less: derivative assets resulting from transactions with the central counterparty when providing clearance services to clients	–
9	Notional principal amount of written credit derivatives	–
10	Less: deductible amounts of written credit derivative assets	–
11	**Derivative assets**	33,736
12	Securities financing transaction assets for accounting purpose	322,951
13	Less: deductible amounts of securities financing transaction assets	–
14	Counterparty credit risk exposure for securities financing transaction	–
15	Securities financing transaction assets resulting from agent transaction	–
16	**Securities financing transaction assets**	322,951
17	Off-balance sheet items	2,167,290
18	Less: Adjustments for conversion to credit equivalent amounts	(750,598)
19	**Adjusted off-balance sheet items**	1,416,692
20	Tier 1 capital, net	1,310,934
21	Adjusted on-and off-balance sheet assets	20,902,972
22	**Leverage ratio**	6.27%

The following disclosure was made in accordance with the relevant requirements of the Guidelines for the Disclosure of Indicators for Assessing Global Systematic Importance of Commercial Banks promulgated by the CBRC.

The Indicators for Assessing Global Systematic Importance of Commercial Banks

In millions of RMB

Category	Item		Balance/Amount in 2016
Size	1.	Total adjusted on- and off-balance sheet assets	20,910,625
Interconnectedness	2.	Intra-financial system assets	1,971,851
	3.	Intra-financial system liabilities	1,313,267
	4.	Securities outstanding	1,550,706
Substitutability	5.	Payments activity (from the beginning of the year to the end of the reporting period)	208,159,429
	6.	Assets under custodian	9,003,902
	7.	Underwritten transactions (from the beginning of the year to the end of the reporting period)	443,548
Complexity	8.	Notional amount of OTC derivatives	1,597,322
	9.	Trading and available-for-sale securities	133,089
	10.	Level 3 assets	122,607
Global (cross-jurisdictional activity)	11.	Cross-jurisdictional claims	351,367
	12.	Cross-jurisdictional liabilities	434,068

Auditor's Report and Consolidated Financial Statements

羅兵咸永道

To the Shareholders of Agricultural Bank of China Limited

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

Opinion

What we have audited

The consolidated financial statements of Agricultural Bank of China Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 196 to 365, which comprise:

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

Our opinion

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

Basis for Opinion

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

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

Independence

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

Key Audit Matters

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

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

- Impairment of loans and advances to customers
- De-recognition of non-performing loans ("NPLs") transferred
- Valuation of financial instruments measured at fair value
- Consolidation of structured entities

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of loans and advances to customers	
Refer to Note II 8.1, Note III 1, Note IV 19 and Note IV 49.1 to the consolidated financial statements. As at 31 December 2016, the Group's gross loans and advances to customers amounted to RMB9,719.6 billion, and an allowance for impairment losses of RMB400.3 billion was recognized in the Group's Consolidated Statement of Financial Position. Allowance for impairment losses represented management's best estimates of losses incurred within loans and advances to customers as at the balance sheet date. The allowance was computed individually or on a collective basis, where appropriate. Corporate loans were initially assessed for impairment individually by management. If identified as impaired based on objective evidence of impairment, management regularly assessed the associated allowance for impairment losses based on estimation of future cash flows.	We evaluated and tested the design and operating effectiveness of the relevant controls over the impairment assessments and impairment allowance computations for loans and advances to customers. These controls implemented primarily comprised the regular review and approval of the results of credit assessments to ascertain whether objective evidence of impairment had been timely identified, of the valuation of collaterals, of the estimated future cash flows and calculations of present values for impaired loans identified individually, and of the collective impairment computations, including appropriateness of the models, data inputs and key assumptions and changes thereof. We also tested IT controls over the information systems for these models. We performed independent credit reviews on selected samples, with reference to available financial information of borrowers and guarantors, latest collateral valuations, and relevant external evidence and factors, to ascertain whether management's identification of impaired loans was appropriate.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of loans and advances to customers (Continued) Non-impaired corporate loans and all personal loans were included in homogeneous groups with similar credit risk characteristics for impairment assessments on a collective basis. Models were used for this purpose, applying key assumptions such as, historical loss experience, loss identification period for incurred but unidentified impairment losses, macro-economic, industry and geographical locations factors. Management assessed these key assumptions on a periodic basis, and made adjustments where deemed appropriate. We focused on the impairment assessment of loans and advances to customers due to the significant management judgments made during the impairment identification and assessment processes.	For impaired loans identified individually, we examined, on a sample basis, forecasted future cash flows based on financial information of borrowers and guarantors as well as latest collateral valuations and other available information together with discount rates in supporting the computation of impairment allowance. For collectively assessed impairment allowance, we assessed the appropriateness of the impairment models used with reference to our industry knowledge. We also performed independent assessment on the parameters and inputs used in the impairment models, including evaluating accuracy and completeness of source data, appropriateness of loan segmentation by risk characteristics, appropriateness of key inputs and assumptions such as historical loss experience, macro-economic factors, other risk factors and parameters as well as adjustments made thereof. We discussed with management and scrutinized the appropriateness of those key assumptions applied in management's impairment assessment, and compared them with available external evidence where necessary. We also applied sensitivities to the underlying key assumptions. Based on our procedures performed, in the context of the inherent uncertainties associated with impairment assessments, the assessment approaches, methodologies and key assumptions adopted by management were considered acceptable.

Key Audit Matter	How our audit addressed the Key Audit Matter
De-recognition of non-performing loans ("NPLs") transferred	
Refer to Note II 8.6, Note III 8 and Note IV 48 to the consolidated financial statements. During the year ended 31 December 2016, the Group transferred NPLs through disposal to third parties or issuing asset-back securities, with gross loan balance of RMB73.0 billion. The Group had derecognized these loans based on its de-recognition assessment. Management analyzed the Group's contractual rights and obligations in connection with such transfers, and assessed the extent to which the associated risks and rewards of ownership were transferred, and where necessary, analyzed whether the Group had relinquished controls over the NPLs, to determine whether the de-recognition criteria were met. The de-recognition assessment relating to transfers of NPLs involved significant judgment from management, and as such, we focused our audit on the de-recognition assessment of these NPLs.	We evaluated and tested the design and operating effectiveness of the relevant controls over transfers of NPLs, including approval of NPLs disposal lists and transfer plans, review and approval of the contractual terms for different disposal options, and the assessment results of whether risks and rewards had been transferred. We selected samples and read through the legal contracts to assess the Group's contractual rights and obligations and whether the Group had transferred its rights to receive contractual cash flows, or whether the transfers qualified for the "pass-through" of those cash flows, to independent third parties. We independently tested the transfer of risks and rewards by using a modelling methodology which included inputs and assumptions applied to estimate cash flows, use of appropriate discount rates and variability factors. For NPLs that the Group had neither retained nor transferred substantially all of the associated risks and rewards, we analyzed whether the Group had relinquished control of the NPLs to determine whether the Group had continuing involvement in these NPLs. Based on the procedures above, we found management's assessment over de-recognition of transferred NPLs acceptable.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of financial instruments measured at fair value	
Refer to Note II 8.5, Note III 2 and Note IV 51 to the consolidated financial statements. As at 31 December 2016, the Group's financial instruments measured at fair value comprised financial assets of RMB1,858.0 billion and financial liabilities of RMB321.9 billion. Among these financial assets and financial liabilities measured at fair value, 93% and 12% respectively, were valued using market observable inputs and classified as Level 1 or Level 2 in the fair value hierarchy. The remainder of these financial instruments were valued using significant inputs that were not based on observable market data and classified as Level 3 in the fair value hierarchy. Valuation of financial instruments measured at fair value was a key area of audit focus due to the size of the amounts and the judgements necessary in selecting the unobservable inputs used in management's valuation process for Level 3 financial instruments.	We evaluated and tested the design and operating effectiveness of the Group's relevant controls over the valuation process of financial instruments measured at fair value, which included management's independent price verification process, model validation and approval, review and approval of data feeds, inputs to valuation models and valuation results. We evaluated the appropriateness of the models used by management for the valuation of these financial instruments using our knowledge of current industry practice. We also evaluated on a sample basis the reasonableness and appropriateness of the unobservable and observable inputs used for measuring these fair values with reference to relevant market data. For the Level 3 financial instruments measured at fair value which involved a higher level of management judgment, we performed an independent valuation of these financial instruments on a sample basis. Based on the procedures performed, and in light of the inherent uncertainties associated with management's valuation process, we found the models and assumptions used in the valuation of financial instruments measured at fair value acceptable.

Key Audit Matter	How our audit addressed the Key Audit Matter
Consolidation of Structured Entities	
Refer to Note II 2, Note III 7 and Note IV 46 to the consolidated financial statements. Structured entities primarily included Wealth Management Products ("WMPs"), securitization products, funds, trust investment plans and asset management plans issued, managed and/or invested by the Group. As at 31 December 2016, total assets of the consolidated structured entities and the carrying amount of unconsolidated structured entities invested by the Group included in the consolidated statement of financial position amounted to RMB306.2 billion and RMB34.5 billion, respectively. In addition, as at 31 December 2016, total assets of non-principal guaranteed WMPs sponsored and managed by the Group which were not consolidated and not included in the consolidated statement of financial position amounted to RMB1,379.0 billion. Management had determined that the Group had control of certain structured entities based on their assessment of the Group's power over, its exposure to variable returns from its involvement with, and its ability to use its power to affect the amount of its returns from these structured entities The significant judgement exercised by management in assessing whether the Group had control of structured entities and the amount of such structured entities resulted in this matter being identified as a key area of audit focus.	We evaluated and tested the design and operating effectiveness of the Group's relevant controls over consolidation assessment of structured entities, including approval of transaction structure, review and approval of contractual terms, variable return computations, and consolidation assessment results. We selected samples of structured entities and assessed the Group's contractual rights and obligations in light of the transaction structures, and evaluated the Group's power over the structured entities. We performed independent analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned as the asset manager, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities. We also assessed whether the Group acted as a principal or an agent, through analysis of the scope of the Group's decision-making authority over the structured entities, the remuneration to which the Group was entitled for asset management services, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities. Based on the procedures performed, we found management's consolidation judgment of these structured entities acceptable.

Other Information

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

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

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

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

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ho Shuk Ching, Margarita.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2017

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Consolidated Income Statement

For the year ended 31 December 2016
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes IV	Year ended 31 December 2016	2015
Interest income	1	**657,190**	725,793
Interest expense	1	**(259,086)**	(289,653)
Net interest income	1	**398,104**	436,140
Fee and commission income	2	**100,819**	90,494
Fee and commission expense	2	**(9,884)**	(7,945)
Net fee and commission income	2	**90,935**	82,549
Net trading gain	3	**5,457**	3,562
Net (loss)/gain on financial instruments designated at fair value through profit or loss	4	**(1,291)**	1,727
Net gain on investment securities		**920**	857
Other operating income	5	**16,003**	16,027
Operating income		**510,128**	540,862
Operating expenses	6	**(197,049)**	(225,818)
Impairment losses on assets	8	**(86,446)**	(84,172)
Operating profit		**226,633**	230,872
Share of result of associate	24	**(9)**	(15)
Profit before tax		**226,624**	230,857
Income tax expense	9	**(42,564)**	(50,083)
Profit for the year		**184,060**	180,774
Attributable to:			
Equity holders of the Bank		**183,941**	180,582
Non-controlling interests		**119**	192
		184,060	180,774
Earnings per share attributable to the ordinary equity holders of the Bank (expressed in RMB yuan per share) – Basic and diluted	11	**0.55**	0.55

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016
(Amounts in millions of Renminbi, unless otherwise stated)

	Year ended 31 December	
	2016	2015
Profit for the year	**184,060**	180,774
Other comprehensive (loss)/income:		
Items that may be reclassified subsequently to profit or loss:		
Fair value changes on available-for-sale financial assets	**(25,552)**	25,831
Income tax impact for fair value changes on available-for-sale financial assets	**6,384**	(6,449)
Foreign currency translation differences	**1,788**	690
Other comprehensive (loss)/income, net of tax	**(17,380)**	20,072
Total comprehensive income for the year	**166,680**	200,846
Total comprehensive income attributable to:		
Equity holders of the Bank	**166,878**	200,583
Non-controlling interests	**(198)**	263
	166,680	200,846

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

Consolidated Statement of Financial Position

As at 31 December 2016

(Amounts in millions of Renminbi, unless otherwise stated)

	Notes IV	As at 31 December 2016	2015
Assets			
Cash and balances with central banks	12	**2,811,653**	2,587,057
Deposits with banks and other financial institutions	13	**622,665**	697,923
Precious metals		**59,105**	40,909
Placements with and loans to banks and other financial institutions	14	**580,949**	504,252
Financial assets held for trading	15	**123,618**	79,782
Financial assets designated at fair value through profit or loss	16	**294,337**	359,479
Derivative financial assets	17	**31,460**	16,038
Financial assets held under resale agreements	18	**323,051**	471,809
Loans and advances to customers	19	**9,319,364**	8,506,675
Available-for-sale financial assets	20	**1,408,881**	1,214,542
Held-to-maturity investments	21	**2,882,152**	2,300,824
Debt instruments classified as receivables	22	**624,547**	557,420
Investments in associate	24	**213**	273
Property and equipment	25	**158,669**	156,178
Goodwill	23	**1,381**	1,381
Deferred tax assets	26	**83,187**	81,548
Other assets	27	**244,829**	215,303
Total assets		**19,570,061**	17,791,393
Liabilities			
Borrowings from central banks	28	**291,052**	60,599
Deposits from banks and other financial institutions	29	**1,156,044**	1,221,901
Placements from banks and other financial institutions	30	**302,021**	315,759
Financial liabilities held for trading	31	**17,504**	24,036
Financial liabilities designated at fair value through profit or loss	32	**283,666**	406,407
Derivative financial liabilities	17	**20,758**	12,192
Financial assets sold under repurchase agreements	33	**205,832**	88,804
Due to customers	34	**15,038,001**	13,538,360
Debt securities issued	35	**388,215**	382,742
Deferred tax liabilities	26	**58**	111
Other liabilities	36	**545,319**	528,597
Total liabilities		**18,248,470**	16,579,508

Consolidated Statement of Financial Position

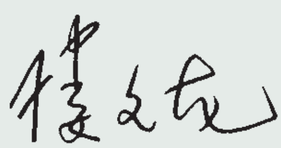
As at 31 December 2016
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes IV	As at 31 December 2016	2015
Equity			
Ordinary shares	37	**324,794**	324,794
Preference shares	38	**79,899**	79,899
Capital reserve	39	**98,773**	98,773
Investment revaluation reserve	40	**3,578**	22,429
Surplus reserve	41	**115,136**	96,748
General reserve	42	**198,305**	175,606
Retained earnings		**496,083**	412,005
Foreign currency translation reserve		**1,625**	(163)
Equity attributable to equity holders of the Bank		**1,318,193**	1,210,091
Non-controlling interests		**3,398**	1,794
Total equity		**1,321,591**	1,211,885
Total equity and liabilities		**19,570,061**	17,791,393

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

Approved and authorized for issue by the Board of Directors on 28 March 2017.

Chairman



Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016
(Amounts in millions of Renminbi, unless otherwise stated)

		Total equity attributable to equity holders of the Bank										
	Notes IV	Ordinary shares	Preference shares	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Foreign currency translation reserve	Subtotal	Non-controlling interests	Total
As at 1 January 2016		**324,794**	**79,899**	**98,773**	**22,429**	**96,748**	**175,606**	**412,005**	**(163)**	**1,210,091**	**1,794**	**1,211,885**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**183,941**	**–**	**183,941**	**119**	**184,060**
Other comprehensive (loss)/income		**–**	**–**	**–**	**(18,851)**	**–**	**–**	**–**	**1,788**	**(17,063)**	**(317)**	**(17,380)**
Total comprehensive (loss)/income for the year		**–**	**–**	**–**	**(18,851)**	**–**	**–**	**183,941**	**1,788**	**166,878**	**(198)**	**166,680**
Capital contribution from equity holders	23	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,843**	**1,843**
Appropriation to surplus reserve	41	**–**	**–**	**–**	**–**	**18,388**	**–**	**(18,388)**	**–**	**–**	**–**	**–**
Appropriation to general reserve	42	**–**	**–**	**–**	**–**	**–**	**22,699**	**(22,699)**	**–**	**–**	**–**	**–**
Dividends paid to ordinary equity holders	10	**–**	**–**	**–**	**–**	**–**	**–**	**(54,176)**	**–**	**(54,176)**	**–**	**(54,176)**
Dividends paid to preference shareholders	10	**–**	**–**	**–**	**–**	**–**	**–**	**(4,600)**	**–**	**(4,600)**	**–**	**(4,600)**
Dividends paid to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(41)**	**(41)**
As at 31 December 2016		**324,794**	**79,899**	**98,773**	**3,578**	**115,136**	**198,305**	**496,083**	**1,625**	**1,318,193**	**3,398**	**1,321,591**
As at 1 January 2015		324,794	39,944	98,773	3,118	78,594	156,707	329,989	(853)	1,031,066	1,553	1,032,619
Profit for the year		–	–	–	–	–	–	180,582	–	180,582	192	180,774
Other comprehensive income		–	–	–	19,311	–	–	–	690	20,001	71	20,072
Total comprehensive income for the year		–	–	–	19,311	–	–	180,582	690	200,583	263	200,846
Issuance of preference shares	38	–	39,955	–	–	–	–	–	–	39,955	–	39,955
Appropriation to surplus reserve	41	–	–	–	–	18,154	–	(18,154)	–	–	–	–
Appropriation to general reserve	42	–	–	–	–	–	18,899	(18,899)	–	–	–	–
Dividends paid to ordinary equity holders	10	–	–	–	–	–	–	(59,113)	–	(59,113)	–	(59,113)
Dividends paid to preference shareholders	10	–	–	–	–	–	–	(2,400)	–	(2,400)	–	(2,400)
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	–	(22)	(22)
As at 31 December 2015		324,794	79,899	98,773	22,429	96,748	175,606	412,005	(163)	1,210,091	1,794	1,211,885

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2016
(Amounts in millions of Renminbi, unless otherwise stated)

	Year ended 31 December	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**226,624**	230,857
Adjustments for:		
Amortization of intangible assets and other assets	**2,773**	2,890
Depreciation of property and equipment	**16,264**	16,743
Impairment losses on assets	**86,446**	84,172
Interest income arising from investment securities	**(167,287)**	(145,535)
Interest income arising from impaired loans and advances to customers	**(2,209)**	(1,765)
Interest expense on debt securities issued	**12,133**	10,988
Revaluation gain on financial instruments at fair value through profit or loss	**(7,137)**	(5,285)
Net gain on investment securities	**(920)**	(857)
Share of result of associate	**9**	15
Net gain on disposal of property, equipment and other assets	**(209)**	(440)
Net foreign exchange gain	**(13,797)**	(11,615)
	152,690	180,168
Net change in operating assets and operating liabilities:		
Net (increase)/decrease in balances with central banks, deposits with banks and other financial institutions	**(89,447)**	108,639
Net increase in placements with and loans to banks and other financial institutions	**(140,250)**	(60,050)
Net decrease in financial assets held under resale agreements	**156,406**	6,593
Net increase in loans and advances to customers	**(939,134)**	(824,382)
Net increase/(decrease) in borrowings from central banks	**230,453**	(19,522)
Net (decrease)/increase in placements from banks and other financial institutions	**(13,738)**	90,836
Net increase in due to customers and deposits from banks and other financial institutions	**1,433,784**	1,395,723
Increase in other operating assets	**(56,173)**	(119,076)
Increase in other operating liabilities	**40,995**	124,032
Cash from operations	**775,586**	882,961
Income tax paid	**(59,613)**	(62,613)
NET CASH FROM OPERATING ACTIVITIES	**715,973**	820,348

Consolidated Statement of Cash Flows

For the year ended 31 December 2016
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes IV	Year ended 31 December 2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from disposal/redemption of investment securities		**1,261,234**	870,994
Cash received from interest income arising from investment securities		**154,753**	135,037
Cash received from disposal of property, equipment and other assets		**2,287**	1,032
Cash paid for purchase of investment securities		**(2,039,374)**	(1,752,782)
Increase in investment in associate		**–**	(288)
Cash paid for purchase of property, equipment and other assets		**(22,637)**	(21,687)
NET CASH USED IN INVESTING ACTIVITIES		**(643,737)**	(767,694)
CASH FLOWS FROM FINANCING ACTIVITIES			
Contribution from preference shareholders		**–**	40,000
Cash received from debt securities issued		**699,446**	552,851
Capital contribution from non-controlling interests		**1,843**	–
Cash payments for transaction cost of preference shares issued		**–**	(63)
Cash payments for transaction cost of debt securities issued		**(51)**	(17)
Repayments of debt securities issued		**(705,293)**	(496,684)
Cash payments for interest on debt securities issued		**(12,109)**	(11,306)
Dividends paid to:		**(58,817)**	(61,535)
Ordinary equity holders		**(54,176)**	(59,113)
Preference shareholders		**(4,600)**	(2,400)
Non-controlling interests		**(41)**	(22)
NET CASH (USED IN)/FROM FINANCING ACTIVITIES		**(74,981)**	23,246
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(2,745)**	75,900
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY		**821,969**	738,241
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**8,474**	7,828
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	43	**827,698**	821,969
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		**464,635**	554,629
Interest paid		**(243,275)**	(245,840)

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

I GENERAL INFORMATION

Agricultural Bank of China Limited (the "Bank") is the successor entity to the Agricultural Bank of China (the "Predecessor Entity") which was a wholly state-owned commercial bank approved for setup by the People's Bank of China (the "PBOC") and founded on 23 February 1979 in the People's Republic of China (the "PRC"). On 15 January 2009, the Bank was established after the completion of the financial restructuring of the Predecessor Entity. The Bank's establishment was authorized by the PBOC. The Bank was listed on the Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited on 15 July 2010 and 16 July 2010, respectively.

The Bank operates under financial services certificate No. B0002H111000001 issued by the China Banking Regulatory Commission (the "CBRC"), and business license No. 911100001000054748 issued by Beijing Administration of Industry and Commerce. The registered office of the Bank is located at No. 69 Jianguomen Nei Avenue, Dongcheng District, Beijing, the PRC.

The principal activities of the Bank and its subsidiaries (collectively, the "Group") include Renminbi ("RMB") and foreign currency deposits, loans, clearing and settlement services, assets custodian services, fund management, financial leasing services, insurance services and other services as approved by relevant regulators, and the provision of related services by its overseas establishments as approved by the respective local regulators.

The head office and domestic branches of the Bank and its subsidiaries operating in the Mainland China are referred to as the "Domestic Operations". Branches and subsidiaries registered and operating outside of the Mainland China are referred to as the "Overseas Operations".

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1 Basis of preparation

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), as issued by the International Accounting Standards Board ("IASB"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance (Cap. 622) for this financial year and the comparative period.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of consideration given in exchange for assets and that is received (or in some circumstances the amount expected to be paid) with respect to liabilities.

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

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.1 Amendments to the accounting standards effective in 2016 relevant to and adopted by the Group

The following amendments have been adopted by the Group for the first time during the financial year ended 31 December 2016.

(1)	Amendments to IFRS 11	Acquisition of Interests in Joint Operations
(2)	Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization
(3)	Amendments to IFRSs	Annual Improvements to IFRSs 2012 – 2014 cycle
(4)	Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
(5)	Amendments to IAS 1	Disclosure Initiative

(1) Amendments to IFRS 11: Acquisition of Interests in Joint Operations

The amendments to IFRS 11 – Joint Arrangements provide specific guidance on accounting for the acquisition of an interest in a joint operation that is a business. The amendments require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a business.

(2) Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization

The amendments to IAS 16 – Property, Plant and Equipment, clarify that depreciation of an item of property, plant and equipment based on revenue generated by using the asset is not appropriate. The amendments to IAS 38 – Intangible Assets, establish a rebuttable presumption that amortization of an intangible asset based on revenue generated by using the asset is inappropriate. The presumption may only be rebutted in certain limited circumstances.

(3) Amendments to IFRSs: Annual Improvements to IFRSs 2012 – 2014 cycle

The Annual Improvements to IFRSs 2012 – 2014 Cycle include a number of amendments to various IFRSs, including the amendments IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations regarding methods of disposal, the amendments to IFRS 7 – Financial Instruments: Disclosures regarding servicing contracts, the amendments to IAS 19 – Employee Benefits regarding discount rates, the amendments to IAS 34 – Interim Financial Reporting regarding disclosure of information.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.1 *Amendments to the accounting standards effective in 2016 relevant to and adopted by the Group (Continued)*

(4) *Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception*

The amendments to IFRS 10 clarify that the exception from preparing consolidated financial statements is available to intermediate parent entities which are subsidiaries of investment entities. The exception is available when the investment entity parent measures its subsidiaries at fair value. The intermediate parent would also need to meet the other criteria listed in IFRS 10 for the exception to apply. The amendments also clarify that an investment entity should consolidate a subsidiary which is not an investment entity and which provides services in support of the investment entity's investment activities, such that it acts as an extension of the investment entity. However, the amendments also confirm that if the subsidiary is itself an investment entity, the investment entity parent should measure its investment in the subsidiary at fair value through profit or loss. This approach is required regardless of whether the subsidiary provides investment-related services to the parent or to third parties.

The amendments to IFRS 12 clarify that an investment entity that prepares financial statements in which all of its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10 shall present the disclosures relating to investment entities required by IFRS 12.

The amendments to IAS 28 allow an entity which is itself not an investment entity, but has an interest in an associate or a joint venture which is an investment entity, a policy choice to retain the fair value measurement applied by the associate or joint venture, or to unwind the fair value measurement and perform a consolidation at the level of the associate or joint venture for their subsidiaries.

(5) *Amendments to IAS 1: Disclosure Initiative*

The amendments clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. Although the amendments do not require specific changes, they clarify a number of presentation issues and highlight that preparers are permitted to tailor the format and presentation of the financial statements to their circumstances and the needs of users.

The adoption of these amendments does not have a significant impact on the operating results, comprehensive income, or financial position of the Group.

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2016

The Group has not adopted the following new and amended standards that have been issued but are not yet effective.

			Effective for annual periods beginning on or after
(1)	Amendments to IAS 12	Income Taxes	1 January 2017
(2)	Amendments to IAS 7	Statement of Cash Flows	1 January 2017
(3)	Amendments to IFRS 12	IASB Annual Improvements 2014 – 2016 cycle	1 January 2017
(4)	Amendments to IAS 28	IASB Annual Improvements 2014 – 2016 cycle	1 January 2018
(5)	IFRS 15	Revenue from Contracts with Customers	1 January 2018
(6)	IFRS 9	Financial Instruments	1 January 2018
(7)	Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
(8)	Amendments to IAS 40	Transfer of Investment Property	1 January 2018
(9)	Amendments to IFRS 2	Share – based Payment	1 January 2018
(10)	IFRS 16	Leases	1 January 2019
(11)	Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 *Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2016 (Continued)*

(1) Amendments to IAS 12: Income Taxes

The IASB has issued amendments to IAS 12 – Income taxes. These amendments on the recognition of deferred tax assets for unrealized losses clarify how to account for deferred tax assets related to debt instruments measured at fair value. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(2) Amendments to IAS 7: Statement of Cash Flows

The IASB has issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(3) Amendments to IFRS 12: IASB Annual Improvements 2014 – 2016 cycle

The IASB Annual Improvements 2014 – 2016 Cycle include the amendments to IFRS 12 -Disclosure of Interest in Other Entities. These amendments clarify the scope of IFRS 12 by specifying that the disclosure requirements, except for those summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interests which are classified as held for sale or discontinued operations in accordance with IFRS 5. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(4) Amendments to IAS 28: IASB Annual Improvements 2014 – 2016 cycle

The IASB Annual Improvements 2014 – 2016 Cycle include the amendments to IAS 28 – Investments in Associates and Joint Ventures. These amendments clarify that the election to measure investees at fair value through profit or loss is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2016 (Continued)

(5) IFRS 15: Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a 5-step approach. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes' to an 'asset-liability' approach based on transfer of control. IFRS 15 provides specific guidance on capitalization of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The Group anticipates that the adoption of this new standard will not have a significant impact on the Group's consolidated financial statements.

(6) IFRS 9: Financial Instruments

The complete version of IFRS 9 – Financial Instruments was issued in July 2014. It replaces the guidance in IAS 39 – Financial Instruments: Recognition and Measurement that relates to the classification and measurement of financial instruments.

IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI in which case the accumulated fair value changes in OCI will not be recycled to the profit or loss in the future. For financial liabilities there were no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 *Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2016 (Continued)*

(6) IFRS 9: Financial Instruments (Continued)

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. The measurement of the loss allowance generally depends on whether there has been a significant increase in credit risk since initial recognition of the instrument. IFRS 9 requires an entity to recognize lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition considering all reasonable and supportable information, including that which is forward-looking.

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

The Group is analyzing its business models, loans and other financial instruments' contract terms and changes to its existing credit exposures to assess the potential impact on its financial statements resulting from the adoption of IFRS 9. Given the nature of the Group's operations, it is expected to have an impact on the classification of financial instruments, the calculation, amount and timing of its allowances for impairment losses for financial assets as well as the nature and extent of financial instruments disclosure. Implementation of IFRS 9 will also have an impact on the management organization, various processes and key functions, budgeting and performance review, as well as the information technology systems. The Group has completed the classification of its existing financial assets in accordance with the criteria in IFRS 9, and is currently in the process of refining hedge accounting policies, designing and developing the expected credit loss model and continuously updating related policies and management system.

The Group has not completed its assessment of the full impact of adopting IFRS 9 and therefore its possible impact on the Group's operating results and financial position has not yet been quantified.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 *Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2016 (Continued)*

(7) Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

On 12 September 2016, the IASB issued amendments to IFRS 4, Insurance Contracts, Applying IFRS 9 Financial Instruments with IFRS 4, which provides two alternative measures to address the different effective dates of IFRS 9 and the forthcoming insurance contracts standard. These measures include a temporary option for companies whose activities are predominantly connected with insurance to defer the effective date of IFRS 9 until the earlier of the effective date of the forthcoming insurance contracts standard and the annual reporting periods beginning on or after 1 January 2021, as well as an approach that allows an entity to remove from profit or loss the effects of certain accounting mismatches that may occur before the forthcoming insurance contracts standard is applied. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(8) Amendments to IAS 40: Transfer of Investment Property

On 8 December 2016, the IASB issued amendments to IAS 40 – Transfer of Investment Property. These amendments specify that an entity shall transfer a property to, or from, investment property when, and only when, there is a change in use of a property supported by evidence that a change in use has occurred; They also clarify that the list of circumstances set out in IAS 40 is non-exhaustive list of examples of evidence that a change in use has occurred instead of an exhaustive list. The examples have been expanded to include assets under construction and development and not only transfers of completed properties. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(9) Amendments to IFRS 2: Share – based Payment

On 20 June 2016, the IASB issued an amendment to IFRS 2, "Share-based Payment", addressing three classification and measurement issues. The amendment addresses the accounting for cash-settled share-based payments and equity-settled awards that include a "net settlement" feature in respect of withholding taxes.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 *Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2016* *(Continued)*

(9) Amendments to IFRS 2: Share – based Payment (Continued)

The amendment clarifies the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it is wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(10) IFRS 16: Leases

IFRS 16 addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. The standard replaces IAS 17 'Leases', and related interpretations.

IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts, unless the underlying asset is of low value or the lease is short-term, in the consolidated statement of financial position. Accordingly, a lessee should recognize depreciation of the right-of-use asset and interest on the lease liability in the consolidated statement of comprehensive income, and also classifies cash repayments of the lease liability into principal portion and an interest portion for presentation in the consolidated statement of cash flows.

The standard will affect primarily the accounting for the Group's operating leases when the Group is the lessee. As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB12,967 million, see note IV 47 Contingent Liabilities and Commitments. The Group has not yet determined to what extent these commitments will result in the recognition of right-of-use assets and liabilities for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

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

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2016 (Continued)

(11) Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture

These amendments address an inconsistency between the requirements in IFRS 10 – Consolidated Financial Statements and those in IAS 28 – Investment in Associates and Joint Ventures in the sale and contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

2 Consolidation

Basis of consolidation

The consolidated financial statements include the financial statements of the Bank and the subsidiaries as well as structured entities controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date on which control ceases, respectively.

Adjustments are made to the financial statements of subsidiaries, where appropriate, to consistently reflect the accounting policies of the Group.

All intra-group transactions, balances and unrealized gains on transactions are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

Non-controlling interests of consolidated subsidiaries are presented separately from the controlling party's equity therein.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2 Consolidation (Continued)

Basis of consolidation *(Continued)*

The carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Further, total comprehensive income of a subsidiary is attributed, based on the proportion of their respective holdings, to the equity holders of the Bank and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

In the Bank's statement of financial position, its investments in subsidiaries are stated at cost, less impairment losses, if any.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair value of the assets transferred by the Group, liabilities incurred or assumed by the Group, and any equity interests issued by the Group. Acquisition related costs are recognized in the consolidated income statement as incurred.

At the acquisition date, irrespective of non-controlling interests, the identifiable assets acquired and liabilities and contingent liabilities assumed are recognized at their fair values; except that deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 – Income Taxes and IAS 19 – Employee Benefits, respectively.

Goodwill is measured as the excess of the difference between (i) the consideration transferred, the fair value of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) and (ii) the net fair value of the identifiable assets acquired and the liabilities and contingent liabilities incurred or assumed.

Non-controlling interests that represent ownership interests in the acquiree, and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are accounted for at either fair value or the non-controlling interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2 Consolidation (Continued)

Goodwill

Goodwill represents the excess of the cost of an acquisition less the fair value of the Group's share of the net identifiable assets of acquired subsidiaries and associates at the date of acquisition. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill on acquisition of associates is included in investment in associates.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU") or groups of CGUs that is expected to benefit from the synergies of the business combination.

A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

A CGU to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. With respect to goodwill arising during a reporting period, the CGU to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU, which is the higher of fair value less costs to sell and value in use, is less than its carrying amount, the deficit, reflecting an impairment loss, is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU on a pro-rata basis, based on the carrying amount of each asset in the CGU. Any goodwill impairment loss is recognized directly in the consolidated income statement. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Investment in associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not constitute control or joint control over those policy decisions.

The post-acquisition profit or loss of an associate is incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of loss of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further loss. Additional loss is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2 Consolidation (Continued)

***Investment in associate** (Continued)*

At the end of each reporting period, the Group considers whether there are circumstances that indicate the possibility of impairment of the Group's investment in an associate; when that is the case, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 – Impairment of Assets, as a single asset by comparing its recoverable amount (the higher of fair value less costs to sell and value in use) with its carrying amount, any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of an impairment loss is recognized, to the extent that the recoverable amount of the investment subsequently increases.

When an entity in the Group transacts with the Group's associate, profits and losses resulting from the transaction are recognized in the Group's consolidated financial statements only to the extent of the interest in the associate that are not related to the Group. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

3 Interest income and expense

Interest income and expense for all interest-earning financial assets and interest-bearing financial liabilities are recognized as interest income and interest expense on the effective method, respectively, in the consolidated income statement using the effective interest method.

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

Interest income on an impaired financial asset or a group of impaired similar financial assets is recognized using the original interest rate which was used to discount the future cash flows for the purpose of measuring the impairment loss.

4 Fee and commission income

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

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5 Foreign currency transactions

The functional currency of the Domestic Operations is RMB. The presentation currency of the Group and the Bank is RMB.

In preparing the financial statements of each individual Group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in the consolidated income statement in the period in which they arise, except for the following:

(i) exchange differences arising on a monetary item that forms part of the Bank's net investment in the Overseas Operations;

(ii) changes in the fair value of monetary assets denominated in foreign currency classified as available for sale are analyzed between translation differences resulting from changes in the amortized cost of the monetary assets and other changes in the carrying amount. Translation differences related to changes in the amortized cost are recognized in the consolidated income statement, and other changes in the carrying amount are recognized in other comprehensive income.

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated income statement for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which cases, the exchange differences are also recognized directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's Overseas Operations are translated into the presentation currency of the Group at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at exchange rates at the date of the transactions, or a rate that approximates the exchange rates of the date of the transaction. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the foreign currency translation reserve and non-controlling interests, as appropriate. The accumulated foreign currency translation reserve related to the Overseas Operations will be reclassified from equity to the consolidated income statement on disposal of all or part of the Overseas Operations.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

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

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets 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. Deferred tax assets and liabilities are not recognized for temporary difference related to goodwill or the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6 Taxation (Continued)

***Deferred tax** (Continued)*

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

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

Transformation from Business Taxes to Value-added Taxes (the "VAT Pilot Programs")

Pursuant to the "Circular regarding the Comprehensive Implementation of the Pilot Programs for Transformation from Business Taxes to Value-added Taxes (the "VAT Pilot Programs")" (Cai Shui [2016] No. 36), the "Circular regarding Further Clarification of Relevant Policies Applicable to the Financial Sector in the Comprehensive Implementation of the VAT Pilot Programs (Cai Shui [2016] No. 46) and the "Supplementary Circular regarding VAT Policies Applicable to Transactions between Financial Institutions" (Cai Shui [2016] No. 70) issued by the Ministry of Finance (the "MOF") and the State Administration of Taxation (the "SAT") of the PRC, effective from 1 May 2016, the Group is subject to value-added taxes on its income from credit business, fee income on financial services, income from insurance business and trading of financial products at 6%, instead of business tax at 5% prior to 1 May 2016.

In accordance with Cai Shui [2016] No. 46 referred to above, the Bank elected to adopt a simplified methodology to calculate value-added taxes at 3% on interest income derived from loans granted to farming households, rural enterprises and other rural institutions by county-level sub-branches included in the Bank's pilot programs of the Sannong Finance Division under the Bank's provincial branches in provinces, autonomous regions, municipalities directly under the central government and municipalities with independent budgetary status as well as those under the Xinjiang Production and Construction Corps Branch.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6 Taxation (Continued)

Transformation from Business Taxes to Value-added Taxes (the "VAT Pilot Programs") *(Continued)*

In accordance with "Circular regarding the Value-added Taxes Policies for Financial, Real Estate Development and Education Ancillary and Other Services" (Cai Shui [2016] No. 140) and "Supplementary Circular regarding Issues concerning Value-added Taxes Policies for Asset Management Products" (Cai Shui [2017] No. 2), managers of asset management products shall pay VAT for taxable activities undertaken after 1 July 2017.

After the implementation of the VAT Pilot Programs, the Group's interest income, fee and commission income, trading gain on financial products and insurance premium income are presented net of their respective VAT in the consolidated financial statements.

7 Employee benefits

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

Short-term employee benefits

In the reporting period in which an employee has rendered services, the Group recognizes the short-term employee benefits payable for those services as a liability with a corresponding increase in the expenses in the consolidated income statement. Short-term employee benefits include salaries, bonuses, allowance and subsidies, staff welfare, medical insurance, employment injury insurance, maternity insurance, housing funds as well as labor union fees and staff education expenses.

Post-employment benefits

The Group's post-employment benefits are primarily the payments for basic pensions and unemployment insurance related to government mandated social welfare programs, as well as the annuity scheme established. All these post-employment benefits are defined contribution plans, under which, the Group makes fixed contributions into a separate fund and will have no legal or constructive obligation to make further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods.

Contributions to the basic pensions and unemployment insurance plan are recognized in the consolidated income statement for the period in which the related payment obligation is incurred.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

7 Employee benefits (Continued)

***Post-employment benefits** (Continued)*

The employees of the Bank's head office and domestic branches ("Domestic Institutions") participate in an annuity scheme established by the Bank (the "Annuity Scheme"). The Bank pays annuity contributions with reference to employees' salaries, and such contributions are expensed in the consolidated income statement when incurred. The Bank has no further obligation if the Annuity Scheme does not have sufficient assets for the payment of any retirement benefits to employees funded by the Annuity Scheme.

Early retirement benefits

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

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

8 Financial instruments

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

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

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.1 Financial assets

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

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 – Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated at FVTPL.

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

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.1 Financial assets (Continued)

Held-to-maturity investments

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

Loans and receivables

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

Financial assets classified as loans and receivables primarily include deposits with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets held under resale agreements, loans and advances to customers, and specified debt securities.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as such or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

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

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

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

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.1 Financial assets (Continued)

Impairment of financial assets

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

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

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

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets, although the decrease cannot yet be attributed to individual financial assets in the portfolio:
  - adverse changes in the payment status of borrowers in the portfolio; and
  - national or local economic conditions that correlate with defaults on the assets in the portfolio.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.1 *Financial assets (Continued)*

Impairment of financial assets (Continued)

The Group first assesses whether objective evidence of impairment exists individually for all corporate loans, debt instruments classified as receivables, available-for-sale financial assets and held-to-maturity investments, and collectively for the remainder of financial assets (other than those at fair value through profit or loss). If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses it for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in collective assessment of impairment.

Impairment of financial assets carried at amortized cost

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

The calculation of present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that are expected to result from foreclosure, less the cost of obtaining and selling the collateral.

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

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

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.1 Financial assets (Continued)

Impairment of financial assets classified as available-for-sale

For available-for-sale equity instruments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. In determining whether a decline in fair value has been significant or prolonged, the Group considers if the fair value of an available-for-sale equity instrument as at the balance sheet date is lower than 50% (including 50%) of its initial cost of investment or lower than its initial cost of investment for more than one year (including one year) together with other relevant considerations.

When a decline in the fair value of a financial asset classified as available-for-sale has been recognized directly in other comprehensive income and accumulated in the investment revaluation reserve, and there is objective evidence that asset is impaired, the cumulative losses previously recognized in other comprehensive income are reclassified to the consolidated income statement in the period in which the impairment takes place.

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

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.2 Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument in IAS 39 and IAS 32, respectively.

The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities, carried at amortized cost.

Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL have two subcategories, including financial liabilities held for trading and those designated at FVTPL on initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments.

The criteria for a financial liability designated at FVTPL is the same as those for a financial asset designated at FVTPL.

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

Other financial liabilities

Other financial liabilities are measured at amortized cost, using the effective interest method.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.3 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

A financial instrument is an equity instrument if, and only if, both conditions (i) and (ii) below are met:

(i) The financial instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; and

(ii) If the financial instrument will or may be settled in the Group's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Equity instruments issued by the Group are recorded at the fair value of proceeds received, net of direct issuance expenses.

8.4 Derivative financial instruments

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured at their fair value at the end of the reporting period. The resulting gain or loss is recognized in the consolidated income statement.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their characteristics and risks are not clearly and closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognized in the consolidated income statement. These embedded derivatives are separately accounted for at FVTPL.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.5 Determination of fair value

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

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

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

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

8.6 De-recognition

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.6 De-recognition (Continued)

On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and, where applicable, the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in the consolidated income statement.

Financial liabilities are derecognized when the related obligation is discharged, is cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in the consolidated income statement.

8.7 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when both of the following conditions are satisfied: (i) the Group has a legal right to set off the recognized amounts and the legal right is currently enforceable; and (ii) the Group intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

8.8 Repurchase agreements and agreements to resell

Financial assets transferred as collateral in connection with repurchase agreements, involving fixed repurchase dates and prices, are not derecognized. They continue to be recorded as investments classified as held-to-maturity investments, available-for-sale financial assets or debt instruments classified as receivables as appropriate. The corresponding liability is included in financial assets sold under repurchase agreements. The items which are not derecognized are disclosed in Note IV 47 Contingent Liabilities and Commitments – Collateral.

Consideration paid for financial assets held under agreements to resell are recorded as Financial assets held under resale agreements, the related collateral accepted has not been recognized in the consolidated financial statements (Note IV 47 Contingent Liabilities and Commitments – Collateral).

The difference between purchase and sale price is recognized as interest expense or income in the consolidated income statement over the term of the agreements using the effective interest method.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

9 Insurance contracts

Insurance contract classification

Insurance contracts are those contracts under which the Group has accepted significant insurance risk, relative to an insured event or occurrence. The Group issues primarily life insurance contracts, which insure events associated with mortality over a long duration. The Group also issues non-life insurance contracts, which cover short-term casualty and health insurance risk. When necessary, the Group enters into reinsurance contracts to transfer insurance risks to reinsurer. A significant insurance risk test is performed at inception of the insurance contracts.

Some insurance contracts contain both an insurance component and a deposit component. The Group unbundles those components, if the insurance component and the deposit component are separately measurable. The unbundled insurance component is accounted for according to IFRS 4 – Insurance Contracts and the unbundled deposit component is accounted for as a financial liability under investment contract liabilities.

Insurance income recognition

Premiums from long-term life insurance contracts are recognized as revenue when due from policyholders. Premiums related to short-term non-life insurance contracts are recognized when received at the inception of the policy, as unearned insurance premiums in the consolidated statement of financial position, and are amortized on a straight-line basis into the consolidated income statement over the term of the policy.

When the Group has transferred insurance risk through reinsurance contracts, the Group calculates the amount of premium ceded and the reinsurers' share of expenses and recognizes them through the consolidated income statement in accordance with the terms of the reinsurance contracts.

Insurance contract liabilities

Insurance contract liabilities are measured based on a reasonable estimate of the amount of payments that the Group will be required to make to fulfill its obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows related to such contracts. A reasonable estimate of expected future net cash flows is determined based on information currently available as at the end of the reporting period. The Group has considered the impact of time value in the liability calculation for long-term life insurance.

The Group performs liability adequacy tests based on information currently available, as at the reporting date. Additional insurance contract liabilities will be recorded if any deficiency exists.

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10 Precious metals

Precious metals comprise gold, silver and other precious metals.

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realizable value. Precious metals that are related to the Group's trading activities are initially recognized at fair value, with changes in fair value arising from re-measurement recognized directly in the consolidated income statement in the period in which they arise.

11 Property and equipment

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

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

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

Classes	Useful lives	Estimated residual value rates	Annual depreciation rates
Buildings	5-50 years	3%	1.94%-19.40%
Electronic equipment, furniture and fixtures	3-11 years	3%	8.82%-32.33%
Motor vehicles	5-8 years	3%	12.13%-19.40%

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

11 Property and equipment (Continued)

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from its continued use. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in other operating income in the consolidated income statement. The accounting policies of impairment of property and equipment are included in Note II 18 Impairment of Tangible and Intangible Assets other than Goodwill.

12 Land use rights

Land use rights are classified in other assets and amortized over a straight-line basis over their authorized useful lives.

13 Foreclosed assets

Foreclosed assets are initially recognized at fair value and subsequently measured at the lower of their carrying amount and fair value, less costs to sell, at the end of each reporting period. When the fair value, less costs to sell, is lower than a foreclosed asset's carrying amount, an impairment loss is recognized in the consolidated income statement.

Any gain or loss arising on the disposal of the foreclosed asset is included in the consolidated income statement in the period in which the item is disposed.

The Group disposes foreclosed assets through various means. In principle, foreclosed assets should not be transferred for own use, but, in the event that they are needed for the Group's own business or management purposes, they are transferred at their net carrying amounts and managed as newly acquired property and equipment.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

14 Investment property

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

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

Investment properties are measured using the cost model. Depreciation and amortization is recognized the same way as property and equipment and land use rights.

At the end of the reporting period, the Group reviews the carrying amounts of its investment properties to determine whether there is any indication that the assets have suffered an impairment loss. If any such indication exists, the recoverable amount (the higher of fair value less costs to sell and value in use) of the property is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of a property is estimated to be less than its carrying amount, the carrying amount of the property is reduced to its recoverable amount. An impairment loss is recognized in the consolidated income statement. The accounting policies of impairment of investment property are included in Note II 18 Impairment of Tangible and Intangible Assets other than Goodwill.

Where an impairment loss subsequently reverses, the carrying amount of the investment property is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount had no impairment loss been recognized. A reversal of an impairment loss is recognized in the consolidated income statement.

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

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

15 Leasing

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

The Group as lessor

When the Group is the lessor in a finance lease, an amount representing the minimum lease payment receivables and unguaranteed residual value, net of initial direct costs, all discounted at the implicit lease rate (the "net lease investment") is recorded in the consolidated statement of financial position as Loans and advances to customers. The difference between the net lease investment and the undiscounted amount is recorded as unearned finance income, amortizing over the term of the lease using the effective interest method and recognized in the consolidated income statement.

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

The Group as lessee

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

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

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

16 Cash and cash equivalents

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

17 Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortization and any accumulated impairment loss. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives which generally range from 5 to 20 years.

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

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

18 Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount had no impairment loss been recognized. A reversal of an impairment loss is recognized in the consolidated income statement.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

19 Dividend distribution

Dividend distribution to the Bank's ordinary equity holders is recognized as a liability in the Group's and the Bank's financial statements in the period in which the dividends are approved by the shareholders' annual general meeting of the Bank.

As authorized by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on preference shares. Preference share dividend distribution is recognized as a liability in the Group's and the Bank's financial statements in the period in which the dividends are approved by the Board of Directors of the Bank.

20 Provision

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

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

21 Fiduciary activities

The Group acts as a custodian, trustee and in other fiduciary capacities to safeguard assets for customers in accordance with custody agreements between the Group and securities investment funds, social security funds, insurance companies, trust companies, qualified foreign institutional investors, annuity schemes and other institutions and individuals. The Group receives fees in return for its services provided under the custody agreements and does not have any interest in the economic risks and rewards related to assets under custody. Therefore, assets under custody are not recognized in the Group's consolidated statement of financial position.

The Group conducts entrusted lending arrangements for its customers. Under the terms of entrusted loan arrangements, the Group grants loans to borrowers, as an intermediary, according to the instruction of its customers who are the lenders providing funds for the entrusted loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the economic risks and rewards of the entrusted loans and the funding for the corresponding entrusted funds, they are not recognized as assets and liabilities of the Group.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

22 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument.

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

23 Contingent liabilities

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

A contingent liability is not recognized, but disclosed, unless the possibility of an outflow of resources embodying economic benefits is probable. The Group's contingent liabilities are disclosed in Note IV 47 Contingent Liabilities and Commitments.

A provision is recognized when it meets the criteria as set forth in Note II 20 Provision.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In the application of the Group's accounting policies, which are described in Note II, management is required to make judgments, estimates and assumptions that affect the carrying amounts of assets and liabilities. The estimates and related assumptions are based on historical experience and other relevant factors including on the basis of reasonable expectations for future events.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments and key estimates that the management has made in the process of applying the Group's accounting policies and that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

1 Impairment losses on loans and advances to customers

The Group reviews its loans and advances to customers to assess impairment on a periodic basis during the year. In determining whether an impairment loss should be recognized in the consolidated income statement of profit and loss, the Group makes estimates and judgments as to whether there is any observable data indicating that there is objective evidence of impairment and the extent, if any, to which it will have a measurable decrease in the estimated future cash flows related to individually assessed loans and advances or pools of loans and advances to customers with similar risk characteristics, as described in Note II 8.1 Impairment of Financial Assets Carried at Amortized Cost.

Significant judgments are made in the determination of whether objective evidence of impairment exists in individually assessed loans and advances to customers or pools of loans and advances to customers with similar risk characteristics. Among other things, objective evidence of impairment includes deterioration in the financial condition of specific borrowers (or specific pools of borrowers) affecting their ability to meet their loan payment obligations such as overdue status, financial position of guarantors, latest collateral valuations and concessions by the Group that would not otherwise be granted to borrowers for economic or legal reasons relating to their financial difficulties, as well as increasing industry sector over-capacity or obsolescence, or deterioration in national or regional economic conditions that are correlated to increasing customer defaults on loans and advances. These judgments are made both during management's regular assessments of the quality of loans and advances to customers' quality and when other circumstances indicate the possibility that objective evidence of impairment may exist.

Where it is determined that objective evidence of impairment exists, significant judgments and estimates are made in estimating the adverse impact on future cash flows related to individually assessed impaired loans and advances to customers. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Factors affecting these estimates include the availability and granularity of information related to specific borrowers and guarantors, latest collateral valuations and other available information, and the clarity of the correlation between qualitative factors, such as industry sector performance or changes in regional economic conditions and loans and advances to customers' defaults of related borrowers.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

1 Impairment losses on loans and advances to customers (Continued)

Corporate loans and advances to customers not identified as impaired from individually assessments, together with personal loans and advances to customers are included in homogenous groups with similar credit risks characteristics for performance of impairment assessments on a collective basis. Significant judgments are applied to the calculation of assessed impairment using these models. Critical factors affecting these judgments include modelling assumptions (e.g. loss given default) and levels of correlation between qualitative factors and loans and advances to customers default. The collective impairment loss is assessed after taking into account: (i) historical loss experience in portfolios of similar credit risk characteristics; (ii) loss identification period for incurred but unidentified impairment losses; (iii) industries and geographic locations; and (iv) the current economic and credit environments and whether in management's experience these indicate that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience. The Group considers the impact of the changes and uncertainty in the macro-economic environment, in which the Group operates when assessing the methodology and assumptions used for loss estimation and makes adjustments where appropriate.

2 Fair value of financial instruments

The Group uses valuation techniques to estimate the fair value of financial instruments which are not quoted in an active market. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and generally accepted pricing models. To the extent practical, market observable inputs and data, such as interest rate yield curves, foreign currency rates and implied option volatilities, are used when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. However, areas such as the credit risk of the Group and the counterparty, liquidity, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

With respect to PRC government obligations related to large-scale policy directed financing transactions, fair value is determined using the stated terms of the related instrument and with reference to terms determined by the PRC government in similar transactions engaged in or directed by the PRC government. In this regard, there are no other relevant market prices or yields reflecting arm's length transactions of a comparable size and tenor.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

3 Held-to-maturity investments

The Group classifies non-derivative financial assets, quoted in an active market, with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity as held-to-maturity investments. In assessing the Group's intention and ability to hold such investments to maturity, management primarily considers the business purpose for acquiring a security, as well as the Group's liquidity needs. This is a significant judgment because if the Group fails to hold these investments to maturity, other than for specific and limited circumstances (e.g. sale of an insignificant amount close to maturity), it will be required to reclassify the entire portfolio of held-to-maturity investments as available-for-sale financial assets and be precluded from classifying investments as held-to-maturity investments for the next two years.

4 Impairment of other financial assets

For held-to-maturity investments and financial instruments classified as receivables, the determination of whether such an investment is impaired requires significant judgment. Objective evidence that a financial asset or group of financial assets is impaired includes a breach of contract, such as a default or delinquency in interest or principal payments or the disappearance of an active market for that financial asset because of significant financial difficulty of the issuer, etc. In making such judgment, the impact of objective evidence of impairment on expected future cash flows of the investment is taken into account.

For available-for-sale investments, the determination of whether such an investment is impaired requires significant judgment. In making this judgment, the Group considers the duration and extent to which the fair value of an investment is less than its cost; or whether other objective evidence of impairment exists based on the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, credit ratings, delinquency rates and counterparty risk.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

5 Taxes

There are certain transactions and activities in the ordinary course of the Group's business for which the ultimate tax effect is uncertain. The Group made certain estimation and judgement for items of uncertainty in the application of tax legislations, taking into account existing tax legislation and past practice of tax authorities. Where the final tax outcome of these matters is different from the amounts that were initially estimated, based on management's assessment, such differences will affect the current income tax, deferred income tax, value-added tax and business tax during the period in which such a determination is made.

6 Employee early retirement benefits obligations

The Group recognizes liabilities in connection with early retirement benefits for employees in Domestic Institutions using the projected unit credit actuarial cost method based on various assumptions, including the discount rate, average medical expenses growth rate, pension benefit growth rate for early retirements and other factors. The present value of the liability is determined through discounting the estimated future cash outflows using interest rates of RMB treasury bonds which have terms to maturity approximating the terms of the related liability. Any difference arising from the actual result or changes in assumptions may affect the amount of expense recognized in the consolidated income statement in the period during which such changes take place and the corresponding liability recognized in the consolidated statement of financial position.

7 Consolidation of structured entities

Where the Group acts as asset manager of or investor in structured entities, the Group makes significant judgement on whether the Group controls and should consolidate these structured entities. When performing this assessment, the Group assesses the Group's contractual rights and obligations in light of the transaction structures, and evaluates the Group's power over the structured entities, performs analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned as the asset manager, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities. The Group also assesses whether it acts as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which it is entitled for asset management services, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

8 De-recognition of financial assets transferred

In its normal course of business, the Group transfers its financial assets through various types of transactions including regular way sales and transfers, securitization, financial assets sold under repurchase agreements, securities lending. The Group applies significant judgement in assessing whether it has transferred these financial assets which qualify for a full or partial de-recognition.

Where the Group enters into structured transactions by which it transfers financial assets to structured entities, the Group analyzes whether the substance of the relationship between the Group and these structured entities indicates that it controls these structured entities to determine whether the Group needs to consolidate these structured entities. This will determine whether the following de-recognition analysis should be conducted at the consolidated level or at the entity level from which the financial assets are transferred.

The Group analyzes the contractual rights and obligations in connection with such transfers to determine whether the de-recognition criteria are met based on the following considerations:

- whether it has transferred the rights to receive contractual cash flows from the financial assets or the transfer qualifies for the "pass through" of those cash flows to independent third parties.

- the extent to which the associated risks and rewards of ownership of the financial assets are transferred. Significant judgment is applied in the Group's estimation with regard to the cash flows before and after the transfers and other factors that effect the outcomes of Group's assessment on the extent that risks and rewards are transferred.

- where the Group has neither retained nor transferred substantially all of the risks and rewards associated with their ownership, the Group analyzes whether it has relinquished its controls over these financial assets by assessing whether the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, and if the Group has continuing involvement in these transferred financial assets. Where the Group has not retained control, it derecognizes these financial assets and recognizes separately as assets or liabilities any rights and obligations created or retained in the transfer. Otherwise the Group continues to recognize these financial assets to the extent of its continuing involvement in the financial asset.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Net interest income

	Year ended 31 December	
	2016	2015
Interest income		
Loans and advances to customers		
Including: Corporate loans and advances	**261,332**	321,040
Personal loans and advances	**135,131**	145,181
Discounted bills	**14,327**	10,767
Subtotal	**410,790**	476,988
Held-to-maturity investments	**99,737**	83,684
Available-for-sale financial assets	**46,155**	41,344
Balances with central banks	**39,264**	39,745
Debt instruments classified as receivables	**21,395**	20,507
Deposits with banks and other financial institutions	**17,621**	25,409
Placements with and loans to banks and other financial institutions	**12,922**	14,391
Financial assets held under resale agreements	**6,497**	21,378
Financial assets held for trading	**2,589**	1,999
Financial assets designated at fair value through profit or loss	**220**	348
Subtotal	**657,190**	725,793
Interest expense		
Due to customers	**(209,149)**	(233,377)
Deposits from banks and other financial institutions	**(27,175)**	(37,036)
Debt securities issued	**(12,133)**	(10,988)
Placements from banks and other financial institutions	**(4,247)**	(4,731)
Borrowings from central bank	**(3,556)**	(1,890)
Financial assets sold under repurchase agreements	**(2,826)**	(1,631)
Subtotal	**(259,086)**	(289,653)
Net interest income	**398,104**	436,140
Interest income accrued on impaired financial assets (included within interest income)	**2,209**	1,765

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 Net fee and commission income

	Year ended 31 December	
	2016	2015
Fee and commission income		
Agency services	**39,377**	28,628
Bank card	**20,108**	20,689
Settlement and clearing services	**16,715**	17,714
Electronic banking services	**9,993**	8,962
Consultancy and advisory services	**9,050**	8,892
Custodian and other fiduciary	**3,119**	2,857
Credit commitment	**2,263**	2,547
Others	**194**	205
Subtotal	**100,819**	90,494
Fee and commission expense		
Bank card	**(5,394)**	(3,401)
Electronic banking services	**(1,992)**	(1,852)
Settlement and clearing services	**(1,469)**	(1,921)
Others	**(1,029)**	(771)
Subtotal	**(9,884)**	(7,945)
Net fee and commission income	**90,935**	82,549

3 Net trading gain

		Year ended 31 December	
		2016	2015
Net gain on held-for-trading debt securities		**129**	1,370
Net gain on precious metals	(1)	**931**	829
Net gain on foreign exchange rate derivatives		**4,706**	1,489
Net loss on interest rate derivatives		**(309)**	(126)
Total		**5,457**	3,562

(1) Net gain on precious metals consists of net gain on precious metals and precious metal related derivative products.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4 Net (loss)/gain on financial instruments designated at fair value through profit or loss

	Year ended 31 December 2016	2015
Net (loss)/gain on principal guaranteed wealth management products	**(1,653)**	1,693
Net gain/(loss) on debt securities	**17**	(17)
Others	**345**	51
Total	**(1,291)**	1,727

5 Other operating income

	Year ended 31 December 2016	2015
Insurance premium	**10,972**	7,749
Government grant	**2,919**	3,237
Rental income	**406**	316
Gain on disposal of property and equipment	**285**	255
Net (loss)/gain on foreign exchange	**(98)**	2,842
Others	**1,519**	1,628
Total	**16,003**	16,027

6 Operating expenses

		Year ended 31 December 2016	2015
Staff costs	(1)	**111,536**	110,349
General operating and administrative expenses	(2)	**44,440**	48,461
Depreciation and amortization		**19,037**	19,633
Tax and surcharges	(3)	**11,449**	29,075
Insurance benefits and claims		**11,211**	7,984
Provision for guarantees and commitments		**(3,474)**	3,084
Provision for risk incidents and legal proceedings		**(432)**	5,509
Others		**3,282**	1,723
Total		**197,049**	225,818

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6 Operating expenses (Continued)

(1) Staff costs

	Year ended 31 December	
	2016	2015
Short-term employee benefits		
Salaries, bonuses, allowance and subsidies	**70,770**	67,513
Housing funds	**8,638**	8,851
Social insurance	**5,016**	4,956
Including: Medical insurance	**4,524**	4,317
Maternity insurance	**312**	352
Employment injury insurance	**180**	287
Labor union fees and staff education expenses	**2,625**	3,026
Others	**9,424**	9,458
Subtotal	**96,473**	93,804
Defined contribution benefits	**15,304**	15,151
Early retirement benefits	**(241)**	1,394
Total	**111,536**	110,349

(2) Included in general operating and administrative expenses is auditor's remuneration of RMB141 million for the year (2015: RMB139 million).

(3) Business tax for the Group's Domestic Operations was generally calculated at 5% of taxable income, which was declared and paid to the local tax department by Domestic Operations prior to the VAT Program.

In accordance with the "Circular regarding the Extension of Value-added Taxes and Business Tax Policies" (Cai Shui [2016] No. 83), jointly issued by the MOF and SAT on 25 July 2016, business tax of the Group's county-level sub-branches for the pilot program would be levied at 3% on interest income from agriculture-related loans from 1 January 2016 to 30 April 2016.

From 1 May 2016, most of the Group's operating income is subject to VAT. Please refer to Note II 6 Taxation to the consolidated financial statements for details.

City construction and maintenance tax is calculated at 1% – 7% of business tax and VAT for the Group's Domestic Operations.

Education surcharge is calculated at 3% – 5% of business tax and VAT for the Group's Domestic Operations.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Benefits and interests of directors, supervisors and senior management

(1) Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB):

		Year ended 31 December 2016				
Item		Fees	Basic salaries and allowance	Contribution to retirement benefit schemes	Other benefits in kind (xvii)	Total
Executive Directors						
Zhou Mubing	(i)	–	283	50	35	368
Zhao Huan	(ii) (iii)	–	484	101	58	643
Lou Wenlong	(iii)	–	436	97	58	591
Independent Non-Executive Directors						
Wen Tiejun		410	–	–	–	410
Francis Yuen Tin-fan		380	–	–	–	380
Xiao Xing		369	–	–	–	369
Lu Jianping	(iv)	–	–	–	–	–
Wang Xinxin	(v)	211	–	–	–	211
Non-Executive Directors						
Zhao Chao	(vi)	–	–	–	–	–
Zhou Ke	(vi)	–	–	–	–	–
Zhang Dinglong	(vi)	–	–	–	–	–
Chen Jianbo	(vi)	–	–	–	–	–
Hu Xiaohui	(vi)	–	–	–	–	–
Xu Jiandong	(vi)	–	–	–	–	–

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Benefits and interests of directors, supervisors and senior management (Continued)

(1) Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB) (Continued):

		Year ended 31 December 2016				
Item		Fees	Basic salaries and allowance	Contribution to retirement benefit schemes	Other benefits in kind (xvii)	Total
Supervisors						
Yuan Changqing		–	484	100	58	642
Wang Xingchun	(vii)	–	–	–	–	–
Zheng Xin	(viii)	30	–	–	–	30
Xia Taili	(viii)	30	–	–	–	30
Liu Chengxu	(viii)(ix)	15	–	–	–	15
Xia Zongyu	(viii)(ix)	28	–	–	–	28
Li Wang		280	–	–	–	280
Lv Shuqin		280	–	–	–	280
Senior Management						
Gong Chao		–	436	97	58	591
Wang Wei		–	436	97	58	591
Guo Ningning	(x)	–	291	57	39	387
Kang Yi	(xi)	–	37	6	5	48
Zhang Keqiu		–	879	116	129	1,124
Executive Director resigned						
Liu Shiyu	(xii)	–	81	22	9	112
Cai Huaxiang	(xiii)	–	291	72	38	401
Independent Non-Executive Directors resigned						
Frederick Ma Si-hang	(xiv)	150	–	–	–	150
Senior Management resigned						
Li Zhenjiang	(xv)	–	109	30	14	153
Lin Xiaoxuan	(xvi)	–	436	97	58	591
Total		2,183	4,683	942	617	8,425

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Benefits and interests of directors, supervisors and senior management (Continued)

(1) Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB) (Continued):

(i) *Zhou Mubing was elected Chairman of the Board of Directors and Executive Director effective 1 July 2016.*

(ii) *Zhao Huan was elected President effective 4 March 2016, Executive Director and Vice Chairman of the Board of Directors effective 24 March 2016.*

(iii) *Zhao Huan and Lou Wenlong are also the Senior Management of the Group and their emoluments disclosed above include those for services rendered by them as the Senior Management for the year ended 31 December 2016.*

(iv) *Lu Jianping resigned as Independent Non-executive Director and from positions at relevant special committees of the Board of the Bank due to work arrangements in December 2015. Lu Jianping will continue to perform his duty as Independent Non-executive Director until the CBRC ratifies the eligibilities of the newly nominated Independent Non-executive Director to meet the requirements of relevant regulatory rules and the Articles of Association.*

(v) *Wang Xinxin was elected Independent Non-Executive Director effective 13 May 2016.*

(vi) *These Non-Executive Directors of the Bank did not receive any fees from the Bank. Their emoluments were borne by the major ordinary equity holders of the Bank. No apportionment had been made as the Directors considered that it was impracticable to apportion this amount between their services to the Group and their services to the ordinary equity holders of the Bank.*

(vii) *Wang Xingchun did not receive any emoluments for his part-time position as shareholder representative supervisor from the Bank in 2016.*

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Benefits and interests of directors, supervisors and senior management (Continued)

(1) Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB) (Continued):

(viii) *For Employee Representative Supervisors of the Bank, the amounts set forth above only included fees for their services as Supervisors.*

(ix) *Liu Chengxu and Xia Zongyu were elected Supervisor Representing Employees effective 5 July 2016.*

(x) *Guo Ningning was elected Executive Vice President effective 6 June 2016.*

(xi) *Kang Yi was elected Vice President effective 24 January 2017.*

(xii) *Liu Shiyu ceased to be Chairman of the Board of Directors and Executive Director effective 21 February 2016.*

(xiii) *Cai Huaxiang ceased to be Executive Vice President and Executive Director effective 14 September 2016.*

(xiv) *Frederick Ma Si-hang ceased to be Independent Non-Executive Director effective 13 May 2016.*

(xv) *Li Zhengjiang ceased to be Executive Vice President effective 3 March 2016.*

(xvi) *Lin Xiaoxuan ceased to be Executive Vice President effective 16 December 2016.*

(xvii) *Other benefits in kind include the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities.*

The total compensation packages for the above Executive Directors, Supervisors and Senior Management for the year ended 31 December 2016 have not yet been finalized in accordance with regulations of the relevant authorities in the PRC at the date of this report. The final compensation will be disclosed in a separate announcement when determined.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Benefits and interests of directors, supervisors and senior management (Continued)

(1) Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB) (Continued):

		Year ended 31 December 2015 (Restated)				
Item		Fees	Basic salaries and allowance	Contribution to retirement benefit schemes	Other benefits in kind (xxi)	Total
Executive Directors						
Liu Shiyu		–	605	128	58	791
Cai Huaxiang	(i)(ii)	–	544	115	58	717
Lou Wenlong	(ii)	–	544	115	58	717
Independent Non-Executive Directors						
Frederick Ma Si-hang		396	–	–	–	396
Wen Tiejun		399	–	–	–	399
Francis Yuen Tin-fan		376	–	–	–	376
Xiao Xing	(iii)	292	–	–	–	292
Lu Jianping	(iv)	–	–	–	–	–
Non-Executive Directors						
Zhao Chao	(v)	–	–	–	–	–
Zhou Ke	(v)	–	–	–	–	–
Zhang Dinglong	(v)(vi)	–	–	–	–	–
Chen Jianbo	(v)(vi)	–	–	–	–	–
Hu Xiaohui	(v)(vii)	–	–	–	–	–
Xu Jiandong	(v)(viii)	–	–	–	–	–
Supervisors						
Yuan Changqing	(ix)	–	353	70	35	458
Wang Xingchun	(x)	–	–	–	–	–
Zheng Xin	(xi)	30	–	–	–	30
Xia Zongyu	(xi)	30	–	–	–	30
Xia Taili	(xi)	30	–	–	–	30
Li Wang	(xii)	143	–	–	–	143
Lv Shuqin	(xii)	143	–	–	–	143

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Benefits and interests of directors, supervisors and senior management (Continued)

(1) Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB) (Continued):

		Year ended 31 December 2015 (Restated)				
Item		Fees	Basic salaries and allowance	Contribution to retirement benefit schemes	Other benefits in kind (xxi)	Total
Senior Management						
Gong Chao		–	544	115	58	717
Wang Wei		–	544	115	58	717
Li Zhenjiang		–	544	115	58	717
Lin Xiaoxuan	(xiii)	–	272	60	30	362
Zhang Keqiu	(xiv)	–	704	58	100	862
Executive Director resigned						
Zhang Yun	(xv)	–	605	119	58	782
Independent Non-Executive Directors resigned						
Anthony Wu Ting-yuk	(xvi)	157	–	–	–	157
Qiu Dong	(xvi)	164	–	–	–	164
Non-executive Directors resigned						
Shen Bingxi	(v)(xvii)	–	–	–	–	–
Cheng Fengchao	(v)(xvii)	–	–	–	–	–
Xiao Shusheng	(v)(xvii)	–	–	–	–	–
Supervisors resigned						
Che Yingxin	(xviii)	–	202	38	18	258
Jia Xiangsen	(xix)	25	–	–	–	25
Dai Genyou	(xii)	138	–	–	–	138
Senior Management resigned						
Zhu Gaoming	(xx)	–	588	41	58	687
Total		2,323	6,049	1,089	647	10,108

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Benefits and interests of directors, supervisors and senior management (Continued)

(1) Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB) (Continued):

(i) *Cai Huaxiang was elected Executive Director effective 7 September 2015.*

(ii) *Cai Huaxiang and Lou Wenlong were also the Senior Management of the Group and their emoluments disclosed above included those for services rendered by them as the Senior Management for the year ended 31 December 2015.*

(iii) *Xiao Xing was elected Independent Non-Executive Director effective 6 March 2015.*

(iv) *Lu Jianping was elected Independent Non-Executive Director effective 5 June 2015.*

(v) *These Non-Executive Directors of the Bank did not receive any fees from the Bank. Their emoluments were borne by the major ordinary equity holders of the Bank. No apportionment had been made as the Directors considered that it was impracticable to apportion this amount between their services to the Group and their services to the ordinary equity holders of the Bank.*

(vi) *Zhang Dinglong and Chen Jianbo were elected Non-Executive Directors effective 15 January 2015.*

(vii) *Hu Xiaohui was elected Non-Executive Director effective 14 January 2015.*

(viii) *Xu Jiandong was elected Non-Executive Director effective 28 February 2015.*

(ix) *Yuan Changqing was elected Chairman of the Board of Supervisors effective 29 June 2015.*

(x) *Wang Xingchun did not receive any emoluments for his part-time position as shareholder representative supervisor from the Bank in 2015.*

(xi) *For Employee Representative Supervisors of the Bank, the amounts set forth above only included fees for their services as supervisors.*

(xii) *Li Wang and Lv Shuqin were elected External Supervisors effective 29 June 2015, and Dai Genyou ceased to be External Supervisor effective 29 June 2015.*

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Benefits and interests of directors, supervisors and senior management (Continued)

(1) Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB) (Continued):

(xiii) Lin Xiaoxuan was elected Executive Vice President effective 7 September 2015.

(xiv) Zhang Keqiu was elected Secretary to the Board of Directors effective 24 June 2015.

(xv) Zhang Yun ceased to be Executive Director and President effective 4 December 2015.

(xvi) Anthony Wu Ting-yuk and Qiu Dong ceased to be Independent Non-Executive Directors effective 5 June 2015.

(xvii) Shen Bingxi, Cheng Fengchao and Xiao Shusheng ceased to be Non-Executive Directors effective 16 January 2015.

(xviii) Che Yingxin ceased to be Chairman of the Board of Supervisors effective 28 April 2015.

(xix) Jia Xiangsen ceased to be Supervisor Representing Employees effective 26 October 2015.

(xx) Zhu Gaoming ceased to be Secretary to the Board of Directors effective 5 May 2015.

(xxi) Other benefits in kind include the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities.

As of the announcement date of 2015 consolidated financial statements, the above compensation packages for the Directors, Supervisors and Senior Management for the year ended 31 December 2015 were not finalized and the amount of remuneration of Directors, Supervisors and Senior Management recognized and disclosed in the consolidated income statement for the year ended 31 December 2015 was RMB8.00 million. Supplementary announcement on final compensation of RMB10.11 million was released by the Bank on 26 August 2016 and the comparative figures for the year ended 31 December 2015 have been restated accordingly.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Benefits and interests of directors, supervisors and senior management (Continued)

(2) Five individuals with the highest emoluments in the Group

(i) Of the five individuals with the highest emoluments, none of them are directors or supervisors whose emoluments are disclosed above. The emoluments of the five individuals whose emoluments were the highest in the Group for the year ended 31 December 2016 and 31 December 2015 were as follows (in thousands of RMB):

	Year ended 31 December	
	2016	2015
Basic salaries and allowance	**11,158**	10,075
Discretionary bonuses	**9,352**	8,271
Contribution to retirement benefit schemes and other	**998**	1,091
Total	**21,508**	19,437

(ii) The number of these five individuals whose emoluments fell within the following bands are as follows:

	Year ended 31 December	
	2016	2015
RMB3,500,001 to RMB4,000,000 yuan	**–**	4
RMB4,000,001 to RMB4,500,000 yuan	**4**	1
RMB4,500,001 to RMB5,000,000 yuan	**1**	–

For the years ended 31 December 2016 and 31 December 2015, no emolument was paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office. For the years ended 31 December 2016 and 31 December 2015, none of the five highest paid individuals waived any emolument.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Benefits and interests of directors, supervisors and senior management (Continued)

(3) *Other benefits and interests of Directors and Supervisors pursuant to the New Hong Kong Companies Ordinance (Cap. 622)*

For the year ended 31 December 2016 and 31 December 2015, no emolument was paid by the Group to any of the Directors and Supervisors as an inducement to join or upon joining the Group or as a compensation for loss of office. Except for the Annuity Scheme and Pension Scheme (Note II 7 Employee Benefits), there were no other retirement benefits for Directors or Supervisors, or consideration provided to third parties for making available Directors' or Supervisors' services; and none of the Directors or Supervisors waived any emolument, or had material interests, whether directly or indirectly, in any material transactions, arrangements or contracts in relation to the Group's business for the years ended 31 December 2016 and 31 December 2015.

The Group enters into credit transactions with the Directors, Supervisors or certain controlled body corporates and connected entities of the Directors or Supervisors at arm's length in the ordinary course of business. For the years ended 31 December 2016 and 31 December 2015 and as at 31 December 2016 and 2015, the respective balances of loans and advances from the Group to Directors, Supervisors or certain controlled body corporates and connected entities of the Directors or Supervisors were not significant; the Group did not provide any guarantee or security to the Directors, Supervisors or certain controlled body corporates and connected entities of the Directors or Supervisors in respect of their loans, quasi-loans or credit transactions.

8 Impairment losses on assets

	Year ended 31 December	
	2016	2015
Loans and advances to customers	**78,928**	81,897
Debt instruments classified as receivables	**2,603**	841
Held-to-maturity investments	**2,213**	925
Placements with and loans to banks and other financial institutions	**1,370**	(167)
Available-for-sale financial assets	**403**	78
Property and equipment	**1**	–
Other	**928**	598
Total	**86,446**	84,172

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9 Income tax expense

	Year ended 31 December	
	2016	2015
Current income tax		
– PRC Enterprise Income Tax	**37,104**	58,661
– Hong Kong Profits Tax	**400**	410
– Other jurisdictions	**368**	301
Subtotal	**37,872**	59,372
Deferred tax (Note IV 26)	**4,692**	(9,289)
Total	**42,564**	50,083

PRC Enterprise Income Tax is calculated at 25% of the estimated taxable profit for both years, and also includes supplementary PRC tax on Overseas Operations as determined in accordance with the relevant PRC income tax rules and regulations. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions. Pre-tax deduction items of enterprise income tax are governed by the relevant tax regulations in the PRC.

The tax charges for the years ended 31 December 2016 and 31 December 2015 can be reconciled to the profit per the consolidated income statement as follows:

		Year ended 31 December	
		2016	2015
Profit before tax		**226,624**	230,857
Tax calculated at applicable PRC statutory tax rate of 25%		**56,656**	57,714
Tax effect of income not taxable for tax purpose	(1)	**(14,528)**	(8,962)
Tax effect of items such as expenses not deductible for tax purpose		**490**	1,361
Effect of different tax rates in other jurisdictions		**(54)**	(30)
Income tax expense		**42,564**	50,083

(1) Non-taxable income primarily includes interest income from PRC treasury bonds and municipal government bonds.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10 Dividends

		Year ended 31 December	
		2016	2015
Dividends on ordinary shares declared and paid			
Cash dividend related to 2015	(1)	**54,176**	–
Cash dividend related to 2014	(2)	**–**	59,113
		54,176	59,113
Dividends on preference shares declared and paid			
Cash dividend related to the preference shares	(4)	**4,600**	2,400

(1) *Distribution of final dividend for 2015*

A cash dividend of RMB0.1668 per ordinary share related to 2015, amounting to RMB54,176 million in total was approved, after the required appropriations for the statutory surplus reserve and the general reserve for 2015 as determined in accordance with the relevant accounting rules and financial regulations applicable to PRC enterprises (the "PRC GAAP"), at the annual general meeting held on 27 June 2016.

The above dividend was recognized as distribution and distributed during the year ended 31 December 2016.

(2) *Distribution of final dividend for 2014*

A cash dividend of RMB0.182 per ordinary share related to 2014, amounting to RMB59,113 million in total was approved, after the required appropriations for the statutory surplus reserve and the general reserve for 2014 as determined in accordance with the relevant accounting rules and financial regulations applicable to PRC enterprises (the "PRC GAAP"), at the annual general meeting held on 29 June 2015.

The above dividend was recognized as distribution and distributed during the year ended 31 December 2015.

(3) *A final dividend of RMB0.17 per ordinary share in respect of the year ended 31 December 2016 totaling RMB55,215 million has been proposed by the directors and is subject to approval by the ordinary equity holders in the annual general meeting.*

(4) *Distribution of dividend on preference shares for 2016*

A cash dividend at the dividend rate of 5.5% per annum related to the second tranche of preference shares amounting to RMB2,200 million in total was approved at the Board of Directors' Meeting held on 21 January 2016 and distributed on 11 March 2016.

A cash dividend at the dividend rate of 6% per annum related to the first tranche of preference shares amounting to RMB2,400 million in total was approved at the Board of Directors' Meeting held on 28 October 2016 and distributed on 7 November 2016.

(5) *Distribution of dividend on preference shares for 2015*

A cash dividend at the dividend rate of 6% per annum related to the first tranche of preference shares amounting to RMB2,400 million in total was approved at the Board of Directors' Meeting held on 23 October 2015 and distributed on 5 November 2015.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11 Earnings per share

	Year ended 31 December	
	2016	2015
Earnings:		
Profit for the year attributable to equity holders of the Bank	**183,941**	180,582
Less: profit for the year attributable to preference shareholders of the Bank	**(4,600)**	(2,400)
Profit for the year attributable to ordinary equity holders of the Bank	**179,341**	178,182
Number of shares:		
Weighted average number of ordinary shares in issue (million)	**324,794**	324,794
Basic and diluted earnings per share (RMB yuan)	**0.55**	0.55

For the purpose of calculating basic earnings per share, cash dividends of RMB4,600 million of non-cumulative preference shares declared in respect of the year of 2016 was deducted from the amounts attributable to ordinary equity holders of the Bank.

The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur for the years ended 31 December 2016 and 31 December 2015, therefore the conversion feature of preference shares has no dilutive effect on earnings per share calculation.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12 Cash and balances with central banks

		As at 31 December	
		2016	2015
Cash		**111,607**	116,390
Mandatory reserve deposits with central banks	(1)	**2,437,536**	2,216,082
Surplus reserve deposits with central banks	(2)	**111,753**	58,656
Other deposits with central banks	(3)	**150,757**	195,929
Total		**2,811,653**	2,587,057

(1) The Group places mandatory reserve deposits with the PBOC and overseas regulatory bodies. These include RMB reserve deposits and foreign currency reserve deposits. These mandatory reserve deposits are not available for the Group's daily operations.

Effective from 25 March 2016, for Domestic Operations of the Bank which meet the requirements of "Notice on Performance Appraisal Results Of the Sannong Banking Operations of Agricultural Bank of China Limited for 2016 issued by the People's Bank of China" (Yinbanfa [2016] No. 77), RMB mandatory reserve deposits with the PBOC are based on 14.5% of qualified RMB deposits (31 December 2015: 15%). For the remaining Domestic Operations of the Bank, RMB mandatory reserve deposits are based on 16.5% of qualified RMB deposits (31 December 2015: 17%). For the overseas participating banks with eligible RMB deposits, RMB mandatory reserve deposits are based on 16.5% of qualified RMB deposits (31 December 2015: 0%). Foreign currency mandatory reserve deposits are based on 5% (31 December 2015: 5%) of qualified foreign currency deposits from customers. Mandatory reserve deposits placed by the Bank's Overseas Operations are determined based on respective overseas regulatory requirements. The foreign currency reserve deposits placed with the PBOC are non-interest bearing.

(2) Surplus reserve deposits primarily represent deposits maintained with the PBOC in addition to the mandatory reserve deposits and mainly for the purpose of clearing.

(3) Other deposits with central banks primarily represent fiscal deposits and foreign exchange reserve placed with the PBOC that are not available for use in the Group's daily operations. These fiscal deposits are non-interest bearing, and the interest rate of foreign exchange reserve is tentatively set at zero. The foreign exchange reserve is maintained with the PBOC in accordance with the related Notice issued by the PBOC on 31 August 2015. The reserve is payable on a monthly basis at 20% of the total contract amount of customers driven forward transactions in the previous month. Such foreign exchange reserve will be repayable in 12 months according to the Notice.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13 Deposits with banks and other financial institutions

	As at 31 December	
	2016	2015
Deposits with:		
Domestic banks	**583,545**	656,601
Other domestic financial institutions	**6,471**	2,748
Overseas banks	**32,976**	38,581
Gross amount	**622,992**	697,930
Allowance for impairment losses – collectively assessed	**(327)**	(7)
Deposits with Banks and other financial institutions, net	**622,665**	697,923

As at 31 December 2016, the carrying amount of deposits with banks and other financial institutions which have been pledged as security was RMB6,526 million (31 December 2015: RMB3,240 million). These deposits were mainly security deposits pledged with clearing house and exchanges.

14 Placements with and loans to banks and other financial institutions

	As at 31 December	
	2016	2015
Placements with and loans to:		
Domestic banks	**222,526**	129,493
Other domestic financial institutions	**322,216**	324,620
Overseas banks	**39,239**	51,743
Gross amount	**583,981**	505,856
Allowance for impairment losses – collectively assessed	**(3,032)**	(1,604)
Placements with and loans to banks and other financial institutions, net	**580,949**	504,252

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 Financial assets held for trading

		As at 31 December	
		2016	2015
Debt securities issued by:			
Governments		**3,290**	4,464
Public sector and quasi-governments		**44,554**	23,754
Financial institutions		**46,944**	26,793
Corporates		**13,307**	10,039
Subtotal		**108,095**	65,050
Precious metal contracts		**15,523**	14,732
Total		**123,618**	79,782
Analyzed as:			
Listed in Hong Kong		**185**	–
Listed outside Hong Kong	(1)	**107,910**	65,050
Unlisted		**15,523**	14,732
Total		**123,618**	79,782

(1) Debt securities traded on the China Domestic Inter-bank Bond Market are included in "Listed outside Hong Kong".

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Financial assets designated at fair value through profit or loss

		As at 31 December	
		2016	2015
Debt securities issued by:			
Governments		**17,610**	17,733
Public sector and quasi-governments		**55,230**	78,129
Financial institutions		**63,045**	23,383
Corporates		**35,358**	22,599
Subtotal		**171,243**	141,844
Deposits with banks and other financial institutions		**40,953**	164,572
Placements with and loans to banks and other financial institutions		**58,485**	5,529
Others	(1)	**23,656**	47,534
Total		**294,337**	359,479
Analyzed as:			
Listed in Hong Kong		**2,685**	1,871
Listed outside Hong Kong	(2)	**163,101**	111,267
Unlisted		**128,551**	246,341
Total		**294,337**	359,479

(1) Others mainly include credit assets, equity instruments and fund investments.

(2) Debt securities traded on the China Domestic Inter-bank Bond Market are included in "Listed outside Hong Kong".

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Derivative financial assets and liabilities

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

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

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. As at 31 December 2016 and 31 December 2015, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements are not material to the Group. According to relevant standards, the Group did not elect to offset these financial assets and financial liabilities on a net basis. The Group does not hold any other financial instruments, other than derivatives, that are subject to master netting arrangements or similar agreements.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Derivative financial assets and liabilities (Continued)

	31 December 2016		
	Contractual/ notional amount	Fair value	
		Assets	Liabilities
Exchange rate derivatives			
Currency forwards and swaps, and cross-currency interest rate swaps	**1,382,401**	**25,139**	**(18,410)**
Currency options	**119,352**	**68**	**(1,353)**
Subtotal		**25,207**	**(19,763)**
Interest rate derivatives			
Interest rate swaps	**258,523**	**1,061**	**(604)**
Precious metal contracts and others	**94,506**	**5,192**	**(391)**
Total derivative financial assets and liabilities		**31,460**	**(20,758)**

	31 December 2015		
	Contractual/ notional amount	Fair value	
		Assets	Liabilities
Exchange rate derivatives			
Currency forwards and swaps, and cross-currency interest rate swaps	1,307,952	13,737	(11,102)
Currency options	22,704	134	(92)
Subtotal		13,871	(11,194)
Interest rate derivatives			
Interest rate swaps	158,118	920	(961)
Precious metal contracts	32,049	1,247	(37)
Total derivative financial assets and liabilities		16,038	(12,192)

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Derivative financial assets and liabilities (Continued)

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 CBRC which was effective 1 January 2013 and is dependent on, among other factors, creditworthiness of customers and maturity characteristics of each type of contract. As at 31 December 2016 and 31 December 2015, the credit risk weighted amount for derivative transaction counterparty was measured under the Internal Ratings – Based approach.

	As at 31 December	
	2016	2015
Credit risk weighted amount for counterparty	**26,601**	19,364

18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	As at 31 December	
	2016	2015
Analyzed by collateral type:		
Debt securities	**303,120**	179,068
Bills	**19,931**	292,741
Total	**323,051**	471,809

The collateral received in connection with financial assets under resale agreement is disclosed in Note IV 47 Contingent Liabilities and Commitments – Collateral.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 Loans and advances to customers

Analysis of loans and advances to customers:

	As at 31 December	
	2016	2015
Corporate loans and advances		
Loans and advances	**5,803,277**	5,818,306
Discounted bills	**569,948**	356,995
Subtotal	**6,373,225**	6,175,301
Personal loans and advances	**3,346,414**	2,734,617
Gross loans and advances	**9,719,639**	8,909,918
Allowance for impairment losses		
Individually assessed	**(133,605)**	(133,900)
Collectively assessed	**(266,670)**	(269,343)
Total allowance for impairment losses	**(400,275)**	(403,243)
Loans and advances to customers, net	**9,319,364**	8,506,675

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 Loans and advances to customers (Continued)

Analysis of loans and advances to customers by collective and individual assessments:

	Loans and advances for which allowance is collectively assessed[(1)]	Identified impaired loans and advances [(2)]				
		For which allowance is collectively assessed	For which allowance is individually assessed	Subtotal	Total	Identified impaired gross loans and advances as a % of total gross loans and advances
31 December 2016						
Gross loans and advances	**9,488,805**	**37,986**	**192,848**	**230,834**	**9,719,639**	**2.37**
Allowance for impairment losses	**(237,671)**	**(28,999)**	**(133,605)**	**(162,604)**	**(400,275)**	
Loans and advances to customers, net	**9,251,134**	**8,987**	**59,243**	**68,230**	**9,319,364**	
31 December 2015						
Gross loans and advances	8,697,051	31,889	180,978	212,867	8,909,918	2.39
Allowance for impairment losses	(247,294)	(22,049)	(133,900)	(155,949)	(403,243)	
Loans and advances to customers, net	8,449,757	9,840	47,078	56,918	8,506,675	

(1) *Loans and advances for which allowance is collectively assessed consist of loans and advances which have not been specifically identified as impaired.*

(2) *Identified impaired loans and advances include loans for which objective evidence of impairment exists and which have been identified as bearing impairment losses, which are measured either individually (corporate loans and advances) or collectively (personal loans and advances).*

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 Loans and advances to customers (Continued)

Movements of the allowance for impairment losses on loans and advances to customers:

	Year ended 31 December 2016		
	Individually assessed allowance	**Collectively assessed allowance**	**Total**
1 January 2016	**133,900**	**269,343**	**403,243**
Impairment allowance on loans charged	**96,110**	**64,216**	**160,326**
Reversal of impairment allowance	**(21,941)**	**(59,457)**	**(81,398)**
Net additions	**74,169**	**4,759**	**78,928**
Write-offs and transfer out	**(73,949)**	**(8,797)**	**(82,746)**
Recovery of loans and advances written off in previous years	**925**	**1,421**	**2,346**
Unwinding of discount on allowance	**(1,730)**	**(479)**	**(2,209)**
Exchange difference	**290**	**423**	**713**
31 December 2016	**133,605**	**266,670**	**400,275**

	Year ended 31 December 2015		
	Individually assessed allowance	Collectively assessed allowance	Total
1 January 2015	73,094	284,977	358,071
Impairment allowance on loans charged	103,532	49,622	153,154
Reversal of impairment allowance	(8,447)	(62,810)	(71,257)
Net additions	95,085	(13,188)	81,897
Write-offs and transfer out	(33,921)	(7,408)	(41,329)
Recovery of loans and advances written off in previous years	805	425	1,230
Unwinding of discount on allowance	(1,302)	(463)	(1,765)
Transfer in	–	4,626	4,626
Exchange difference	139	374	513
31 December 2015	133,900	269,343	403,243

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Available-for-sale financial assets

		As at 31 December	
		2016	2015
Debt securities issued by:			
Governments		**464,613**	333,537
Public sector and quasi-governments		**383,861**	465,630
Financial institutions		**353,335**	176,548
Corporates		**188,869**	226,882
Subtotal		**1,390,678**	1,202,597
Fund investments	(1)	**7,015**	6,586
Equity instruments	(1)	**5,370**	5,359
Others		**5,818**	–
Total		**1,408,881**	1,214,542
Analyzed as:			
Debt securities			
Listed in Hong Kong		**68,431**	41,923
Listed outside Hong Kong	(2)	**1,260,325**	1,148,771
Unlisted		**61,922**	11,903
Equity instruments and fund investments and others			
Listed in Hong Kong		**2,354**	396
Listed outside Hong Kong		**9,169**	7,687
Unlisted	(3)	**6,680**	3,862
Total		**1,408,881**	1,214,542

(1) The Group's other available-for-sale financial assets primarily include assets management products invested by the Group. Fund investments and other are unconsolidated structured entities held by Group.

(2) Debt securities traded on the China Domestic Inter-bank Bond Market are included in "Listed outside Hong Kong".

(3) As at 31 December 2016, unlisted equity instruments of the Group amounted to RMB321 million was measured at cost because their fair value cannot be reliably measured (31 December 2015: RMB314 million).

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 Held-to-maturity investments

		As at 31 December	
		2016	2015
Debt securities issued by:			
Governments		**1,320,638**	852,367
Public sector and quasi-governments		**1,129,986**	1,061,581
Financial institutions		**263,950**	202,729
Corporates		**171,604**	185,967
Gross amount		**2,886,178**	2,302,644
Allowance for impairment losses – collectively assessed		**(4,026)**	(1,820)
Held-to-maturity investments, net		**2,882,152**	2,300,824
Analyzed as:			
Listed in Hong Kong		**3,518**	6,221
Listed outside Hong Kong	(1)	**2,868,782**	2,278,021
Unlisted		**9,852**	16,582
Total		**2,882,152**	2,300,824

(1) Debt securities traded on the China Domestic Inter-bank Bond Market are included in "Listed outside Hong Kong".

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Debt instruments classified as receivables

		As at 31 December	
		2016	2015
Receivable from the MOF	(1)	**272,023**	272,023
Special government bond	(2)	**93,300**	93,300
Government bonds		**120,618**	42,841
Public sector and quasi-government bonds		**29,997**	39,786
Financial institution bonds		**64,130**	57,339
Corporate bonds		**20,983**	32,514
Certificate treasury bonds and savings treasury bonds		**2,990**	2,929
Others	(3)	**25,160**	18,733
Gross amount		**629,201**	559,465
Allowance for impairment losses			
Individually assessed		**(3,516)**	(1,470)
Collectively assessed		**(1,138)**	(575)
Total allowance for impairment losses		**(4,654)**	(2,045)
Debt instruments classified as receivables, net		**624,547**	557,420
Analyzed as:			
Listed outside Hong Kong		**261,027**	107,228
Unlisted		**368,174**	452,237
Total		**629,201**	559,465

(1) Pursuant to the "Notice on Relevant Issues Concerning the Disposal of Non-performing Assets of Agricultural Bank of China" (Caijin [2008] No. 138) issued by the MOF, receivable from the MOF is to be settled annually over a tentative period of 15 years starting from 1 January 2008 and bears interest at the rate of 3.3% per annum.

(2) Special government bond refers to the non-transferable bond issued by the MOF in 1998 in the aggregate principal amount of RMB93.3 billion to the Predecessor Entity for capital replenishment. The bond will mature in 2028 and bears interest at a fixed rate of 2.25% per annum, starting from 1 December 2008.

(3) Other debt instruments classified as receivables are primarily related to investment in unconsolidated structured entities held by the Group.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 Investment in subsidiaries and structured entities

(1) Investment in subsidiaries

The following are the principal subsidiaries of the Group as at 31 December 2016:

Name of entity		Date of incorporation/ establishment	Place of incorporation/ establishment	Authorized/ paid-in capital	Percentage of equity interest (%)	Percentage of voting rights (%)	Principal activities
China Agricultural Finance Co., Ltd.		1 November 1988	Hong Kong, PRC	HKD588,790,000	100.00	100.00	Investment holding
ABC International Holdings Limited		11 November 2009	Hong Kong, PRC	HKD4,113,392,449	100.00	100.00	Investment holding
ABC Financial Leasing Co., Ltd.		29 September 2010	Shanghai, PRC	RMB3,000,000,000	100.00	100.00	Financial leasing
Agricultural Bank of China (UK) Limited		29 November 2011	London, United Kingdom	USD100,000,000	100.00	100.00	Banking
ABC-CA Fund Management Co., Ltd.		18 March 2008	Shanghai, PRC	RMB200,000,001	51.67	51.67	Fund management
ABC Hexigten Rural Bank Limited Liability Company		12 August 2008	Inner Mongolia, PRC	RMB19,600,000	51.02	51.02	Banking
ABC Hubei Hanchuan Rural Bank Limited Liability Company	(i)	12 August 2008	Hubei, PRC	RMB31,000,000	50.00	66.67	Banking
ABC Jixi Rural Bank Limited Liability Company		25 May 2010	Anhui, PRC	RMB29,400,000	51.02	51.02	Banking
ABC Ansai Rural Bank Limited Liability Company		30 March 2010	Shaanxi, PRC	RMB20,000,000	51.00	51.00	Banking
ABC Zhejiang Yongkang Rural Bank Limited Liability Company		20 April 2012	Zhejiang, PRC	RMB210,000,000	51.00	51.00	Banking
ABC Xiamen Tong'an Rural Bank Limited Liability Company		24 May 2012	Fujian, PRC	RMB100,000,000	51.00	51.00	Banking
ABC Life Insurance Co., Ltd.	(ii)	19 December 2005	Beijing, PRC	RMB2,949,916,475	51.00	51.00	Life insurance
Agricultural Bank of China (Luxembourg) Limited		26 November 2014	Luxembourg, Luxembourg	EUR20,000,000	100.00	100.00	Banking
Agricultural Bank of China (Moscow) Limited		23 December 2014	Moscow, Russia	RUB1,400,000,000	100.00	100.00	Banking

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 Investment in subsidiaries and structured entities (Continued)

(1) Investment in subsidiaries (Continued)

During the year ended 31 December 2016, there were no changes in the proportion of equity interest or voting rights the Group held in its subsidiaries.

(i) Two of the three directors on the board of ABC Hubei Hanchuan Rural Bank Limited Liability Company were appointed by the Bank. The Bank concluded that it has effective control over this entity and has included it in its consolidation scope.

(ii) On 31 December 2012, the Bank acquired 51% of the issued share capital of Jiahe Life Insurance Co., Ltd. and renamed it as ABC Life Insurance Co., Ltd. ("ABC Life Insurance") and the Group recognized goodwill of RMB1,381 million as a result of this acquisition.

During the year ended 31 December 2016, the Group and other investors contributed additional capital totally RMB3,761 million to ABC Life Insurance, including registered capital of RMB917 million and capital reserve of RMB2,844 million. After the capital injection, the proportion of equity interest and voting rights the Group held in ABC Life Insurance remained at 51%. Contribution by non-controlling interest amounted to RMB1,843 million.

As at 31 December 2016, there was no objective evidence noted for any goodwill impairment.

For the year ended 31 December 2016, there was no restriction on the Group's ability to access or use its assets and settle its liabilities.

(2) Structured entities

The Group also consolidated structured entities as disclosed in Note IV 46 Structured Entities.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24 Investment in associate

	31 December 2016	31 December 2015
Investment in associate	**213**	273

On 28 May 2015, the Sino-Congolese Bank of Africa (La Banque Sino-Congolaise pour l'Afrique, herein referred to as BSCA.Bank), established by the Bank and other investors with authorized capital denominated in Central African CFA franc ("XAF"), was granted the required banking license by the local regulatory authority. The Bank holds 50% equity interest and voting rights in BSCA.Bank, and has the right to participate in the financial and operating policy decisions of BSCA.Bank, but does not constitute control or joint control over those policy decisions.

25 Property and equipment

	Buildings	Electronic equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
Cost					
1 January 2016	155,284	62,547	4,586	20,833	243,250
Additions	1,691	6,973	3,843	8,310	20,817
Transfers	6,824	286	1	(7,111)	–
Disposals	(941)	(5,603)	(121)	(1)	(6,666)
31 December 2016	162,858	64,203	8,309	22,031	257,401
Accumulated depreciation					
1 January 2016	(46,618)	(37,278)	(2,858)	–	(86,754)
Charge for the year	(7,934)	(7,953)	(377)	–	(16,264)
Eliminated on disposals	520	3,973	107	–	4,600
31 December 2016	(54,032)	(41,258)	(3,128)	–	(98,418)
Allowance for impairment losses					
1 January 2016	(299)	(9)	(2)	(8)	(318)
Impairment loss	(1)	–	–	–	(1)
Eliminated on disposals	4	1	–	–	5
31 December 2016	(296)	(8)	(2)	(8)	(314)
Carrying value					
31 December 2016	108,530	22,937	5,179	22,023	158,669
1 January 2016	108,367	25,260	1,726	20,825	156,178

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25 Property and equipment (Continued)

	Buildings	Electronic equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
Cost					
1 January 2015	142,795	56,048	4,814	23,885	227,542
Additions	2,686	7,963	8	8,008	18,665
Transfers	10,210	364	–	(10,574)	–
Disposals	(407)	(1,828)	(236)	(486)	(2,957)
31 December 2015	155,284	62,547	4,586	20,833	243,250
Accumulated depreciation					
1 January 2015	(38,733)	(30,788)	(2,753)	–	(72,274)
Charge for the year	(8,129)	(8,285)	(329)	–	(16,743)
Eliminated on disposals	244	1,795	224	–	2,263
31 December 2015	(46,618)	(37,278)	(2,858)	–	(86,754)
Allowance for impairment losses					
1 January 2015	(299)	(9)	(2)	(8)	(318)
Impairment loss	–	–	–	–	–
Eliminated on disposals	–	–	–	–	–
31 December 2015	(299)	(9)	(2)	(8)	(318)
Carrying value					
31 December 2015	108,367	25,260	1,726	20,825	156,178
1 January 2015	103,763	25,251	2,059	23,877	154,950

According to the relevant laws and regulations, subsequent to the Bank's transformation into a joint stock company, the legal title of properties previously held by the Predecessor Entity are to be transferred to the Bank. As at 31 December 2016, the registration transfer process of certain properties has not been completed. Management believes that the incomplete registration transfer process does not affect the rights of the Bank as the legal successor to those assets.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26 Deferred taxation

For the purpose of presentation in the consolidated statement 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 fiscal authority. The following is the analysis of the deferred tax balances:

	As at 31 December	
	2016	2015
Deferred tax assets	**83,187**	81,548
Deferred tax liabilities	**(58)**	(111)
Net	**83,129**	81,437

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

	Allowance for impairment losses	**Staff cost accrued but not paid**	**Early retirement benefits**	**Provision**	**Fair value changes of financial instruments, net**	**Others**	**Total**
1 January 2016	**77,185**	**6,441**	**1,931**	**4,421**	**(8,607)**	**66**	**81,437**
(Charge)/credit to the consolidated income statement	**(1,254)**	**377**	**(600)**	**(1,023)**	**(2,190)**	**(2)**	**(4,692)**
Credit to other comprehensive income	**–**	**–**	**–**	**–**	**6,384**	**–**	**6,384**
31 December 2016	**75,931**	**6,818**	**1,331**	**3,398**	**(4,413)**	**64**	**83,129**

	Allowance for impairment losses	Staff cost accrued but not paid	Early retirement benefits	Provision	Fair value changes of financial instruments, net	Others	Total
1 January 2015	67,514	6,248	2,235	3,476	(900)	24	78,597
Credit/(charge) to the consolidated income statement	9,671	193	(304)	945	(1,258)	42	9,289
Charge to other comprehensive income	–	–	–	–	(6,449)	–	(6,449)
31 December 2015	77,185	6,441	1,931	4,421	(8,607)	66	81,437

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26 Deferred taxation (Continued)

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

	31 December 2016		31 December 2015	
	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)
Deferred tax assets				
Allowance for impairment losses	**303,723**	**75,931**	308,741	77,185
Staff cost accrued but not paid	**27,270**	**6,818**	25,765	6,441
Fair value changes of financial instruments	**24,340**	**6,085**	15,703	3,926
Provision	**13,590**	**3,398**	17,682	4,421
Early retirement benefits	**5,325**	**1,331**	7,724	1,931
Others	**359**	**88**	392	97
Subtotal	**374,607**	**93,651**	376,007	94,001
Deferred tax liabilities				
Fair value changes of financial instruments	**(41,992)**	**(10,498)**	(50,130)	(12,533)
Others	**(98)**	**(24)**	(125)	(31)
Subtotal	**(42,090)**	**(10,522)**	(50,255)	(12,564)
Net	**332,517**	**83,129**	325,752	81,437

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27 Other assets

		As at 31 December	
		2016	2015
Interest receivable		**110,370**	104,775
Land use rights	(1)	**22,418**	23,036
Accounts receivable and temporary payments	(2)	**78,998**	44,576
Premiums receivable and reinsurance assets		**16,670**	27,001
Investment property		**3,213**	2,997
Long-term deferred expenses		**3,103**	3,587
Intangible assets		**2,848**	2,740
Foreclosed assets		**1,945**	1,699
Value-added tax receivable		**1,430**	–
Others		**3,834**	4,892
Total		**244,829**	215,303

(1) *According to the relevant laws and regulations, subsequent to the Bank's transformation into a joint stock company, land use rights previously held by the Predecessor Entity are to be transferred to the Bank. As at 31 December 2016, the registration transfer process of certain land use rights has not been completed. Management believes that the incomplete registration transfer process does not affect the rights of the Bank as the legal successor to those land use rights.*

(2) *Accounts receivable and temporary payments primarily include items in the process of clearing and settlement.*

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

28 Borrowings from central bank

As at 31 December 2016, borrowings from central bank mainly included Medium-term Lending Facilities from PBOC amounting to RMB289,000 million (31 December 2015: RMB58,600 million).

29 Deposits from banks and other financial institutions

	As at 31 December	
	2016	2015
Deposits from:		
Domestic banks	**178,354**	116,519
Other domestic financial institutions	**947,210**	1,091,258
Overseas banks	**5,220**	9,514
Other overseas financial institutions	**25,260**	4,610
Total	**1,156,044**	1,221,901

30 Placements from banks and other financial institutions

	As at 31 December	
	2016	2015
Placements from:		
Domestic banks and other financial institutions	**123,108**	145,255
Overseas banks and other financial institutions	**178,913**	170,504
Total	**302,021**	315,759

31 Financial liabilities held for trading

The financial liabilities held for trading are liabilities related to precious metal contracts.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32 Financial liabilities designated at fair value through profit or loss

	As at 31 December	
	2016	2015
Principal guaranteed wealth management products	**283,666**	406,407

The Group designates wealth management products with principal guaranteed by the Group as financial liabilities at fair value through profit or loss. The corresponding investments are designated as financial assets at fair value through profit or loss. As at 31 December 2016 and 31 December 2015, the difference between the fair value of these products issued by the Group and the contractual amount payable to the holders of these products upon maturity was not material.

For the current and prior year, there were no significant changes in the fair value of the Group's financial liabilities designated at fair value through profit or loss attributable to the changes in the Group's own credit risk.

33 Financial assets sold under repurchase agreements

	As at 31 December	
	2016	2015
Analyzed by type of collateral:		
Debt securities	**205,022**	88,333
Bills	**810**	471
Total	**205,832**	88,804

The collateral pledged under repurchase agreement is disclosed in Note IV 47 Contingent Liabilities and Commitments – Collateral.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34 Due to customers

		As at 31 December	
		2016	2015
Demand deposits			
Corporate customers		**3,902,828**	3,229,703
Individual customers		**4,536,249**	3,898,806
Time deposits			
Corporate customers		**1,778,060**	1,662,658
Individual customers		**4,286,428**	4,174,684
Pledged deposits	(1)	**338,065**	319,757
Others		**196,371**	252,752
Total		**15,038,001**	13,538,360

(1) Analyzed by activity to which pledged deposits are related to:

	As at 31 December	
	2016	2015
Guarantee and letters of guarantee	**100,896**	66,093
Bank acceptance	**86,167**	113,421
Trade finance	**75,375**	77,903
Letters of credit	**30,118**	16,739
Others	**45,509**	45,601
Total	**338,065**	319,757

35 Debt securities issued

		As at 31 December	
		2016	2015
Bonds issued	(1)	**202,107**	198,476
Certificates of deposit issued	(2)	**147,245**	165,508
Commercial papers issued	(3)	**28,711**	11,586
Interbank certificates of deposit issued	(4)	**10,152**	7,172
Total		**388,215**	382,742

As at 31 December 2016 and 31 December 2015, there was no default related to any debt securities issued by the Group.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Debt securities issued (Continued)

(1) The carrying value of the Group's bonds issued are as follows:

		As at 31 December	
		2016	2015
4.15% RMB fixed rate Green Bonds maturing in October 2017	(i)	**600**	600
2.125% USD fixed rate Green Bonds maturing in October 2018	(ii)	**2,775**	2,597
2.75% USD fixed rate Green Bonds maturing in October 2020	(iii)	**3,468**	3,247
Medium term notes issued	(iv)	**40,383**	37,164
4.0% subordinated fixed rate bonds maturing in May 2024	(v)	**25,000**	25,000
5.3% subordinated fixed rate bonds maturing in June 2026	(vi)	**50,000**	50,000
4.99% subordinated fixed rate bonds maturing in December 2027	(vii)	**50,000**	50,000
5.8% Tier-two capital fixed rate bonds maturing in August 2024	(viii)	**30,000**	30,000
Total nominal value		**202,226**	198,608
Less: Unamortized issuance cost and discounts		**(119)**	(132)
Carrying value		**202,107**	198,476

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Debt securities issued (Continued)

(1) The carrying value of the Group's bonds issued are as follows: (Continued)

Pursuant to the approval by relevant regulatory authorities, the bonds issued by the Group are set out as below:

(i) The RMB green bonds issued in London in October 2015 have a tenor of 2 years, with a fixed coupon rate 4.15%, payable semi-annually.

(ii) The USD green bonds issued in London in October 2015 have a tenor of 3 years, with a fixed coupon rate 2.125%, payable semi-annually.

(iii) The USD green bonds issued in London in October 2015 have a tenor of 5 years, with a fixed coupon rate 2.75%, payable semi-annually.

(iv) The medium term notes ("MTN") were issued by the Overseas Operations of the Group and are measured at amortized cost. The details of medium term notes issued were as follows:

	As at 31 December 2016		
	Maturity dates ranging from	Coupon rates (%)	Outstanding balance
Fixed rate USD MTNs	October 2017 to June 2021	1.875-2.875	26,769
Fixed rate RMB MTNs	May 2017 to August 2019	3.35-3.80	3,350
Floating rate USD MTNs	March 2017 to September 2019	3-month USD LIBOR plus 0.75 to 1.33	9,781
Fixed rate EUR MTNs	March 2017	0.48	365
Zero coupon USD MTN	February 2017	–	118
Total			**40,383**

	As at 31 December 2015		
	Maturity dates ranging from	Coupon rates (%)	Outstanding balance
Fixed rate USD MTNs	January 2016 to May 2020	0.5-2.875	27,055
Fixed rate RMB MTNs	May 2016 to August 2019	3.23-3.80	6,091
Floating rate USD MTNs	September 2016 to May 2018	3-month USD LIBOR plus 0.43 to 1.33	2,500
Fixed rate EUR MTNs	March 2016 to March 2017	0.31-0.48	497
Fixed rate HKD MTNs	March 2016 to June 2016	1.0-1.15	413
Fixed rate JPY MTN	March 2016	0.21	108
Zero coupon RMB MTN	February 2016	–	500
Total			37,164

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Debt securities issued (Continued)

(1) The carrying value of the Group's bonds issued are as follows: (Continued)

(v) The subordinated fixed rate bonds issued in May 2009 have a tenor of 15 years, with a fixed coupon rate of 4.0%, payable annually. The Bank has an option to redeem all of the bonds at face value on 20 May 2019. If the Bank did not exercise this option, the coupon rate of the bonds will increase to 7.0% per annum from 20 May 2019 onwards.

(vi) The subordinated fixed rate bonds issued in June 2011 have a tenor of 15 years, with a fixed coupon rate of 5.3%, payable annually. The Bank has an option to redeem all of the bonds at face value on 7 June 2021. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 5.3% per annum from 7 June 2021 onwards.

(vii) The subordinated fixed rate bonds issued in December 2012 have a tenor of 15 years, with a fixed coupon rate of 4.99%, payable annually. The Bank has an option to redeem all of the bonds at face value on 20 December 2022. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.99% per annum from 20 December 2022 onwards.

(viii) The Tier-two capital bonds issued in August 2014 have a tenor of 10 years, with a fixed coupon rate of 5.8% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 17 August 2019 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 5.8% per annum from 18 August 2019 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument, which allows the Bank to write down the entire principal of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable, and; they are qualified as Tier-two Capital Instruments in accordance with the CBRC requirements.

(2) As at 31 December 2016, the certificates of deposit were issued by the Overseas Operations of the Group and were measured at amortized cost. The terms of the certificates of deposit range from one month to seven years, with interest rates ranging from 0% to 5.8%. As at 31 December 2015, the terms ranged from seven days to seven years with interest rates ranging from 0% to 4.5%.

(3) As at 31 December 2016, the commercial papers were issued by the Overseas Operations of the Group and were measured at amortized cost. The terms of the commercial papers range from one month to two years, with interest rates ranging from 0.03% to 6.4%. As at 31 December 2015, the terms ranged from seven days to one year, with interest rates ranging from 0% to 1.05%.

(4) As at 31 December 2016, the interbank certificates of deposit were issued by the Bank's Head Office. The terms of the interbank certificates of deposit range from one month to two years, with interest rates ranging from 2.68% to 4.39%. As at 31 December 2015, the terms ranged from three months to two year with interest rates ranging from 0% to 3.32%.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Other liabilities

		As at 31 December	
		2016	2015
Interest payable		**229,115**	225,383
Clearing and settlement		**87,993**	69,419
Insurance liabilities		**75,728**	69,589
Staff costs payable	(1)	**39,902**	39,890
Amount payable to the MOF	(2)	**26,293**	7,330
Income taxes payable		**16,356**	38,097
Provision		**13,590**	17,682
VAT and other taxes payable		**5,222**	7,117
Dormant accounts		**1,782**	1,576
Others		**49,338**	52,514
Total		**545,319**	528,597

(1) Staff costs payable

		As at 31 December	
		2016	2015
Short-term employee benefits	(i)	**33,956**	31,721
Defined contribution benefits	(ii)	**621**	445
Early retirement benefits	(iii)	**5,325**	7,724
Total		**39,902**	39,890

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Other liabilities (Continued)

(1) Staff costs payable (Continued)

(i) Short-term employee benefits

		2016			
		1 January	**Accrued**	**Paid**	**31 December**
Salaries, bonuses, allowance and subsidies	(a)	**23,773**	**70,770**	**(69,019)**	**25,524**
Housing funds	(a)	**178**	**8,638**	**(8,661)**	**155**
Social insurance including:	(a)	**124**	**5,016**	**(4,964)**	**176**
– Medical insurance		**107**	**4,524**	**(4,475)**	**156**
– Maternity insurance		**9**	**312**	**(305)**	**16**
– Employment injury insurance		**8**	**180**	**(184)**	**4**
Labor union fees and staff education expenses		**3,981**	**2,625**	**(2,188)**	**4,418**
Others		**3,665**	**9,424**	**(9,406)**	**3,683**
Total		**31,721**	**96,473**	**(94,238)**	**33,956**

		2015			
		1 January	Accrued	Paid	31 December
Salaries, bonuses, allowance and subsidies	(a)	24,228	67,513	(67,968)	23,773
Housing funds	(a)	183	8,851	(8,856)	178
Social insurance including:	(a)	178	4,956	(5,010)	124
– Medical insurance		154	4,317	(4,364)	107
– Maternity insurance		12	352	(355)	9
– Employment injury insurance		12	287	(291)	8
Labor union fees and staff education expenses		3,183	3,026	(2,228)	3,981
Others		3,180	9,458	(8,973)	3,665
Total		30,952	93,804	(93,035)	31,721

(a) Salaries, bonuses, allowance and subsidies, housing funds and social insurance are timely distributed and paid in accordance with the relevant laws and regulations and the Group's policy.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Other liabilities (Continued)

(1) Staff costs payable (Continued)

(ii) Defined contribution benefits

	2016			
	1 January	Accrued	Paid	31 December
Basic pensions	**396**	**11,332**	**(11,272)**	**456**
Unemployment insurance	**44**	**545**	**(554)**	**35**
Annuity Scheme	**5**	**3,427**	**(3,302)**	**130**
Total	**445**	**15,304**	**(15,128)**	**621**

	2015			
	1 January	Accrued	Paid	31 December
Basic pensions	541	11,150	(11,295)	396
Unemployment insurance	66	721	(743)	44
Annuity Scheme	14	3,280	(3,289)	5
Total	621	15,151	(15,327)	445

The defined contribution benefits are timely distributed and paid in accordance with the relevant laws and regulations and the Group's policy.

(iii) Early retirement benefits

	2016			
	1 January	Accrued	Paid	31 December
Early retirement benefits	**7,724**	**(241)**	**(2,158)**	**5,325**

	2015			
	1 January	Accrued	Paid	31 December
Early retirement benefits	8,938	1,394	(2,608)	7,724

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Other liabilities (Continued)

(1) Staff costs payable (Continued)

(iii) Early retirement benefits (Continued)

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

	As at 31 December	
	2016	2015
Discount rate	**3.05%**	2.57%
Annual average medical expense growth rate	**8.00%**	8.00%
Annual subsidies growth rate	**8.00%**	8.00%
Normal retirement age		
– Male	**60**	60
– Female	**55**	55

Assumptions regarding future mortality experience are based on the China Life Insurance Mortality Table (year 2000 – 2003) (published historical statistics in China).

Any difference arising from the actual result or changes in assumptions may affect the amount of expense recognized in the consolidated income statement.

(2) Amount payable to the MOF

Pursuant to the "Notice on Relevant Issues Concerning the Disposal of Non-performing Assets of Agricultural Bank of China" (Caijin [2008] No. 138) issued by the MOF, the MOF commissioned the Bank to manage and dispose of non-performing assets transferred. The amount payable to the MOF represents proceeds collected by the Bank from the disposal of these non-performing assets on behalf of the MOF.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37 Ordinary shares

For the current and prior year, there was no change in the Bank's ordinary share capital.

	As at 31 December 2016 and 2015 Number of shares (millions)	Nominal value
Registered, issued and fully paid:		
A shares of RMB1 each	294,055	294,055
H shares of RMB1 each	30,739	30,739
Total	**324,794**	**324,794**

A share refers to the ordinary shares listed in the Mainland China. They are offered and traded in RMB. H share refers to the ordinary shares listed in Hong Kong. Their par value is denominated in RMB when they were initially offered and are currently traded in HKD.

As at 31 December 2016 and 31 December 2015, all of the Bank's A Shares and H Shares were not subject to lock-up restriction.

38 Preference shares

Financial instruments in issue	Dividend rate	Issued price (RMB yuan)	Issued number of shares (millions)	Issued nominal value (millions)	Maturity date	Conversions
Preference shares – first tranche	6% per annum for the first 5 years after issuance, and re-priced every 5 years as stated below	100	400	40,000	No maturity date	No conversion during the year
Preference shares – second tranche	5.5% per annum for the first 5 years after issuance, and re-priced every 5 years as stated below	100	400	40,000	No maturity date	No conversion during the year

The Bank was authorized to issue 800 million preference shares of RMB100 each, pursuant to the approval by its ordinary equity holders and relevant regulatory authorities.

The first tranche of 400 million preference shares were issued at par in November 2014. The carrying amount, net of direct issuance expenses, was RMB39,944 million as at 31 December 2016. The first tranche preference shares bear a dividend rate of 6% per annum, dividends are non-cumulative and where payable, is paid annually, for the first five years from issuance. The dividend rate will be repriced every five years thereafter with reference to the five-year PRC treasury bonds yield plus a fixed premium of 2.29%.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

38 Preference shares (Continued)

The second tranche of 400 million preference shares were issued at par in March 2015. The carrying amount, net of direct issuance expenses, was RMB39,955 million as at 31 December 2016. The second tranche preference shares bear a dividend rate of 5.5% per annum, dividends are non-cumulative and where payable, is paid annually, for the first five years from issuance. The dividend rate will be re-priced every five years thereafter with reference to the five-year PRC treasury bonds yield plus a fixed premium of 2.24%.

There were no changes in the carrying amounts of the preference shares since issuance.

As authorized by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on preference shares. The Bank shall not distribute any dividends to its ordinary equity holders before it declares such dividends to preference shareholders for the relevant period. The distribution of preference shares dividend is at the Bank's discretion and is non-cumulative. Preference shareholders are not entitled to participate in the distribution of retained profits except for the dividends stated above.

The Bank has redemption option when specified conditions as stipulated in the offering documents are met, subject to regulatory approval, whereas preference shareholders have no right to require the Bank to redeem the preference shares.

Upon liquidation, the claims of preference shareholders have priority over ordinary equity holders on the residual assets of the Bank, but are subordinated to those of depositors, general creditors, Tier-two Capital Instruments holders or any other subordinated debt holders with equivalent rights.

Upon occurrence of the triggering events as stipulated in paragraph 2(3) of the Guidance of the China Banking Regulatory Commission on Commercial Banks' Innovation on Capital Instruments (CBRC No. 56 [2012]) and subject to regulatory approval, preference shares shall be mandatorily converted into ordinary A shares of the Bank at the conversion price of RMB2.43 yuan per share, partially or entirely. The conversion price of the preference shares will be adjusted where certain events occur including bonus issues, rights issue, capitalization of reserves and new issuances of ordinary shares, subject to terms and formulas provided for in the offering documents, to maintain the relative interests between preference shareholders and ordinary equity holders.

These preference shares are classified as equity instruments, and presented as equity in the consolidated statement of financial position, and; are qualified as Additional Tier-one Capital Instruments in accordance with the CBRC requirements.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 Capital reserve

The capital reserve represents the premium related to ordinary shares issued by the Bank in 2010. Share premium was recorded in the capital reserve after deducting direct issue expenses, which consisted primarily of underwriting fees and professional fees.

40 Investment revaluation reserve

	2016		
	Gross amount	**Tax effect**	**Net effect**
1 January 2016	**29,907**	**(7,478)**	**22,429**
Fair value changes on available-for-sale financial assets			
– Amount of losses recognized directly in other comprehensive income	**(24,570)**	**6,140**	**(18,430)**
– Amount removed from other comprehensive income and recognized in profit or loss	**(562)**	**141**	**(421)**
31 December 2016	**4,775**	**(1,197)**	**3,578**

	2015		
	Gross amount	Tax effect	Net effect
1 January 2015	4,176	(1,058)	3,118
Fair value changes on available-for-sale financial assets			
– Amount of gains recognized directly in other comprehensive income	26,218	(6,542)	19,676
– Amount removed from other comprehensive income and recognized in profit or loss	(487)	122	(365)
31 December 2015	29,907	(7,478)	22,429

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 Surplus reserve

Under PRC Law, the Bank is required to transfer 10% of its net profit determined under the PRC GAAP to a non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of this reserve has reached 50% of share capital. Pursuant to the resolution of the Board of Directors' Meeting held on 28 March 2017, an appropriation of 10% of the profit for the current year, determined under the generally accepted accounting principles of the PRC, to the statutory surplus reserve, in the amount of RMB18,294 million (2015: RMB18,078 million) was approved. In addition, certain subsidiaries and overseas branches also appropriated surplus reserves in accordance with local requirements.

Subject to the approval of the equity holders, the statutory surplus reserves can be used for replenishing accumulated losses or increasing the Bank's ordinary share capital. The statutory surplus reserves amount used to increase the ordinary share capital is limited to a level where the balance of the statutory surplus reserves after such capitalization is not less than 25% of the ordinary share capital.

42 General reserve

Pursuant to Caijin [2012] No. 20 "Requirements on Impairment Allowance for Financial Institutions" (the "Requirement") issued by the MOF, effective 1 July 2012, in addition to impairment allowance, the Bank establishes a general reserve within equity holders' equity through the appropriation of profit to address unidentified potential impairment risks. The general reserve should not be less than 1.5% of the aggregate amount of risk assets as defined by the Requirement. The general reserve includes regulatory reserve appropriated by the Bank's overseas branches ("Overseas Institutions") pursuant to local regulatory requirements.

Pursuant to relevant PRC regulatory requirements, some domestic subsidiaries of the Bank are required to appropriate certain amounts of their net profit as general reserves.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 General reserve (Continued)

During the year ended 31 December 2016, the Group transferred RMB22,699 million (2015: RMB18,899 million) to the General Reserve pursuant to the regulatory requirements in the PRC and overseas jurisdictions. Of this amount, RMB22,464 million (2015: RMB18,721 million) related to the appropriation proposed for the year ended 31 December 2015 which was approved in the annual general meeting held on 27 June 2016.

On 28 March 2017, the Board of Directors' meeting approved a proposal of appropriation of RMB31,947 million to general reserve. Such appropriation will be recognized in the Group's consolidated financial statements after approval by ordinary equity holders in the forthcoming annual general meeting.

43 Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include the following balances with an original maturity of three months or less:

	As at 31 December	
	2016	2015
Cash	**111,607**	116,390
Balance with central banks	**114,830**	90,035
Deposits with banks and other financial institutions	**168,369**	128,173
Placements with and loans to banks and other financial institutions	**172,012**	234,139
Financial assets held under resale agreements	**260,880**	253,232
Total	**827,698**	821,969

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Operating segments

Operating segments are identified on the basis of internal management reports with respect to the components of the Group that are regularly reviewed by the Board and relevant management committees, which constitute the chief operating decision makers, for the purposes of allocating resources to segments and assessing their performance. The Group's chief operating decision makers review three different sets of financial information based on (i) geographical locations, (ii) business activities and (iii) County Area and Urban Area banking business.

The measurement of segment assets and liabilities, as well as segment revenue, expense and results is based on the Group's accounting policies. There is no difference between the accounting policies used in the preparation of the consolidated financial statements and those used in preparing the operating segment information.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer pricing are determined with reference to market rates and have been reflected in the performance of each segment.

Segment revenue, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Geographical operating segments

The details of the geographical operating segments are as follows:

Head Office	
Yangtze River Delta:	Shanghai, Jiangsu, Zhejiang, Ningbo
Pearl River Delta:	Guangdong, Shenzhen, Fujian, Xiamen
Bohai Rim:	Beijing, Tianjin, Hebei, Shandong, Qingdao
Central China:	Shanxi, Hubei, Henan, Hunan, Jiangxi, Hainan, Anhui
Western China:	Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang (including Xinjiang Bingtuan), Tibet, Inner Mongolia, Guangxi
Northeastern China:	Liaoning, Heilongjiang, Jilin, Dalian
Overseas and Others:	Subsidiaries and overseas branches

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Operating segments (Continued)

Geographical operating segments (Continued)

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and Others	Eliminations	Consolidated total
For the year ended 31 December 2016										
External interest income	249,147	94,849	60,600	65,338	56,112	95,937	16,965	18,242	–	657,190
External interest expense	(21,227)	(57,135)	(31,466)	(46,229)	(37,594)	(42,768)	(12,996)	(9,671)	–	(259,086)
Inter-segment interest (expense)/income	(205,448)	42,389	25,520	45,441	41,005	37,475	14,020	(402)	–	–
Net interest income	22,472	80,103	54,654	64,550	59,523	90,644	17,989	8,169	–	398,104
Fee and commission income	23,010	17,811	14,224	12,427	11,071	17,287	3,949	1,040	–	100,819
Fee and commission expense	(1,340)	(1,934)	(1,660)	(1,227)	(1,315)	(1,898)	(425)	(85)	–	(9,884)
Net fee and commission income	21,670	15,877	12,564	11,200	9,756	15,389	3,524	955	–	90,935
Net trading gain/(loss)	6,144	(11)	(26)	(55)	(79)	13	–	(529)	–	5,457
Net (loss)/gain on financial instruments designated at fair value through profit or loss	(1,645)	59	(32)	(1)	–	(2)	–	330	–	(1,291)
Net gain on investment securities	112	–	1	–	–	4	–	803	–	920
Other operating (loss)/income	(1,880)	1,178	783	371	379	3,452	180	11,540	–	16,003
Operating income	46,873	97,206	67,944	76,065	69,579	109,500	21,693	21,268	–	510,128
Operating expenses	(7,642)	(32,125)	(23,561)	(28,029)	(32,176)	(42,143)	(14,128)	(17,245)	–	(197,049)
Impairment losses on assets	(7,746)	(13,975)	(8,226)	(9,471)	(10,244)	(31,276)	(3,698)	(1,810)	–	(86,446)
Operating profit	31,485	51,106	36,157	38,565	27,159	36,081	3,867	2,213	–	226,633
Share of results of associates	(9)	–	–	–	–	–	–	–	–	(9)
Profit before tax	31,476	51,106	36,157	38,565	27,159	36,081	3,867	2,213	–	226,624
Income tax expense										(42,564)
Profit for the year										184,060
Depreciation and amortization included in operating expenses	1,662	3,026	2,209	2,963	3,329	4,345	1,317	186	–	19,037
Capital expenditure	2,348	3,387	1,585	2,931	2,727	4,144	1,069	4,730	–	22,921
As at 31 December 2016										
Segment assets	4,565,308	4,149,290	2,532,893	3,378,776	2,833,496	3,922,132	913,274	807,402	(3,615,697)	19,486,874
Including: Investment in associate	213	–	–	–	–	–	–	–	–	213
Unallocated assets										83,187
Total assets										19,570,061
Include: non-current assets (1)	12,806	33,865	17,993	30,287	28,931	42,839	12,191	11,261	–	190,173
Segment liabilities	(3,291,426)	(4,162,053)	(2,528,928)	(3,386,705)	(2,833,390)	(3,943,549)	(915,912)	(785,790)	3,615,697	(18,232,056)
Unallocated liabilities										(16,414)
Total liabilities										(18,248,470)
Credit commitments	42,861	464,193	208,914	317,307	187,281	222,055	66,799	124,924	–	1,634,334

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Operating segments (Continued)

Geographical operating segments (Continued)

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and Others	Eliminations	Consolidated total
For the year ended 31 December 2015										
External interest income	233,765	116,679	73,291	83,188	67,071	113,792	20,485	17,522	–	725,793
External interest expense	(19,204)	(64,711)	(34,978)	(53,948)	(43,216)	(49,637)	(15,026)	(8,933)	–	(289,653)
Inter-segment interest (expense)/income	(178,365)	36,616	21,233	43,284	35,342	30,231	11,223	436	–	–
Net interest income	36,196	88,584	59,546	72,524	59,197	94,386	16,682	9,025	–	436,140
Fee and commission income	17,535	16,759	12,920	11,909	10,234	16,492	3,615	1,030	–	90,494
Fee and commission expense	(757)	(1,545)	(1,443)	(1,033)	(1,293)	(1,459)	(322)	(93)	–	(7,945)
Net fee and commission income	16,778	15,214	11,477	10,876	8,941	15,033	3,293	937	–	82,549
Net trading gain	2,196	58	121	80	88	134	71	814	–	3,562
Net gain/(loss) on financial instruments designated at fair value through profit or loss	1,483	102	41	146	–	(2)	–	(43)	–	1,727
Net gain on investment securities	96	–	–	–	–	–	–	761	–	857
Other operating income	2,172	1,127	895	593	576	3,800	196	6,668	–	16,027
Operating income	58,921	105,085	72,080	84,219	68,802	113,351	20,242	18,162	–	540,862
Operating expenses	(9,677)	(37,801)	(26,731)	(34,694)	(34,793)	(55,435)	(15,113)	(11,574)	–	(225,818)
Impairment losses on assets	(2,075)	(27,785)	(12,493)	(12,113)	(5,983)	(24,435)	1,875	(1,163)	–	(84,172)
Operating profit	47,169	39,499	32,856	37,412	28,026	33,481	7,004	5,425	–	230,872
Share of results of associates	(15)	–	–	–	–	–	–	–	–	(15)
Profit before tax	47,154	39,499	32,856	37,412	28,026	33,481	7,004	5,425	–	230,857
Income tax expense										(50,083)
Profit for the year										180,774
Depreciation and amortization included in operating expenses	1,847	3,186	2,235	3,035	3,391	4,397	1,370	172	–	19,633
Capital expenditure	2,338	1,880	2,029	3,889	3,445	5,196	1,316	1,340	–	21,433
As at 31 December 2015										
Segment assets	4,432,038	3,696,692	2,282,608	3,255,511	2,542,695	3,586,925	838,650	782,258	(3,707,532)	17,709,845
Including: Investment in associate	273	–	–	–	–	–	–	–	–	273
Unallocated assets										81,548
Total assets										17,791,393
Include: non-current assets (1)	12,860	33,596	18,713	30,663	29,523	43,005	12,423	9,409	–	190,192
Segment liabilities	(3,299,014)	(3,699,920)	(2,275,314)	(3,251,913)	(2,530,704)	(3,593,727)	(835,551)	(762,690)	3,707,532	(16,541,301)
Unallocated liabilities										(38,207)
Total liabilities										(16,579,508)
Credit commitments	29,972	440,928	199,864	306,640	155,778	226,098	65,815	58,619	–	1,483,714

(1) *Non-current assets include property and equipment, investment properties, land use rights, intangible assets and other long-term assets.*

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Operating segments (Continued)

Business operating segments

The details of the business operating segments are as follows:

Corporate banking

The corporate banking segment provides financial products and services to corporations, government agencies and financial institutions. The range of products and services includes corporate loans and advances, trade finance, deposit products, corporate wealth management services and other types of corporate intermediary services.

Personal banking

The personal banking segment provides financial products and services to individual customers. The range of products and services includes personal loans, deposit products, card business, personal wealth management services and other types of personal intermediary services.

Treasury operations

The Group's treasury operations conduct money market and repurchase transactions, debt instruments investments, precious metal transactions and derivative transactions for its own accounts or on behalf of customers.

Others

Others comprise components of the Group that are not attributable to any of the above segments, along with certain assets, liabilities, income or expenses of the Head Office that could not be allocated on a reasonable basis.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Operating segments (Continued)

Business operating segments (Continued)

	Corporate banking	Personal banking	Treasury operations	Others	Consolidated total
For the year ended 31 December 2016					
External interest income	281,890	135,229	235,294	4,777	657,190
External interest expense	(89,004)	(148,393)	(20,464)	(1,225)	(259,086)
Inter-segment interest (expense)/income	(3,993)	167,567	(163,574)	–	–
Net interest income	188,893	154,403	51,256	3,552	398,104
Fee and commission income	53,339	46,209	–	1,271	100,819
Fee and commission expense	(3,193)	(6,642)	(2)	(47)	(9,884)
Net fee and commission income	50,146	39,567	(2)	1,224	90,935
Net trading gain	284	–	5,116	57	5,457
Net gain/(loss) on financial instruments designated at fair value through profit or loss	288	(1,639)	(296)	356	(1,291)
Net gain on investment securities	–	–	289	631	920
Other operating income/(expense)	2,153	1,884	(46)	12,012	16,003
Operating income	241,764	194,215	56,317	17,832	510,128
Operating expenses	(70,025)	(89,683)	(20,952)	(16,389)	(197,049)
Impairment losses on assets	(55,612)	(24,051)	(6,187)	(596)	(86,446)
Operating profit	116,127	80,481	29,178	847	226,633
Share of results of associates	–	–	–	(9)	(9)
Profit before tax	116,127	80,481	29,178	838	226,624
Income tax expense					(42,564)
Profit for the year					184,060
Depreciation and amortization included in operating expenses	3,822	11,298	3,797	120	19,037
Capital expenditure	3,740	11,054	3,715	4,412	22,921
At 31 December 2016					
Segment assets	6,332,417	3,730,943	9,223,479	200,035	19,486,874
Including: Investment in associate	–	–	–	213	213
Unallocated assets					83,187
Total assets					19,570,061
Segment liabilities	(6,778,331)	(9,760,885)	(1,542,284)	(150,556)	(18,232,056)
Unallocated liabilities					(16,414)
Total liabilities					(18,248,470)
Credit commitments	1,234,807	399,527	–	–	1,634,334

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Operating segments (Continued)

***Business operating segments** (Continued)*

	Corporate banking	Personal banking	Treasury operations	Others	Consolidated total
For the year ended 31 December 2015					
External interest income	349,680	145,375	226,730	4,008	725,793
External interest expense	(98,642)	(168,061)	(21,541)	(1,409)	(289,653)
Inter-segment interest (expense)/income	(19,707)	176,040	(156,333)	–	–
Net interest income	231,331	153,354	48,856	2,599	436,140
Fee and commission income	43,764	45,529	–	1,201	90,494
Fee and commission expense	(2,352)	(5,528)	–	(65)	(7,945)
Net fee and commission income	41,412	40,001	–	1,136	82,549
Net trading gain/(loss)	–	–	3,602	(40)	3,562
Net gain on financial instruments designated at fair value through profit or loss	66	1,318	299	44	1,727
Net gain on investment securities	–	–	103	754	857
Other operating income	2,587	2,006	2,896	8,538	16,027
Operating income	275,396	196,679	55,756	13,031	540,862
Operating expenses	(92,867)	(96,439)	(25,010)	(11,502)	(225,818)
Impairment losses on assets	(79,500)	(1,924)	(1,708)	(1,040)	(84,172)
Operating profit	103,029	98,316	29,038	489	230,872
Share of results of associates	–	–	–	(15)	(15)
Profit before tax	103,029	98,316	29,038	474	230,857
Income tax expense					(50,083)
Profit for the year					180,774
Depreciation and amortization included in operating expenses	3,785	11,460	4,281	107	19,633
Capital expenditure	3,950	11,958	4,467	1,058	21,433
At 31 December 2015					
Segment assets	6,086,284	3,181,175	8,300,506	141,880	17,709,845
Including: Investment in associate	–	–	–	273	273
Unallocated assets					81,548
Total assets					17,791,393
Segment liabilities	(6,155,984)	(9,232,539)	(1,024,999)	(127,779)	(16,541,301)
Unallocated liabilities					(38,207)
Total liabilities					(16,579,508)
Credit commitments	1,148,227	335,487	–	–	1,483,714

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Operating segments (Continued)

County Area and Urban Area segments

The Group's operating segments organized by County Area and Urban Area banking business are set out as follows:

County Area banking business

The Group's County Area banking business provides a broad range of financial products and services to customers in designated County Area, through its operating branches in the counties or county-level cities throughout the PRC. The products and services mainly comprise loans, deposits, bank cards, and other types of intermediary services.

Urban Area banking business

The Group's Urban Area banking business comprises all banking activities outside of the County Area banking business, overseas branches and subsidiaries.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Operating segments (Continued)

County Area and Urban Area segments (Continued)

	County area banking business	Urban area banking business	Eliminations	Consolidated total
For the year ended 31 December 2016				
External interest income	143,479	513,711	–	657,190
External interest expense	(88,268)	(170,818)	–	(259,086)
Inter-segment interest income/(expense)	102,598	(102,598)	–	–
Net interest income	157,809	240,295	–	398,104
Fee and commission income	35,605	65,214	–	100,819
Fee and commission expense	(3,718)	(6,166)	–	(9,884)
Net fee and commission income	31,887	59,048	–	90,935
Net trading gain	17	5,440	–	5,457
Net gain/(loss) on financial instruments designated at fair value through profit or loss	19	(1,310)	–	(1,291)
Net gain on investment securities	–	920	–	920
Other operating income	4,579	11,424	–	16,003
Operating income	194,311	315,817	–	510,128
Operating expenses	(84,205)	(112,844)	–	(197,049)
Impairment losses on assets	(44,186)	(42,260)	–	(86,446)
Operating profit	65,920	160,713	–	226,633
Share of results of associates	–	(9)	–	(9)
Profit before tax	65,920	160,704	–	226,624
Income tax expense				(42,564)
Profit for the year				184,060
Depreciation and amortization included in operating expenses	8,855	10,182	–	19,037
Capital expenditure	5,494	17,427	–	22,921
At 31 December 2016				
Segment assets	7,040,416	12,554,090	(107,632)	19,486,874
Including: Investment in associate	–	213	–	213
Unallocated assets				83,187
Total assets				19,570,061
Segment liabilities	(6,598,859)	(11,740,829)	107,632	(18,232,056)
Unallocated liabilities				(16,414)
Total liabilities				(18,248,470)
Credit commitments	380,806	1,253,528	–	1,634,334

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Operating segments (Continued)

County Area and Urban Area segments *(Continued)*

	County area banking business	Urban area banking business	Eliminations	Consolidated total
For the year ended 31 December 2015				
External interest income	166,863	558,930	–	725,793
External interest expense	(100,263)	(189,390)	–	(289,653)
Inter-segment interest income/(expense)	101,332	(101,332)	–	–
Net interest income	167,932	268,208	–	436,140
Fee and commission income	31,289	59,205	–	90,494
Fee and commission expense	(3,098)	(4,847)	–	(7,945)
Net fee and commission income	28,191	54,358	–	82,549
Net trading gain	210	3,352	–	3,562
Net gain on financial instruments designated at fair value through profit or loss	63	1,664	–	1,727
Net gain on investment securities	–	857	–	857
Other operating income	4,483	11,544	–	16,027
Operating income	200,879	339,983	–	540,862
Operating expenses	(91,828)	(133,990)	–	(225,818)
Impairment losses on assets	(33,649)	(50,523)	–	(84,172)
Operating profit	75,402	155,470	–	230,872
Share of results of associates	–	(15)	–	(15)
Profit before tax	75,402	155,455	–	230,857
Income tax expense				(50,083)
Profit for the year				180,774
Depreciation and amortization included in operating expenses	9,036	10,597	–	19,633
Capital expenditure	8,896	12,537	–	21,433
At 31 December 2015				
Segment assets	6,379,322	11,432,038	(101,515)	17,709,845
Including: Investment in associate	–	273	–	273
Unallocated assets				81,548
Total assets				17,791,393
Segment liabilities	(5,992,911)	(10,649,905)	101,515	(16,541,301)
Unallocated liabilities				(38,207)
Total liabilities				(16,579,508)
Credit commitments	301,417	1,182,297	–	1,483,714

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Related party transactions

(1) The Group and the MOF

As at 31 December 2016, the MOF directly owned 39.21% (31 December 2015: 39.21%) of the ordinary shares of the Bank.

The MOF is a Chinese government ministry, primarily responsible for managing state fiscal revenue and expenditure, and establishing and enforcing taxation policies. It reports to the Chinese State Council.

The Group had the following balances and transactions with the MOF in its ordinary course of business under normal commercial terms:

	As at 31 December	
	2016	2015
Assets		
Treasury bonds and special government bond	**640,131**	656,427
Receivable from the MOF (Note IV 22)	**272,023**	272,023
Interest receivable		
– treasury bonds and special government bond	**7,648**	7,734
– receivable from the MOF	**3,802**	25
Accounts receivable and temporary payments	**13,147**	3,665
Liabilities		
Amount payable to the MOF (Note IV 36)	**26,293**	7,330
Customer deposits	**10,265**	10,309
Interest payable	**23**	12
Other liability		
– redemption of treasury bonds on behalf of the MOF	**102**	103

	Year ended 31 December	
	2016	2015
Interest income	**63,974**	41,987
Interest expense	**(189)**	(126)
Fee and commission income	**15,072**	7,948

Interest rate ranges for transactions with the MOF during the year are as follows:

	Year ended 31 December	
	2016	2015
	%	%
Treasury bonds and receivable from the MOF	**1.94-9.00**	1.94 – 9.00
Customer deposits	**0.05-1.76**	0.01 – 3.06

The Group's redemption commitment for treasury bonds underwriting is disclosed in Note IV 47 Contingent Liabilities and Commitments.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Related party transactions (Continued)

(2) The Group and Huijin

Central Huijin Investment Ltd. ("Huijin") is a wholly-owned subsidiary of China Investment Corporation Limited, which is incorporated in Beijing, PRC. Huijin was established to hold certain equity interests in state-owned financial institutions as authorized by the Chinese State Council and does not engage in other commercial activities. Huijin exercises its legal rights and assumes obligations related to the Bank on behalf of the PRC Government.

As at 31 December 2016, Huijin directly owned 40.03% (31 December 2015: 40.03%) of the ordinary shares of the Bank.

Transactions with Huijin

The Group had the following balances and transactions with Huijin in its ordinary course of business under normal commercial terms:

	As at 31 December	
	2016	2015
Assets		
Investment in debt securities	**12,103**	12,137
Interest receivable	**145**	145
Liabilities		
Principal guaranteed wealth management products issued by the Bank	**7,000**	20,500
Customer deposits	**27**	8,001
Interest payable	**49**	537

	Year ended 31 December	
	2016	2015
Interest income	**463**	391
Interest expense	**(518)**	(956)

Interest rate ranges for transactions with Huijin during the year are as follows:

	Year ended 31 December	
	2016	2015
	%	%
Investment in debt securities	**3.16-4.20**	3.16-4.20
Principal guaranteed wealth management products issued by the Bank	**2.90-5.00**	4.35-5.00
Customer deposits	**1.38-2.80**	0.72-2.80

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Related party transactions (Continued)

(2) The Group and Huijin (Continued)

Transactions with companies under Huijin

Huijin has equity interests in certain other banks and financial institutions under the direction of the Chinese government. The Group enters into transactions with these banks and financial institutions in the ordinary course of business under normal commercial terms. Corresponding balances with these banks and financial institutions were as follows:

	As at 31 December	
	2016	2015
Assets		
Investment securities	**817,129**	817,653
Deposits with banks and other financial institutions	**120,985**	76,061
Placements with and loans to banks and other financial institutions	**56,783**	62,752
Derivative financial assets	**2,671**	1,111
Financial assets held under resale agreements	**74,740**	33,134
Precious metal leasing	**930**	–
Loans and advances to customers	**12,876**	20,358
Liabilities		
Deposits from banks and other financial institutions	**63,007**	63,087
Placements from banks and other financial institutions	**85,744**	73,087
Derivative financial liabilities	**2,238**	1,444
Financial assets sold under repurchase agreements	**12,438**	83,000
Equity		
Preference shares	**2,000**	2,000
Off-balance sheet items		
Non-principal guaranteed wealth management products issued by the Bank	**22,642**	15,700

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Related party transactions (Continued)

(3) The Group and other government related entities

Other than disclosed above, a significant portion of the Group's banking transactions are entered into with government authorities, agencies, affiliates and other State controlled entities. These transactions are entered into under normal commercial terms and conditions and mainly include provision of credit and guarantee, deposits, foreign exchange transactions, derivative transactions, agency services, underwriting and distribution of bonds issued by government agencies, purchase, sales and redemption of investment securities issued by government agencies.

Management considers that these transactions are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government authorities, agencies, affiliates and other State controlled entities.

(4) The Bank and its subsidiaries

The Bank entered into banking transactions with its subsidiaries at arm's length in the ordinary course of business.

Management considers that transactions between the Bank and its subsidiaries are not significant.

(5) The Group and its associate

The Group entered into banking transactions with its associate at arm's length in the ordinary course of business.

Management considers that transactions between the Group and its associate are not significant.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Related party transactions (Continued)

(6) Key management personnel

Key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group.

The Group enters into banking transactions with key management personnel in the normal course of business. During the years ended 31 December 2016 and 31 December 2015, the Group had no material transactions with key management personnel.

The remuneration of directors and other members of key management during the years was as follows:

	Year ended 31 December	
	2016	2015 (Restated)
Salaries, bonuses and staff welfare	**8.43**	10.11

According to the regulations of the relevant authorities in the PRC, the key management personnel's final emoluments for the year ended 31 December 2016 have not been finalized. Management of the Group believes that difference between the final emoluments and that disclosed above will not have significant impact on the consolidated financial statements of the Group. The final compensation will be disclosed in a separate announcement when determined.

The compensation of key management personnel for the year ended 31 December 2015 was not decided at the time when the Group's 2015 consolidated financial statements were released and the amount of remuneration of directors and other members of key management recognized in the consolidated income statement for the year of 2015 was RMB8.00 million. Supplementary announcement on final compensation of RMB10.11 million was released by the Bank on 26 August 2016. The comparative figures for the year of 2015 have been restated accordingly.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Related party transactions (Continued)

(7) The Group and the Annuity Scheme

The Group had the following balances and transactions with the Annuity Scheme set up by the Bank apart from the obligation for defined contribution to the Annuity Scheme:

	As at 31 December	
	2016	2015
Deposits from Annuity Scheme	**16,367**	8,050
Interest payable	**619**	15

	Year ended 31 December	
	2016	2015
Interest expense	**394**	490

Interest rate range for transactions with the Annuity Scheme during the year is as follows:

	Year ended 31 December	
	2016	2015
	%	%
Deposits from Annuity Scheme	**0.72-6.20**	5.75-6.20

46 Structured entities

(1) Principal guaranteed wealth management products sponsored and managed by the Group

Principal guaranteed wealth management products sponsored and managed by the Group represent products to which the Group has guaranteed the investor's principal investment, regardless of their actual performance. Investments made by these products and the corresponding liabilities to the investors of these products are presented in financial assets and financial liabilities designated at fair value through profit or loss, respectively.

(2) Other Consolidated structured entities

Other structured entities consolidated by the Group include certain trust investment plans, asset management plans, funds and securitization products issued, managed and/or invested by the Group. The Group controls these entities because the Group has power over, is exposed to, or has rights to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns.

As at 31 December 2016, the total assets of these consolidated structured entities were RMB306,177 million (31 December 2015: RMB322,678 million).

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 Structured entities (Continued)

(3) Unconsolidated structured entities

Unconsolidated structured entities sponsored and managed by the Group

Unconsolidated structured entities sponsored and managed by the Group mainly include non-principal guaranteed wealth management products ("WMPs"), which are not subject to any guarantee by the Group of the principal invested or interest to be paid. The WMPs invest in a range of primarily fixed-rate assets, most typically money market instruments, debt securities and loan assets. As the manager of these WMPs, the Group invests, on behalf of the investors in these WMPs, the funds raised in the assets as described in the investment plan related to each WMP and receives fee and commission income.

As at 31 December 2016, the total assets invested by these WMPs amounted to RMB1,379,009 million (31 December 2015: RMB1,110,912 million) and the corresponding outstanding WMPs issued by the Group amounted to RMB1,299,375 million (31 December 2015: RMB1,102,201 million). During the year ended 31 December 2016, the Group's interest in these WMPs included net fee and commission income of RMB8,313 million (2015: RMB6,721 million) and net interest income of RMB261 million (2015: RMB427 million), which related to placements and repo transactions entered into by the Group with these WMP Vehicles.

The Group enters into placements and repo transactions at market interest rates with these WMPs. The average balance during 2016 and the outstanding balance as at 31 December 2016 of these transactions were RMB8,776 million (weighted average outstanding period of 3.06 days) (2015: RMB18,742 million and 4.40 days) and RMB125,627 million (31 December 2015: RMB78,000 million), respectively. The Group was under no obligation to enter into these transactions. As at 31 December 2016 and 31 December 2015, the outstanding balance of these transactions was presented in placements with and loans to banks and other financial institutions and financial assets held under resale agreements, which represented the Group's maximum exposure to the WMPs.

There were no contractual liquidity arrangements, guarantees or other commitments among or between the Group, WMPs or any third parties that could increase the level of the Group's risk from WMPs disclosed above during the years ended 31 December 2016 and 31 December 2015. The Group was not required to absorb any losses incurred by WMPs before other parties. During the years ended 31 December 2016 and 2015, no losses was incurred by these WMPs relating to the Group's interests in these WMPs, and the WMPs did not experience difficulty in financing their activities.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 Structured entities (Continued)

(3) Unconsolidated structured entities (Continued)

Unconsolidated structured entities held by the Group

The Group invests in other unconsolidated structured entities which are sponsored and managed by other entities for investment return, and records trading gains or losses and interest income therefrom. These unconsolidated structured entities primarily include asset management plans, funds and asset-backed securities. As at 31 December 2016, the related carrying amount of investments and the maximum exposure by the Group to these other unconsolidated structured entities was RMB34,463 million (31 December 2015: RMB30,537 million), included under the financial assets designated at fair value through profit or loss, the available-for-sale financial assets, the held-to-maturity investments and the debt instruments classified as receivables categories in the consolidated statement of financial position. The information on the size of total assets of these unconsolidated structured entities was not readily available from the public domain.

47 Contingent liabilities and commitments

Legal proceedings and others

The Bank and its subsidiaries are involved as defendants in certain lawsuits arising from their normal business operations. As at 31 December 2016, provisions of RMB6,030 million were made by the Group (31 December 2015: RMB6,696 million) based on court judgments or advice of legal counsel, and included in Note IV 36 Other Liabilities. Management of the Group believes that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group.

On 28 September 2016, the Bank and its New York Branch entered into a Cease and Desist Order with the Board of Governors of the Federal Reserve System of the United States. On 4 November 2016, the Bank and its New York Branch entered into a Consent Order with New York State Department of Financial Services (the "Department") and paid a civil monetary penalty to the Department accordingly. The Bank and its New York Branch are taking affirmative actions to respond to other requirements under these two orders.

As at 31 December 2016, the above-mentioned civil monetary penalty has been paid and reflected in these consolidated financial statements. As at the date of this report, the Group is of the view that it is not practicable to estimate whether there will be any further regulatory actions undertaken by the US regulators as this will be dependent upon the regulatory conclusion after the Bank's and its New York Branch's actions towards the other requirements under these two orders. As such, the Group did not accrue any provision over this matter as at 31 December 2016.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 Contingent liabilities and commitments (Continued)

Capital commitments

	As at 31 December	
	2016	2015
Contracted but not provided for	**4,951**	4,836

In addition, as at 31 December 2016, the Group did not have outstanding equity investment commitments for its investee companies (31 December 2015: the Group did not have outstanding equity investment commitments for its investee companies).

Credit commitments

	As at 31 December	
	2016	2015
Loan commitments		
– With an original maturity of less than 1 year	**38,433**	14,351
– With an original maturity of 1 year or above	**549,968**	436,082
Subtotal	**588,401**	450,433
Bank acceptance	**312,255**	382,255
Credit card commitments	**323,217**	258,745
Guarantee and letters of guarantee	**229,177**	233,376
Letters of credit	**181,284**	158,905
Total	**1,634,334**	1,483,714

Credit commitments represent credit cards and general credit facility limits granted to customers. These general credit facilities may be drawn in the form of loans or through the issuance of letters of credit, guarantee and letters of guarantee or bank acceptance.

Credit risk weighted amount for credit commitments

Credit risk weighted amount for credit commitments represents the counterparty credit risk associated with credit commitments and is calculated in accordance with the "Capital Rules for Commercial Banks (Provisional)" issued by the CBRC which was effective 1 January 2013 and is dependent on, among other factors, creditworthiness of counterparties and maturity characteristics of each type of contract. As at 31 December 2016 and 31 December 2015, credit risk weighted amount for credit commitments was measured under the Internal Ratings – Based approach.

	As at 31 December	
	2016	2015
Credit risk weighted amount for credit commitments	**831,636**	774,925

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 Contingent liabilities and commitments (Continued)

Operating lease commitments

At the end of each reporting period, the Group, as a lessee, had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December	
	2016	2015
Within 1 year	**3,948**	4,107
1 to 2 years	**3,051**	3,169
2 to 3 years	**2,262**	2,473
3 to 5 years	**2,451**	2,969
Above 5 years	**1,255**	1,627
Total	**12,967**	14,345

During the year of 2016, operating lease expense recognized as operating expense by the Group was RMB5,190 million (2015: RMB5,115 million), and is included in Note IV 6 Operating Expenses.

Finance lease commitments

As at 31 December 2016, the contractual amount of non-cancellable finance lease commitments of the Group, as a lessor, was RMB338 million (31 December 2015: Nil).

As at 31 December 2016, the gross amount of finance lease receivables included in the Group's loans and advances was RMB38,245 million (31 December 2015: RMB33,051 million) with the remaining maturity as follows:

	As at 31 December	
	2016	2015
Overdue	**4,256**	3,794
Within 1 year	**7,643**	8,010
1 to 5 years	**17,748**	14,534
Above 5 years	**8,598**	6,713
Total	**38,245**	33,051

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 Contingent liabilities and commitments (Continued)

Collateral

Assets pledged

At the end of each reporting period, the carrying amounts of assets pledged as collateral under repurchase agreements are as follows:

	As at 31 December	
	2016	2015
Debt securities	**208,529**	89,651
Bills	**814**	473
Total	**209,343**	90,124

The carrying value of financial assets sold under repurchase agreements by the Group as at 31 December 2016 was RMB205,832 million (31 December 2015: RMB88,804 million) as set out in Note IV 33 Financial Assets Sold under Repurchase Agreements. Repurchase agreements are due within 12 months from the effective dates of these agreements.

Financial assets sold under repurchase agreements included certain transactions under which, title of the pledged securities has been transferred to counterparties. These transactions have been disclosed in Note IV 48 Transferred Financial Assets.

In addition, debt securities and deposits with banks and other financial institutions pledged in accordance with regulatory requirements or as collateral for derivative transactions and borrowings from central banks etc. by the Group as at 31 December 2016 amounted to RMB365,153 million in total (31 December 2015: RMB114,458 million).

Collateral accepted

The Group received debt securities and bills as collateral in connection with the securities lending transactions and the purchase of assets under resale agreements (Note IV 18 Financial Assets Held Under Resale Agreements). The Group did not hold any collateral that can be resold or re-pledged as at 31 December 2016 and 31 December 2015.

Redemption commitment for treasury bonds

The Group is entrusted by the MOF to underwrite certain treasury bonds. The investors of these treasury bonds have a right to redeem the bonds at par at any time prior to maturity and the Group is committed to honor such redemption requests. The redemption price is calculated as the par value of the bond plus unpaid interest in accordance with the terms of the related early redemption arrangement.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 Contingent liabilities and commitments (Continued)

Redemption commitment for treasury bonds *(Continued)*

As at 31 December 2016, the nominal value of treasury bonds the Group was obligated to redeem prior to maturity was RMB56,555 million (31 December 2015: RMB53,697 million). The original maturities of these bonds vary from 3 to 5 years. Management of the Group expects the amount of redemption before the maturity dates of these bonds will not be material.

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.

Commitment on security underwriting

As at 31 December 2016 and 31 December 2015, the Group did not have unfulfilled commitment in respect of securities underwriting business.

48 Transferred financial assets

The Group enters into transactions in the normal course of business whereby it transfers recognized financial assets to third parties or to structured entities. In some cases these transfers may give rise to full or partial de-recognition of the financial assets concerned. In other cases where the transferred assets do not qualify for de-recognition as the Group retains substantially all the risks and rewards of these assets, the Group continued to recognize the transferred assets.

Securitization transactions

The Group enters into securitization transactions by which it transfers loans to structured entities which issue asset-backed securities to investors. The Group assessed among other factors, whether or not to derecognize the transferred assets by evaluating the extent to which it retains the risks and rewards of the assets and whether it has relinquished its controls over these assets based on the criteria as detailed in Note II 8.6 and Note III 8.

As at 31 December 2016, the unexpired asset-backed securities included accumulative loans transferred by the Group before impairment of RMB18,364 million (31 December 2015: RMB10,125 million). RMB10,154 million of this balance (31 December 2015: Nil) was in respect of non-performing loans transferred and the Group concluded that these loans transferred were qualified for full de-recognition. The remaining balance of RMB8,210 million (31 December 2015: RMB10,125 million) was in respect of performing loans transferred and the Group concluded that it had continuing involvement in these assets. As at 31 December 2016, the Group continued to recognize assets of RMB712 million (31 December 2015: RMB844 million) under loans and advances to customers. The Group also recognized other assets and other liabilities of the same amount arising from such continuing involvement.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Transferred financial assets (Continued)

Transfer of non-performing loans

During the year ended 31 December 2016, the Group transferred non-performing loans through disposal to third parties or issuing asset-back securities, with gross loan balance of RMB72,969 million (2015: RMB25,600 million), of which RMB10,154 (2015: Nil) was through issuing asset-back securities disclosed above. The Group carried out an assessment based on the criteria as detailed in Note II 8.6 and Note III 8 and concluded that these transferred assets qualified for full de-recognition.

Financial assets sold under repurchase agreements

The Group did not derecognize financial assets transferred as collateral in connection with repurchase agreements. As at 31 December 2016, of these collateral pledged disclosed in Note IV 47 Contingent Liabilities and Commitments – Collateral, RMB14,087 million (31 December 2015: RMB5,986 million) represented debt securities whereby legal title has been transferred to counterparties.

Securities lending transactions

For debt securities lent to counterparties under securities lending agreements, the counterparties are allowed to sell or repledge these securities in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognized them. As at 31 December 2016, the carrying amount of debt securities lent to counterparties was RMB15,415 million (31 December 2015: Nil).

49 Financial risk management

Overview

The Group's primary risk management objective is to maintain risk within acceptable parameters to meet the requirements of regulators, depositors and other stakeholders, as well as to maximize return for investors within an acceptable level of risk.

The Group has designed risk management policies, which address, among other things, the establishment of risk limits and controls to identify, analyze, monitor and report risks. Relevant and timely information used to conduct these risk management activities is provided through information systems maintained by the Group and intended to address the Group's information needs in this area. The Group regularly reviews its risk management policies and systems to address changes in markets, products and emerging best practices.

The most significant types of risk to which the Group is exposed are credit risk, market risk and liquidity risk. Market risk includes foreign exchange rate risk, interest rate risk and other price risk.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

Risk management framework

The Board of Directors is responsible for establishing the overall risk appetite of the Group and reviewing and approving its risk management objectives and strategies.

Within this framework, the Group's senior management has overall responsibility for managing all aspects of risk, including implementing risk management strategies, initiatives and credit policies and approving internal rules, measures and procedures related to risk management. The Risk Management Department of the Group implements procedures for managing the significant risks to which the Group is exposed.

49.1 Credit risk

Credit risk management

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligations when due. Credit risk can also arise from operational failures that result in an unauthorized or inappropriate advance, commitment or investment. The Group's major credit risks arise from loans and receivables, treasury operations and off-balance sheet related credit risk exposures.

The Group's credit risk management system is composed of the Board of Directors and its Risk Management Committee, Senior Management and its Risk Management Committee, Credit Approval Committee and Asset Disposal Committee, as well as the Risk Management Department, Credit Management Department, Credit Approval Department and related front-office customer departments. The Group's credit risk management function operates under centralized management and authorization under a range of specified limits.

The Group performs standardized credit management procedures, including credit due diligence and proposal submission, credit underwriting review, loan disbursement, post-lending monitoring and non-performing loan management. The Group enhances its credit risk management by strictly complying with its credit management procedures; strengthening customer investigation, credit rating, lending approval and post-lending monitoring measures; enhancing risk mitigation effect of loans through collateral; accelerating disposal process of non-performing loans and continuously upgrading the credit management system.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.1 Credit risk (Continued)

Credit risk management (Continued)

In 2016, the Group took a combination of measures, including the strict implementation of the state's macro-economic policies, continuous optimization of its credit structure, strengthening the building of the credit risk management system, heightening risk management and control in key areas, timely identification and mitigation of various risks and potential vulnerabilities, and expanding options and channels for recovery and disposal of non-performing loans, and maintained a steady and solid level of asset quality.

Apart from the credit risk exposures on credit-related assets, deposits and placements with and loans to banks and other financial institutions, the credit risk arising from treasury business is managed by selecting counterparties with acceptable credit quality, balancing credit risk and return, referencing to both internal and external credit rating information where available and by applying appropriate limits subject to different level of management authority, and by timely reviewing and adjusting those limit in credit system. In addition, the Group also provides loan commitments and financial guarantee services to customers which may require the Group to make payments on behalf of customers upon their failure to perform under the terms of the related contract. Risks arising from loan commitments and financial guarantees are similar to those associated with loans and advances. These transactions are, therefore, subject to the same risk management policies and procedures.

Impairment assessment

Key factors related to the Group's impairment assessment

In accordance with the "Guideline for Loan Credit Risk Classification" issued by the CBRC, the Group has established a loan credit risk classification system and performs credit risk management based on loan classification in one of five categories. The Group classifies loans into the following five categories: normal, special-mention, substandard, doubtful and loss. Loans classified as substandard, doubtful and loss are regarded as non-performing loans. The primary factors considered in loan impairment assessment include probability of loan repayment and recoverability of principal and interest, which reflect borrowers' repayment ability, repayment record and intention, projected profitability, bank guarantees or collateral and legal responsibility of repayment. The allowance for impairment losses is assessed collectively or individually, as appropriate.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.1 *Credit risk* (Continued)

Impairment assessment (Continued)

Key factors related to the Group's impairment assessment (Continued)

The five categories of loan classification into which the Group classifies its loans and advances to customers are set out below:

Normal	Borrowers can honor the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special – mention	Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.
Substandard	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal operating revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful	Borrowers cannot repay principal and interest in full and significant losses will need to be recognized even when collateral or guarantees are invoked.
Loss	Only a small portion or none of the principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.

With respect to investments in debt securities other than held for trading or designated at fair value through profit or loss, the Group assesses for indicators of impairment at the end of each reporting period based on objective evidence and performs impairment assessment individually or collectively, as appropriate. For the impaired available-for-sale investments, the amount of the impairment allowance for available-for-sale investments is equal to the existing unrealized loss, which is recorded as a charge in the consolidated income statement.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.1 Credit risk (Continued)

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements

The maximum exposure to credit risk represents the credit risk exposure to the Group at the end of each reporting period, without taking into account any collateral held or other credit enhancements. The exposure to credit risk at the end of each reporting period primarily arises from credit and treasury operations; as well as off-balance sheet items such as loan commitments, credit card commitments, bank acceptance, guarantee and letters of guarantee and letters of credit, as credit risks arising from these items are similar to those associated with loans and receivables.

A summary of the maximum exposure to credit risk is as follows:

	As at 31 December	
	2016	2015
Balances with central banks	**2,700,046**	2,470,667
Deposits with banks and other financial institutions	**622,665**	697,923
Placements with and loans to banks and other financial institutions	**580,949**	504,252
Financial assets held for trading	**123,282**	79,762
Financial assets designated at fair value through profit or loss	**286,564**	355,530
Derivative financial assets	**31,460**	16,038
Financial assets held under resale agreements	**323,051**	471,809
Loans and advances to customers	**9,319,364**	8,506,675
Available-for-sale financial assets	**1,390,678**	1,202,597
Held-to-maturity investments	**2,882,152**	2,300,824
Debt instruments classified as receivables	**624,547**	557,420
Other financial assets	**205,718**	176,352
Subtotal	**19,090,476**	17,339,849
Credit commitments	**1,634,334**	1,483,714
Total	**20,724,810**	18,823,563

The Group has implemented specific policies and credit enhancement practices to mitigate credit risk exposure to an acceptable level. The most typical practice is obtaining guarantee deposits, collateral and guarantees. The amount and type of acceptable collateral are determined by credit risk evaluations of borrowers or counterparties. The Group implements guidelines on the acceptability of specific classes of collateral and evaluation parameters.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.1 *Credit risk* *(Continued)*

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements *(Continued)*

The main types of collateral obtained are as follows:

– Mortgage loans to retail customers are generally collateralized by mortgages over residential properties;

– Other personal lending and corporate loans and advances are primarily collateralized by charges over land and properties or other assets of the borrowers; and

– Financial assets held under resale agreements transactions are primarily collateralized by debt securities and bills.

The Group monitors the market value of collateral periodically and requests for additional collateral in accordance with the underlying agreement when necessary.

Loans and advances to customers

The following tables set out the concentration of risk for loans and advances to customers by geographical area and industry.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.1 Credit risk (Continued)

Loans and advances to customers (Continued)

(1) The composition of loans and advances to customers by geographical area is analyzed as follows:

	As at 31 December			
	2016		2015	
	Amount	**% of total**	Amount	% of total
Corporate loans and advances				
Head Office	**279,658**	**4.4**	215,317	3.5
Yangtze River Delta	**1,310,376**	**20.6**	1,355,458	22.0
Pearl River Delta	**752,897**	**11.8**	724,691	11.7
Bohai Rim	**1,001,682**	**15.7**	1,062,323	17.2
Central China	**857,319**	**13.5**	774,559	12.5
Western China	**1,463,806**	**22.9**	1,346,434	21.8
Northeastern China	**272,460**	**4.3**	256,614	4.2
Overseas and Others	**435,027**	**6.8**	439,905	7.1
Subtotal	**6,373,225**	**100.0**	6,175,301	100.0
Personal loans and advances				
Head Office	**104**	**–**	101	–
Yangtze River Delta	**860,092**	**25.6**	692,935	25.4
Pearl River Delta	**713,500**	**21.3**	538,353	19.7
Bohai Rim	**498,332**	**14.9**	401,251	14.7
Central China	**451,954**	**13.5**	357,957	13.1
Western China	**694,461**	**20.8**	629,495	23.0
Northeastern China	**122,436**	**3.7**	107,798	3.9
Overseas and Others	**5,535**	**0.2**	6,727	0.2
Subtotal	**3,346,414**	**100.0**	2,734,617	100.0
Gross loans and advances to customers	**9,719,639**		8,909,918	

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.1 Credit risk (Continued)

Loans and advances to customers (Continued)

(2) The composition of loans and advances to customers by industry is analyzed as follows:

	As at 31 December			
	2016		2015	
	Amount	**% of total**	Amount	% of total
Corporate loans and advances				
Manufacturing	**1,325,386**	**20.9**	1,481,883	24.0
Transportation, logistics and postal services	**1,052,336**	**16.5**	924,356	15.0
Retail and wholesale	**497,976**	**7.8**	650,670	10.5
Production and supply of power, heat, gas and water	**673,621**	**10.6**	604,313	9.8
Real estate	**510,470**	**8.0**	548,388	8.9
Leasing and commercial services	**560,270**	**8.8**	461,772	7.5
Finance	**735,915**	**11.5**	457,823	7.4
Mining	**243,396**	**3.8**	260,558	4.2
Construction	**187,931**	**2.9**	216,636	3.5
Water, environment and public utilities management	**241,365**	**3.8**	205,797	3.3
Others	**344,559**	**5.4**	363,105	5.9
Subtotal	**6,373,225**	**100.0**	6,175,301	100.0
Personal loans and advances				
Residential mortgage	**2,560,002**	**76.5**	1,927,049	70.5
Personal business	**196,727**	**5.9**	230,424	8.4
Personal consumption	**153,945**	**4.6**	185,531	6.8
Credit cards	**242,451**	**7.2**	222,206	8.1
Others	**193,289**	**5.8**	169,407	6.2
Subtotal	**3,346,414**	**100.0**	2,734,617	100.0
Gross loans and advances to customers	**9,719,639**		8,909,918	

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.1 Credit risk (Continued)

Loans and advances to customers (Continued)

(3) The composition of loans and advances to customers by contractual maturity and security type is analyzed as follows:

	31 December 2016			
	Less than 1 year	1 to 5 years	Over 5 years	Total
Unsecured loans	**992,899**	**466,138**	**886,821**	**2,345,858**
Guaranteed loans	**618,532**	**330,718**	**344,430**	**1,293,680**
Loans secured by collateral	**947,139**	**519,723**	**3,127,606**	**4,594,468**
Pledged loans	**786,985**	**69,113**	**629,535**	**1,485,633**
Total	**3,345,555**	**1,385,692**	**4,988,392**	**9,719,639**

	31 December 2015			
	Less than 1 year	1 to 5 years	Over 5 years	Total
Unsecured loans	916,995	340,169	839,763	2,096,927
Guaranteed loans	692,293	263,559	393,338	1,349,190
Loans secured by collateral	1,127,445	649,224	2,489,132	4,265,801
Pledged loans	623,149	71,132	503,719	1,198,000
Total	3,359,882	1,324,084	4,225,952	8,909,918

(4) Past due loans

	31 December 2016				
	Up to 90 days	91-360 days	361 days to 3 years	Over 3 years	Total
Unsecured loans	**4,411**	**8,619**	**4,460**	**406**	**17,896**
Guaranteed loans	**19,386**	**23,586**	**26,612**	**2,937**	**72,521**
Loans secured by collateral	**53,772**	**52,054**	**60,454**	**6,405**	**172,685**
Pledged loans	**1,976**	**2,209**	**6,901**	**447**	**11,533**
Total	**79,545**	**86,468**	**98,427**	**10,195**	**274,635**

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.1 Credit risk (Continued)

Loans and advances to customers (Continued)

(4) Past due loans (Continued)

	31 December 2015				
	Up to 90 days	91-360 days	361 days to 3 years	Over 3 years	Total
Unsecured loans	7,311	8,522	2,190	271	18,294
Guaranteed loans	21,478	26,103	18,134	4,143	69,858
Loans secured by collateral	67,076	63,271	37,878	6,716	174,941
Pledged loans	2,600	7,202	5,049	1,568	16,419
Total	98,465	105,098	63,251	12,698	279,512

When either loan principal or interest is past due by one day in any period, the whole loan is classified as past due loan.

(5) Credit quality of loans and advances to customers

		As at 31 December	
		2016	2015
Neither past due nor impaired	(i)	**9,433,058**	8,623,179
Past due but not impaired	(ii)	**55,747**	73,872
Impaired	(iii)	**230,834**	212,867
Subtotal		**9,719,639**	8,909,918
Allowance for impairment losses of loans and advances to customers		**(400,275)**	(403,243)
Loans and advances to customers, net		**9,319,364**	8,506,675

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.1 *Credit risk* (Continued)

Loans and advances to customers (Continued)

(5) Credit quality of loans and advances to customers (Continued)

(i) Loans and advances neither past due nor impaired

	31 December 2016 Normal	Special-mention	Total
Corporate loans and advances	**5,832,088**	**321,400**	**6,153,488**
Personal loans and advances	**3,276,326**	**3,244**	**3,279,570**
Total	**9,108,414**	**324,644**	**9,433,058**

	31 December 2015 Normal	Special-mention	Total
Corporate loans and advances	5,648,447	303,383	5,951,830
Personal loans and advances	2,669,491	1,858	2,671,349
Total	8,317,938	305,241	8,623,179

(ii) Loans and advances past due but not impaired

	31 December 2016 Up to 30 days	31-60 days	61-90 days	Total	Including: Exposure covered by collateral and pledge
Corporate loans and advances	**21,940**	**4,902**	**18**	**26,860**	**23,588**
Personal loans and advances	**17,124**	**6,590**	**5,173**	**28,887**	**20,430**
Total	**39,064**	**11,492**	**5,191**	**55,747**	**44,018**

	31 December 2015 Up to 30 days	31-60 days	61-90 days	Total	Including: Exposure covered by collateral and pledge
Corporate loans and advances	22,914	11,599	7,981	42,494	38,567
Personal loans and advances	18,080	7,716	5,582	31,378	20,059
Total	40,994	19,315	13,563	73,872	58,626

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.1 Credit risk (Continued)

Loans and advances to customers (Continued)

(5) Credit quality of loans and advances to customers (Continued)

(iii) Impaired loans and advances

	31 December 2016 Book value	Allowance for impairment losses	Net book value
Individually assessed	**192,848**	**(133,605)**	**59,243**
Collectively assessed	**37,986**	**(28,999)**	**8,987**
Total	**230,834**	**(162,604)**	**68,230**

	31 December 2015 Book value	Allowance for impairment losses	Net book value
Individually assessed	180,978	(133,900)	47,078
Collectively assessed	31,889	(22,049)	9,840
Total	212,867	(155,949)	56,918

Including:

	As at 31 December 2016	2015
Individually assessed and impaired	**192,848**	180,978
Individually assessed and impaired as a percentage of gross loans and advances of the Group	**1.98%**	2.03%
Including: exposure covered by collateral and pledge	**39,021**	29,319

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.1 Credit risk (Continued)

Loans and advances to customers (Continued)

(5) Credit quality of loans and advances to customers (Continued)

(iii) Impaired loans and advances (Continued)

The composition of impaired loans and advances to customers by geographical area is analyzed as follows:

	31 December 2016		31 December 2015	
	Amount	**% of total**	Amount	% of total
Head Office	**7**	**–**	7	–
Yangtze River Delta	**35,471**	**15.4**	41,684	19.6
Pearl River Delta	**30,530**	**13.2**	29,600	13.9
Bohai Rim	**45,728**	**19.8**	40,005	18.8
Central China	**30,194**	**13.1**	28,084	13.2
Western China	**76,046**	**32.9**	63,921	30.0
Northeastern China	**8,772**	**3.8**	6,036	2.8
Overseas and Others	**4,086**	**1.8**	3,530	1.7
Total	**230,834**	**100.0**	212,867	100.0

(6) Rescheduled loans and advances

Rescheduled loans and advances are those loans and advances to customers which have been renegotiated because of deterioration in the financial position of the borrowers, or of the inability of the borrowers to meet their original repayment schedule. Concessions are given by the Group that would not otherwise be granted to these borrowers for economic or legal reasons relating to their financial difficulties. Rescheduled loans and advances of the Group as at 31 December 2016 amounted to RMB52,491 million (31 December 2015: RMB27,919 million).

During the year, as a result of loan renegotiations, the Group recognized loans with renegotiated terms and convertible bonds with fair value upon renegotiation of RMB3,702 million and RMB1,356 million, respectively. The loss associated with these loan renegotiations was not significant.

(7) Assets foreclosed under credit enhancement arrangement

Such assets are disclosed as foreclosed assets in Note IV 27 Other Assets.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.1 *Credit risk (Continued)*

Debt instruments

Credit quality of debt instruments

The table below represents the carrying value and accumulated impairment charges of held-to-maturity investments and debt instruments classified as receivables:

		As at 31 December	
		2016	2015
Neither past due nor impaired	(1)	**3,509,837**	2,858,931
Impaired	(2)	**5,542**	3,178
Subtotal		**3,515,379**	2,862,109
Individually assessed		**(3,516)**	(1,470)
Collectively assessed		**(5,164)**	(2,395)
Allowance for impairment losses		**(8,680)**	(3,865)
Total held-to-maturity investments and debt instruments classified as receivables, net		**3,506,699**	2,858,244

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.1 Credit risk (Continued)

Debt instruments (Continued)

Credit quality of debt instruments (Continued)

(1) Debt instruments neither past due nor impaired

	31 December 2016				
	Financial assets at fair value through profit or loss	Available-for- sale financial assets	Held-to-maturity investments	Debt instruments classified as receivables	Total
Debt securities issued by:					
– Governments	**20,900**	**464,613**	**1,320,638**	**120,618**	**1,926,769**
– Public sector and quasi-governments	**99,784**	**383,824**	**1,129,986**	**29,997**	**1,643,591**
– Financial institutions	**109,989**	**353,335**	**263,950**	**64,130**	**791,404**
– Corporates	**48,665**	**188,869**	**171,604**	**20,436**	**429,574**
Special government bond	**–**	**–**	**–**	**93,300**	**93,300**
Receivable from the MOF	**–**	**–**	**–**	**272,023**	**272,023**
Certificate treasury bonds and savings treasury bonds	**–**	**–**	**–**	**2,990**	**2,990**
Others	**15,883**	**–**	**–**	**20,165**	**36,048**
Total	**295,221**	**1,390,641**	**2,886,178**	**623,659**	**5,195,699**

	31 December 2015				
	Financial assets at fair value through profit or loss	Available-for- sale financial assets	Held-to-maturity investments	Debt instruments classified as receivables	Total
Debt securities issued by:					
– Governments	22,197	333,537	852,367	42,841	1,250,942
– Public sector and quasi-governments	101,883	465,589	1,061,581	39,786	1,668,839
– Financial institutions	50,176	176,073	202,729	57,339	486,317
– Corporates	32,638	226,882	185,967	31,971	477,458
Special government bond	–	–	–	93,300	93,300
Receivable from the MOF	–	–	–	272,023	272,023
Certificate treasury bonds and savings treasury bonds	–	–	–	2,929	2,929
Others	43,585	–	–	16,098	59,683
Total	250,479	1,202,081	2,302,644	556,287	4,311,491

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.1 *Credit risk* (Continued)

Debt instruments *(Continued)*

Credit quality of debt instruments (Continued)

(2) Impaired debt instruments

	31 December 2016		
	Held-to-maturity investments	**Debt instruments classified as receivables**	**Total**
Corporate bonds	**–**	**547**	**547**
Others	**–**	**4,995**	**4,995**
Subtotal	**–**	**5,542**	**5,542**
Allowance for impairment losses	**–**	**(3,516)**	**(3,516)**
Impaired held-to-maturity investments and debt instruments classified as receivables, net	**–**	**2,026**	**2,026**

	31 December 2015		
	Held-to-maturity investments	Debt instruments classified as receivables	Total
Corporate bonds	–	543	543
Others	–	2,635	2,635
Subtotal	–	3,178	3,178
Allowance for impairment losses	–	(1,470)	(1,470)
Impaired held-to-maturity investments and debt instruments classified as receivables, net	–	1,708	1,708

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.1 Credit risk (Continued)

Debt instruments (Continued)

Credit quality of debt instruments (Continued)

(2) Impaired debt instruments (Continued)

The Group's available-for-sale debt instruments were individually assessed for impairment. As at 31 December 2016, the carrying amount of the impaired available-for-sale debt instruments of the Group was RMB37 million (31 December 2015: RMB516 million). The accumulative impairment losses recognized for these impaired available-for-sale debt instruments by the Group as at 31 December 2016 was RMB331 million (31 December 2015: RMB312 million).

(3) Debt instruments analyzed by credit rating

The Group adopts a credit rating approach to manage the credit risk of the debt securities portfolio held. The ratings are obtained from major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analyzed by rating as at the end of the reporting period are as follows:

		31 December 2016					
		Unrated(i)	AAA	AA	A	Below A	Total
Debt securities issued by:							
– Governments		1,322,981	594,641	5,249	1,033	705	1,924,609
– Public sector and quasi-governments		1,469,672	162,840	10,692	209	–	1,643,413
– Financial institutions		526,761	144,056	36,508	51,620	30,377	789,322
– Corporates	(ii)	47,367	337,875	4,262	23,743	16,116	429,363
Special government bond		93,300	–	–	–	–	93,300
Receivable from the MOF		272,023	–	–	–	–	272,023
Certificate treasury bonds and savings treasury bonds		2,990	–	–	–	–	2,990
Others		37,578	–	–	–	–	37,578
Total		3,772,672	1,239,412	56,711	76,605	47,198	5,192,598

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.1 Credit risk (Continued)

Debt instruments (Continued)

Credit quality of debt instruments (Continued)

(3) Debt instruments analyzed by credit rating (Continued)

		31 December 2015					
		Unrated(i)	AAA	AA	A	Below A	Total
Debt securities issued by:							
– Governments		940,930	301,448	7,607	119	362	1,250,466
– Public sector and quasi-governments		1,512,703	148,418	4,227	3,121	–	1,668,469
– Financial institutions		314,174	102,209	24,517	30,081	14,803	485,784
– Corporates	(ii)	58,407	359,945	11,483	35,404	12,203	477,442
Special government bond		93,300	–	–	–	–	93,300
Receivable from the MOF		272,023	–	–	–	–	272,023
Certificate treasury bonds and savings treasury bonds		2,929	–	–	–	–	2,929
Others		60,907	–	–	–	–	60,907
Total		3,255,373	912,020	47,834	68,725	27,368	4,311,320

(i) Unrated debt investments held by the Group are bonds issued primarily by policy banks, the Chinese government, municipal government bonds and receivable from the MOF.

(ii) The ratings of super short-term commercial papers of the Group amounted to RMB23,420 million (31 December 2015: RMB51,553 million), as included in corporate bonds above are based on issuer rating for this credit risk analysis.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.2 Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. This may arise from cash flows or maturity mismatches of assets and liabilities.

The Group's Assets and Liabilities Management Department manages its liquidity risk through:

– Optimizing asset and liability structure;

– Maintaining stability of deposit base;

– Making projections of future cash flows, and evaluating the appropriate liquid asset position;

– Maintaining an efficient internal funds transfer mechanism within the Group; and

– Performing stress testing on a regular basis.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.2 *Liquidity risk (Continued)*

Analysis of the remaining contractual maturity of financial assets and financial liabilities

The tables below summarize the maturity analysis of financial assets and financial liabilities by remaining contractual maturities based on the carrying amount at the end of each reporting period.

	31 December 2016								
	Past due	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
Cash and balances with central banks	–	223,360	5,110	4,836	16,262	–	–	2,562,085	2,811,653
Deposits with banks and other financial institutions	–	63,917	127,622	168,455	261,620	1,051	–	–	622,665
Placements with and loans to banks and other financial institutions	–	–	159,166	86,942	293,126	41,715	–	–	580,949
Financial assets held for trading	–	336	9,115	18,899	57,602	35,087	2,579	–	123,618
Financial assets designated at fair value through profit or loss	–	–	13,386	47,815	88,784	99,849	36,730	7,773	294,337
Derivative financial assets	–	–	2,121	2,485	25,284	1,165	405	–	31,460
Financial assets held under resale agreements	3,872	–	274,766	26,276	18,137	–	–	–	323,051
Loans and advances to customers	46,908	–	496,239	630,872	2,541,515	1,895,689	3,708,141	–	9,319,364
Available-for-sale financial assets	–	–	34,068	54,098	235,151	719,158	348,203	18,203	1,408,881
Held-to-maturity investments	–	–	51,331	90,654	315,762	1,362,537	1,061,868	–	2,882,152
Debt instruments classified as receivables	–	103	2,205	12,876	52,418	109,354	447,591	–	624,547
Other financial assets	1,607	73,522	32,579	50,698	46,485	776	51	–	205,718
Total financial assets	52,387	361,238	1,207,708	1,194,906	3,952,146	4,266,381	5,605,568	2,588,061	19,228,395
Borrowings from central bank	–	(30)	(16,342)	(69,000)	(205,059)	(621)	–	–	(291,052)
Deposits from banks and other financial institutions	–	(523,652)	(296,656)	(146,008)	(94,165)	(95,563)	–	–	(1,156,044)
Placements from banks and other financial institutions	–	–	(132,600)	(94,050)	(68,138)	(4,820)	(2,413)	–	(302,021)
Financial liabilities held for trading	–	(16,587)	(393)	(524)	–	–	–	–	(17,504)
Financial liabilities designated at fair value through profit or loss	–	–	(77,589)	(63,996)	(125,422)	(16,621)	(38)	–	(283,666)
Derivative financial liabilities	–	–	(2,576)	(3,582)	(13,143)	(1,111)	(346)	–	(20,758)
Financial assets sold under repurchase agreements	–	–	(193,068)	(12,004)	(760)	–	–	–	(205,832)
Due to customers	–	(9,007,828)	(499,909)	(1,185,880)	(2,637,833)	(1,705,965)	(586)	–	(15,038,001)
Debt securities issued	–	–	(34,405)	(56,128)	(89,372)	(52,699)	(155,611)	–	(388,215)
Other financial liabilities	–	(168,287)	(16,390)	(73,738)	(74,678)	(93,281)	(36,768)	–	(463,142)
Total financial liabilities	–	(9,716,384)	(1,269,928)	(1,704,910)	(3,308,570)	(1,970,681)	(195,762)	–	(18,166,235)
Net position	52,387	(9,355,146)	(62,220)	(510,004)	643,576	2,295,700	5,409,806	2,588,061	1,062,160

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.2 *Liquidity risk* (Continued)

Analysis of the remaining contractual maturity of financial assets and financial liabilities (Continued)

	31 December 2015								
	Past due	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
Cash and balances with central banks	–	175,046	31,379	–	3,147	–	–	2,377,485	2,587,057
Deposits with banks and other financial institutions	–	62,223	67,391	106,999	460,050	1,260	–	–	697,923
Placements with and loans to banks and other financial institutions	–	–	228,400	60,359	206,024	9,469	–	–	504,252
Financial assets held for trading	–	20	9,188	16,872	33,146	16,580	3,976	–	79,782
Financial assets designated at fair value through profit or loss	–	–	28,991	49,415	181,918	62,543	32,663	3,949	359,479
Derivative financial assets	–	–	1,512	2,047	11,164	1,224	91	–	16,038
Financial assets held under resale agreements	–	–	275,867	127,105	68,837	–	–	–	471,809
Loans and advances to customers	46,176	–	436,319	758,211	2,520,971	1,764,276	2,980,722	–	8,506,675
Available-for-sale financial assets	–	–	30,086	40,705	214,175	608,815	308,816	11,945	1,214,542
Held-to-maturity investments	–	–	28,330	37,773	297,731	1,109,860	827,130	–	2,300,824
Debt instruments classified as receivables	1	72	1,537	4,568	28,219	100,398	422,625	–	557,420
Other financial assets	1,930	41,439	26,254	53,739	52,574	367	49	–	176,352
Total financial assets	48,107	278,800	1,165,254	1,257,793	4,077,956	3,674,792	4,576,072	2,393,379	17,472,153
Borrowings from central bank	–	(30)	(1,257)	(14,510)	(44,199)	(603)	–	–	(60,599)
Deposits from banks and other financial institutions	–	(654,627)	(97,631)	(71,036)	(196,999)	(201,608)	–	–	(1,221,901)
Placements from banks and other financial institutions	–	–	(148,032)	(81,136)	(82,884)	(1,981)	(1,726)	–	(315,759)
Financial liabilities held for trading	–	(11,541)	(4,165)	(5,628)	(2,702)	–	–	–	(24,036)
Financial liabilities designated at fair value through profit or loss	–	–	(99,066)	(94,230)	(186,697)	(26,378)	(36)	–	(406,407)
Derivative financial liabilities	–	–	(1,055)	(1,869)	(7,915)	(1,169)	(184)	–	(12,192)
Financial assets sold under repurchase agreements	–	–	(83,138)	(255)	(5,411)	–	–	–	(88,804)
Due to customers	–	(7,673,376)	(549,963)	(1,131,857)	(2,553,458)	(1,629,705)	(1)	–	(13,538,360)
Debt securities issued	–	–	(38,732)	(53,909)	(98,423)	(36,746)	(154,932)	–	(382,742)
Other financial liabilities	–	(133,606)	(15,678)	(66,889)	(74,176)	(95,149)	(34,182)	–	(419,680)
Total financial liabilities	–	(8,473,180)	(1,038,717)	(1,521,319)	(3,252,864)	(1,993,339)	(191,061)	–	(16,470,480)
Net position	48,107	(8,194,380)	126,537	(263,526)	825,092	1,681,453	4,385,011	2,393,379	1,001,673

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.2 Liquidity risk (Continued)

Analysis of the undiscounted contractual cash flows

Assets available to meet obligations related to the Group's liabilities and outstanding credit commitments primarily include cash and balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets held for trading, financial assets designated at fair value through profit or loss, and financial assets held under resale agreements. In the normal course of business, the majority of customer deposits repayable on demand or on maturity are expected to be retained. In addition, the Group is able to sell the available-for-sale financial assets to repay matured liabilities, if necessary.

The tables below present the undiscounted cash flows of non-derivative financial assets and financial liabilities by remaining contractual maturities at the end of each reporting period:

	31 December 2016								
	Past due	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
Non-derivative financial assets									
Cash and balances with central banks	–	223,360	5,111	6,056	16,262	–	–	2,562,085	2,812,874
Deposits with banks and other financial institutions	–	63,917	128,856	171,825	267,814	1,082	–	–	633,494
Placements with and loans to banks and other financial institutions	–	–	159,871	88,487	300,526	42,951	–	–	591,835
Financial assets held for trading	–	336	9,275	19,285	61,304	36,647	2,624	–	129,471
Financial assets designated at fair value through profit or loss	–	–	13,846	49,621	94,604	114,089	42,651	7,773	322,584
Financial assets held under resale agreements	3,872	–	275,769	26,782	18,654	–	–	–	325,077
Loans and advances to customers	170,526	–	556,130	724,261	2,879,489	2,852,032	5,326,820	–	12,509,258
Available-for-sale financial assets	–	–	35,142	55,927	247,596	747,779	376,454	18,203	1,481,101
Held-to-maturity investments	–	–	53,256	94,931	333,034	1,430,249	1,198,113	–	3,109,583
Debt instruments classified as receivables	–	103	2,283	13,552	54,372	114,864	456,142	–	641,316
Other financial assets	–	73,449	1,333	18,492	1,922	145	7	–	95,348
Total non-derivative financial assets	174,398	361,165	1,240,872	1,269,219	4,275,577	5,339,838	7,402,811	2,588,061	22,651,941
Non-derivative financial liabilities									
Borrowings from central bank	–	(30)	(16,839)	(70,067)	(209,950)	(622)	–	–	(297,508)
Deposits from banks and other financial institutions	–	(523,653)	(297,533)	(153,366)	(102,476)	(111,199)	–	–	(1,188,227)
Placements from banks and other financial institutions	–	–	(132,947)	(94,693)	(69,026)	(5,491)	(2,548)	–	(304,705)
Financial liabilities held for trading	–	(16,587)	(394)	(525)	–	–	–	–	(17,506)
Financial liabilities designated at fair value through profit or loss	–	–	(78,493)	(65,059)	(132,069)	(18,375)	(39)	–	(294,035)
Financial assets sold under repurchase agreements	–	–	(193,213)	(12,047)	(791)	–	–	–	(206,051)
Due to customers	–	(9,013,383)	(513,834)	(1,224,360)	(2,737,611)	(1,925,423)	(586)	–	(15,415,197)
Debt securities issued	–	–	(34,492)	(56,479)	(90,211)	(55,385)	(155,720)	–	(392,287)
Other financial liabilities	–	(162,912)	(649)	(31,945)	(1,415)	(338)	(36,768)	–	(234,027)
Total non-derivative financial liabilities	–	(9,716,565)	(1,268,394)	(1,708,541)	(3,343,549)	(2,116,833)	(195,661)	–	(18,349,543)
Net position	174,398	(9,355,400)	(27,522)	(439,322)	932,028	3,223,005	7,207,150	2,588,061	4,302,398

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.2 *Liquidity risk* (Continued)

Analysis of the undiscounted contractual cash flows (Continued)

	31 December 2015								
	Past due	On demand	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Undated	Total
Non-derivative financial assets									
Cash and balances with central banks	–	175,046	31,379	1,119	3,147	–	–	2,377,485	2,588,176
Deposits with banks and other financial institutions	–	62,223	68,581	109,926	475,100	1,260	–	–	717,090
Placements with and loans to banks and other financial institutions	–	–	228,910	61,759	211,832	9,784	–	–	512,285
Financial assets held for trading	–	20	9,551	17,411	34,679	18,282	4,259	–	84,202
Financial assets designated at fair value through profit or loss	–	–	29,554	50,581	191,501	74,777	37,021	3,949	387,383
Financial assets held under resale agreements	–	–	277,186	128,996	69,936	–	–	–	476,118
Loans and advances to customers	166,750	–	502,630	862,665	2,884,375	2,670,681	4,395,705	–	11,482,806
Available-for-sale financial assets	–	–	33,422	46,435	249,273	698,678	351,672	11,945	1,391,425
Held-to-maturity investments	–	–	35,186	53,011	369,374	1,359,459	1,020,861	–	2,837,891
Debt instruments classified as receivables	44	72	10,760	6,084	37,651	166,206	475,672	–	696,489
Other financial assets	–	41,390	1,749	26,911	1,479	41	7	–	71,577
Total non-derivative financial assets	166,794	278,751	1,228,908	1,364,898	4,528,347	4,999,168	6,285,197	2,393,379	21,245,442
Non-derivative financial liabilities									
Borrowings from central bank	–	(30)	(1,257)	(14,760)	(44,945)	(604)	–	–	(61,596)
Deposits from banks and other financial institutions	–	(654,628)	(98,736)	(78,983)	(205,693)	(226,850)	–	–	(1,264,890)
Placements from banks and other financial institutions	–	–	(148,500)	(81,584)	(83,887)	(2,261)	(1,898)	–	(318,130)
Financial liabilities held for trading	–	(11,541)	(4,183)	(5,654)	(2,722)	–	–	–	(24,100)
Financial liabilities designated at fair value through profit or loss	–	–	(99,503)	(95,377)	(193,554)	(27,487)	(41)	–	(415,962)
Financial assets sold under repurchase agreements	–	–	(83,173)	(256)	(5,436)	–	–	–	(88,865)
Due to customers	–	(7,677,719)	(563,857)	(1,167,656)	(2,655,301)	(1,875,275)	(1)	–	(13,939,809)
Debt securities issued	–	–	(38,829)	(54,443)	(108,277)	(70,347)	(201,846)	–	(473,742)
Other financial liabilities	–	(129,421)	(812)	(28,189)	(1,313)	(388)	(34,174)	–	(194,297)
Total non-derivative financial liabilities	–	(8,473,339)	(1,038,850)	(1,526,902)	(3,301,128)	(2,203,212)	(237,960)	–	(16,781,391)
Net position	166,794	(8,194,588)	190,058	(162,004)	1,227,219	2,795,956	6,047,237	2,393,379	4,464,051

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.2 *Liquidity risk* (Continued)

Derivative cash flows

Derivatives settled on a net basis

The fair values of the Group's derivatives that will be settled on a net basis are primarily interest rates products. The tables below present the undiscounted contractual cash flows of the Group's net derivative positions based on their remaining contractual maturities:

	31 December 2016					
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Interest rate derivatives	4	29	11	400	34	478

	31 December 2015					
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Interest rate derivatives	(18)	5	49	(28)	(227)	(219)

Derivatives settled on a gross basis

The fair values of the Group's derivatives that will be settled on a gross basis are primarily foreign exchange rates and precious metal products. The tables below present the undiscounted contractual cash flows of the Group's gross derivative positions based on their remaining contractual maturities:

	31 December 2016					
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a gross basis						
– Cash inflow	305,839	230,340	1,032,215	36,311	485	1,605,190
– Cash outflow	(306,299)	(231,425)	(1,018,999)	(36,568)	(469)	(1,593,760)
Total	(460)	(1,085)	13,216	(257)	16	11,430

	31 December 2015					
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a gross basis						
– Cash inflow	229,711	213,739	867,746	50,092	815	1,362,103
– Cash outflow	(229,673)	(213,507)	(863,714)	(49,965)	(815)	(1,357,674)
Total	38	232	4,032	127	–	4,429

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.2 Liquidity risk (Continued)

Credit Commitments

The tables below summarize the amounts of credit commitments by remaining maturity.

	31 December 2016			
	Less than 1 year	1-5 years	Over 5 years	Total
Loan commitments	**84,529**	**142,003**	**361,869**	**588,401**
Bank acceptance	**312,255**	**–**	**–**	**312,255**
Credit card commitments	**323,217**	**–**	**–**	**323,217**
Guarantee and letters of guarantee	**107,922**	**94,520**	**26,735**	**229,177**
Letters of credit	**161,127**	**20,157**	**–**	**181,284**
Total	**989,050**	**256,680**	**388,604**	**1,634,334**

	31 December 2015			
	Less than 1 year	1-5 years	Over 5 years	Total
Loan commitments	56,515	134,021	259,897	450,433
Bank acceptance	382,255	–	–	382,255
Credit card commitments	258,745	–	–	258,745
Guarantee and letters of guarantee	102,829	97,027	33,520	233,376
Letters of credit	151,193	7,712	–	158,905
Total	951,537	238,760	293,417	1,483,714

49.3 Market risk

Market risk represents the potential loss arising from changes in market rates of interest and foreign exchange, as well as commodity and equity prices. Market risk arises from both the Group's proprietary positions and customer driven transactions, in both cases related to on- and off-balance sheet activities.

The Group is primarily exposed to interest rate risk through its lending, fixed-income and funding activities. Interest rate risk is inherent in many of the Group's businesses and this situation is common among large banks. It fundamentally arises through mismatches between the maturity and re-pricing dates of interest-earning assets and interest-bearing liabilities. As discussed further below, interest rate risk is actively managed.

Foreign exchange rate risk is the potential loss related to changes in foreign exchange rates affecting the translation of foreign currency denominated monetary assets and liabilities. The risk of loss results from movements in foreign currency exchange rates.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.3 Market risk (Continued)

The Group is also exposed to commodity risk, primarily related to gold and other precious metals. The risk of loss results from movements in commodity price. The Group manages the risk related to gold price together with foreign exchange rate risk.

The Group has determined that the levels of market risk related to changes in equity prices and commodity prices other than gold, with respect to the related exposures in its trading and investment portfolios, are immaterial.

Segregation of Trading Book and Banking Book

To enhance the effectiveness of market risk management, as well as the accuracy of determining the levels of regulatory capital required related to market risk, the Group segregates all financial instruments and commodities, both on- and off-balance sheet, into either the trading book or banking book. The trading book is comprised of financial instruments and commodity positions held for trading, including all derivatives instruments. Any other financial instruments are included in the banking book.

Market Risk Management for Trading Book

The Group manages market risk in the trading book through methodologies that include Value at Risk (VaR), monitoring and management of established limits, sensitivity analysis, duration analysis, exposure analysis and stress testing.

The Group has formulated policies, which are subject to review annually or as circumstances otherwise dictate, to manage market risk. Further, in this regard, the Group's market risk management is focused on movements in domestic and global financial markets, as well as the composition of the trading book and management's trading strategies, within approved limits. Moreover, the Group has implemented more specific policies for financial instruments, closely monitoring the exposure to specific issuers and counterparties, as well as the tenor of individual positions and trading strategies. The foundation of the Group's limit and risk monitoring system is based on VaR, which is used consistently to monitor all classes of financial instruments in the trading book.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.3 Market risk (Continued)

Market Risk Management for Trading Book (Continued)

The Bank has adopted an historical simulation method, with a confidence level of 99% based on holding period of 1 day and historical data for 250 days to calculate the VaR of the trading books, which includes the Head Office, domestic branches and overseas branches. Based on the differences between domestic and overseas markets, the Bank selected applicable parameters for model and risk factors in order to reflect the actual market risk levels. The Bank verified the accuracy and reliability of market risk measurements through data analysis, parallel modeling and back-testing of the market risk measurements.

VaR Analysis for the Trading Book

Bank

		2016			
		At the end of the year	Average	Maximum	Minimum
Interest rate risk		**53**	**63**	**71**	**39**
Exchange rate risk	(1)	**20**	**86**	**213**	**14**
Commodity risk		**9**	**13**	**28**	**3**
Overall VaR		**44**	**96**	**213**	**44**

		2015			
		At the end of the year	Average	Maximum	Minimum
Interest rate risk		50	76	103	50
Exchange rate risk	(1)	82	74	151	32
Commodity risk		18	29	53	9
Overall VaR		82	119	183	68

The Bank calculates VaR for its trading book (excluding RMB foreign currency settlement contracts with customers under relevant regulations). The Bank conducts stress testing for its trading book quarterly. The specific areas subject to this testing include the major areas of exposure, such as bonds, interest rate derivatives, foreign exchange derivatives and gold. The stress testing uses a range of scenarios, to assess the potential impact on profit and loss.

(1) VaR related to gold is recognized as a component of foreign exchange rate risk.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.3 Market risk (Continued)

Market Risk Management for Banking Book

The Group manages market risk related to the banking book by consistently applying techniques across the Group that include exposure limit management, stress testing, scenario analysis and gap analysis.

Interest Rate Risk Management

The interest rate risk existing in the banking book broadly relates to the mismatch of the maturity or re-pricing dates of interest rate-sensitive financial assets and financial liabilities, as well as inconsistencies in the change of the benchmark interest rates on which most domestic interest rate-sensitive financial assets and financial liabilities are based.

The Group closely monitors changes in the macro-economic environment and the monetary policies of the PBOC, enabling it to timely and flexibly adjusts its pricing strategy. The Group establishes comprehensive interest rate risk management policies and protocols and has improved the consistency of interest rate risk measurement, monitoring, analysis and management of interest rate risk across the Group.

The Group regularly measures and analyzes the Group's interest rate risk by conducting gap analysis, sensitivity analysis, scenario analysis and stress testing to manage interest rate risk within established limits.

Foreign Exchange Rate Risk Management

Foreign exchange rate risk relates to the mismatch of foreign currency denominated monetary assets and liabilities, and the potential loss related to changes in foreign exchange rates, which largely arises through operational activities.

The Group performs monitoring and sensitivity analysis of foreign exchange rate risk exposure, manages the mismatch of foreign currency denominated assets and liabilities to effectively manage foreign exchange rate risk exposure within acceptable limits.

Market Risk Exposure Limit Management

Market risk exposure limits are classified as either directive limits or indicative limits, based on the characteristics of the underlying instruments or transactions, including exposure limit monitoring, enforcement of stop-loss limits, VaR limits, and stress testing limits.

The Group is committed to continuous improvement of its market risk exposure limit management. The Group establishes exposure limits reflecting its risk appetite and continuously refines the categorization of market risk exposure limits. Further, it regularly monitors, reports, refines, and implements improvements to the market risk exposure limit process.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.3 Market risk (Continued)

Foreign exchange rate risk

The Group primarily conducts its business activities in RMB, with certain transactions denominated in USD, HKD and, to a lesser extent, other currencies.

The composition of all financial assets and liabilities at the end of each reporting period analyzed by currency is as follows:

	31 December 2016				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash and balances with central banks	2,756,422	46,480	2,030	6,721	2,811,653
Deposits with banks and other financial institutions	569,193	28,974	3,630	20,868	622,665
Placements with and loans to banks and other financial institutions	476,480	100,020	1	4,448	580,949
Financial assets held for trading	123,426	192	–	–	123,618
Financial assets designated at fair value through profit or loss	283,113	2,140	8,187	897	294,337
Derivative financial assets	5,491	25,501	112	356	31,460
Financial assets held under resale agreements	323,051	–	–	–	323,051
Loans and advances to customers	8,849,459	375,380	64,594	29,931	9,319,364
Available-for-sale financial assets	1,193,761	170,794	11,844	32,482	1,408,881
Held-to-maturity investments	2,860,670	19,843	–	1,639	2,882,152
Debt instruments classified as receivables	624,411	–	135	1	624,547
Other financial assets	159,614	43,831	1,013	1,260	205,718
Total financial assets	18,225,091	813,155	91,546	98,603	19,228,395
Borrowings from central bank	(289,089)	–	(1,342)	(621)	(291,052)
Deposits from banks and other financial institutions	(1,110,244)	(34,464)	(10,976)	(360)	(1,156,044)
Placements from banks and other financial institutions	(60,936)	(194,150)	(33,178)	(13,757)	(302,021)
Financial liabilities held for trading	(17,504)	–	–	–	(17,504)
Financial liabilities designated at fair value through profit or loss	(282,781)	(885)	–	–	(283,666)
Derivative financial liabilities	(18,639)	(172)	(281)	(1,666)	(20,758)
Financial assets sold under repurchase agreements	(190,118)	(12,647)	–	(3,067)	(205,832)
Due to customers	(14,610,341)	(361,250)	(23,866)	(42,544)	(15,038,001)
Debt securities issued	(202,803)	(156,819)	(13,801)	(14,792)	(388,215)
Other financial liabilities	(449,526)	(10,316)	(1,576)	(1,724)	(463,142)
Total financial liabilities	(17,231,981)	(770,703)	(85,020)	(78,531)	(18,166,235)
Net on-balance sheet position	993,110	42,452	6,526	20,072	1,062,160
Net notional amount of derivatives	1,442	614	10,566	(18,232)	(5,610)
Credit commitments	1,385,194	223,195	5,322	20,623	1,634,334

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.3 Market risk (Continued)

Foreign exchange rate risk (Continued)

	31 December 2015				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash and balances with central banks	2,533,407	47,748	1,500	4,402	2,587,057
Deposits with banks and other financial institutions	642,108	36,844	8,803	10,168	697,923
Placements with and loans to banks and other financial institutions	412,437	87,171	838	3,806	504,252
Financial assets held for trading	79,782	–	–	–	79,782
Financial assets designated at fair value through profit or loss	331,966	10,216	14,134	3,163	359,479
Derivative financial assets	2,952	12,399	79	608	16,038
Financial assets held under resale agreements	471,809	–	–	–	471,809
Loans and advances to customers	8,098,472	336,998	47,918	23,287	8,506,675
Available-for-sale financial assets	1,124,517	69,605	1,667	18,753	1,214,542
Held-to-maturity investments	2,274,171	24,410	–	2,243	2,300,824
Debt instruments classified as receivables	557,418	–	1	1	557,420
Other financial assets	146,462	27,797	1,250	843	176,352
Total financial assets	16,675,501	653,188	76,190	67,274	17,472,153
Borrowings from central bank	(58,739)	–	(1,257)	(603)	(60,599)
Deposits from banks and other financial institutions	(1,145,912)	(69,892)	(5,667)	(430)	(1,221,901)
Placements from banks and other financial institutions	(66,808)	(188,588)	(45,674)	(14,689)	(315,759)
Financial liabilities held for trading	(24,036)	–	–	–	(24,036)
Financial liabilities designated at fair value through profit or loss	(403,328)	(3,044)	–	(35)	(406,407)
Derivative financial liabilities	(10,074)	(897)	(13)	(1,208)	(12,192)
Financial assets sold under repurchase agreements	(83,471)	(5,333)	–	–	(88,804)
Due to customers	(13,253,507)	(220,929)	(31,161)	(32,763)	(13,538,360)
Debt securities issued	(230,650)	(127,703)	(18,287)	(6,102)	(382,742)
Other financial liabilities	(384,409)	(32,190)	(1,680)	(1,401)	(419,680)
Total financial liabilities	(15,660,934)	(648,576)	(103,739)	(57,231)	(16,470,480)
Net on-balance sheet position	1,014,567	4,612	(27,549)	10,043	1,001,673
Net notional amount of derivatives	22,179	(5,342)	31,748	(37,060)	11,525
Credit commitments	1,307,939	158,487	4,312	12,976	1,483,714

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.3 *Market risk* (Continued)

Foreign exchange rate risk (Continued)

The table below indicates the potential effect on profit before tax and other comprehensive income arising from a 5% appreciation or depreciation of RMB spot and forward foreign exchange rates against a basket of all other currencies on the net positions of foreign currency monetary assets and liabilities and derivative instruments in the consolidated statement of financial position.

RMB	31 December 2016 Profit before tax	31 December 2016 Other comprehensive income	31 December 2015 Profit before tax	31 December 2015 Other comprehensive income
5% appreciation	**(1,892)**	**(9)**	1,753	(22)
5% depreciation	**1,892**	**9**	(1,753)	22

The effect on profit before tax and other comprehensive income is calculated based on the assumption that the Group's foreign currency sensitive exposures and foreign currency derivative instruments net position at the end of each reporting period remain unchanged. The Group mitigates its foreign exchange rate risk through active management of its foreign currency exposures and the appropriate use of derivative instruments, based on management expectation of future foreign currency exchange rate movements. Such analysis does not take into account the correlation effect of changes in different foreign currencies, nor any further actions that could be taken by management to mitigate the effect of foreign exchange differences. Therefore, the sensitivity analysis above may differ from actual results occurring through changes in foreign exchange rates.

Interest rate risk

The Group's interest rate risk arises from the mismatches between contractual maturities or re-pricing dates of interest-generating assets and interest-bearing liabilities. The Group's interest-generating assets and interest-bearing liabilities are primarily denominated in RMB. The PBOC established RMB benchmark interest rates for loans whereby financial institutions are in a position to price their loans based on credit risk; commercial and market factors. The deposit interest rate floating ceiling was removed by the PBOC with effect from 24 October 2015 for commercial banks.

The Group manages its interest rate risk by:

– Regularly monitoring the macro-economic factors that potentially impact the PBOC benchmark interest rates;

– Optimizing the management over the differences in timing between contractual maturities or re-pricing dates of interest-generating assets and interest-bearing liabilities; and

– Enhancing the interest rate margin on interest-generating assets and interest-bearing liabilities, with reference to the prevailing PBOC benchmark interest rates where appropriate.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.3 *Market risk (Continued)*

Interest rate risk (Continued)

The tables below summarize the contractual maturity or re-pricing date, whichever is earlier, of the Group's financial assets and liabilities at the end of each reporting period.

	31 December 2016						
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with central banks	2,538,115	4,836	16,262	–	–	252,440	2,811,653
Deposits with banks and other financial institutions	189,386	168,262	261,871	1,051	–	2,095	622,665
Placements with and loans to banks and other financial institutions	161,388	93,665	290,302	35,594	–	–	580,949
Financial assets held for trading	9,323	19,037	57,624	34,741	2,557	336	123,618
Financial assets designated at fair value through profit or loss	13,386	41,993	43,614	98,920	88,651	7,773	294,337
Derivative financial assets	–	–	–	–	–	31,460	31,460
Financial assets held under resale agreements	274,766	26,276	18,137	–	–	3,872	323,051
Loans and advances to customers	3,744,515	1,438,931	3,706,198	217,857	211,863	–	9,319,364
Available-for-sale financial assets	63,969	107,182	248,715	630,290	340,522	18,203	1,408,881
Held-to-maturity investments	56,045	112,776	319,438	1,338,194	1,055,699	–	2,882,152
Debt instruments classified as receivables	2,902	14,960	51,865	107,229	447,591	–	624,547
Other financial assets	–	–	–	–	–	205,718	205,718
Total financial assets	7,053,795	2,027,918	5,014,026	2,463,876	2,146,883	521,897	19,228,395
Borrowings from central bank	(16,342)	(69,000)	(205,059)	(621)	–	(30)	(291,052)
Deposits from banks and other financial institutions	(819,981)	(146,008)	(94,165)	(95,563)	–	(327)	(1,156,044)
Placements from banks and other financial institutions	(132,599)	(97,112)	(68,183)	(4,127)	–	–	(302,021)
Financial liabilities held for trading	(393)	(524)	–	–	–	(16,587)	(17,504)
Financial liabilities designated at fair value through profit or loss	(77,589)	(63,996)	(125,422)	(16,621)	(38)	–	(283,666)
Derivative financial liabilities	–	–	–	–	–	(20,758)	(20,758)
Financial assets sold under repurchase agreements	(193,068)	(12,004)	(760)	–	–	–	(205,832)
Due to customers	(9,350,819)	(1,185,810)	(2,637,484)	(1,705,236)	(6)	(158,646)	(15,038,001)
Debt securities issued	(40,107)	(61,302)	(85,162)	(46,033)	(155,611)	–	(388,215)
Other financial liabilities	–	–	–	–	–	(463,142)	(463,142)
Total financial liabilities	(10,630,898)	(1,635,756)	(3,216,235)	(1,868,201)	(155,655)	(659,490)	(18,166,235)
Interest rate gap	(3,577,103)	392,162	1,797,791	595,675	1,991,228	(137,593)	1,062,160

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.3 Market risk (Continued)

Interest rate risk (Continued)

	31 December 2015						
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with central banks	2,294,237	–	3,147	–	–	289,673	2,587,057
Deposits with banks and other financial institutions	128,136	107,123	460,250	1,260	–	1,154	697,923
Placements with and loans to banks and other financial institutions	229,809	61,016	205,958	7,469	–	–	504,252
Financial assets held for trading	9,797	17,012	32,645	16,332	3,976	20	79,782
Financial assets designated at fair value through profit or loss	33,264	57,213	174,531	57,860	32,662	3,949	359,479
Derivative financial assets	–	–	–	–	–	16,038	16,038
Financial assets held under resale agreements	275,867	127,105	68,837	–	–	–	471,809
Loans and advances to customers	3,130,605	1,497,927	3,530,381	145,347	202,415	–	8,506,675
Available-for-sale financial assets	57,958	77,438	220,340	544,478	302,383	11,945	1,214,542
Held-to-maturity investments	31,061	60,847	312,703	1,075,252	820,961	–	2,300,824
Debt instruments classified as receivables	3,154	8,264	37,690	87,908	420,404	–	557,420
Other financial assets	–	–	–	–	–	176,352	176,352
Total financial assets	6,193,888	2,013,945	5,046,482	1,935,906	1,782,801	499,131	17,472,153
Borrowings from central bank	(1,257)	(14,510)	(44,199)	(603)	–	(30)	(60,599)
Deposits from banks and other financial institutions	(752,048)	(71,036)	(196,999)	(201,598)	–	(220)	(1,221,901)
Placements from banks and other financial institutions	(149,848)	(83,250)	(82,130)	(531)	–	–	(315,759)
Financial liabilities held for trading	(4,165)	(5,628)	(2,702)	–	–	(11,541)	(24,036)
Financial liabilities designated at fair value through profit or loss	(99,066)	(94,230)	(186,697)	(26,378)	(36)	–	(406,407)
Derivative financial liabilities	–	–	–	–	–	(12,192)	(12,192)
Financial assets sold under repurchase agreements	(83,138)	(255)	(5,411)	–	–	–	(88,804)
Due to customers	(8,031,571)	(1,132,862)	(2,553,742)	(1,630,591)	(1)	(189,593)	(13,538,360)
Debt securities issued	(40,930)	(57,921)	(95,626)	(33,331)	(154,934)	–	(382,742)
Other financial liabilities	–	–	–	–	–	(419,680)	(419,680)
Total financial liabilities	(9,162,023)	(1,459,692)	(3,167,506)	(1,893,032)	(154,971)	(633,256)	(16,470,480)
Interest rate gap	(2,968,135)	554,253	1,878,976	42,874	1,627,830	(134,125)	1,001,673

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.3 Market risk (Continued)

Interest rate risk (Continued)

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

The sensitivity analysis on net interest income is based on reasonably possible changes in interest rates with the assumption that the structure of financial assets and financial liabilities held at the period end remains unchanged, and does not take changes in customer behavior, basis risk or any prepayment options on debt securities into consideration.

The sensitivity analysis on other comprehensive income reflects only the effect of changes in fair value of those financial instruments classified as available-for-sale financial assets held, whose fair value changes are recorded as an element of other comprehensive income.

	31 December 2016		31 December 2015	
	Net interest income	**Other comprehensive income**	Net interest income	Other comprehensive income
+100 basis points	**(24,271)**	**(40,354)**	(16,780)	(38,949)
-100 basis points	**24,271**	**40,354**	16,780	38,949

The assumptions do not reflect actions that might be taken under the Group's capital and interest rate risk management policy to mitigate changes to the Group's interest rate risk. Therefore the above analysis may differ from the actual situation.

In addition, the presentation of interest rate sensitivity above is for illustration purposes only, showing the potential impact on net interest income and other comprehensive income of the Group under different parallel yield curve movements, relative to their position at period-end, excluding the derivative positions.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.4 Insurance risk

The Group engages in its insurance business primarily in Mainland China. Insurance risk refers to the financial impact resulting from the unexpected occurrence of insured events. These risks are actively managed by the Group through effective sales management, underwriting control, reinsurance management and claim management. Through effective sales management, the risk of mis-selling could be reduced and the accuracy of information used for underwriting is improved. Through underwriting control, risk of adverse selection could be reduced and moreover differential pricing policy based on the level of each kind of risk could be utilized. Through reinsurance, the Group's insurance capacity could be enhanced and targeted risks could be mitigated. Effective claims management is designed to ensure that insurance payments are controlled according to established criteria.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term life insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality. The Group conducts experience analysis of mortality rate and surrender rate, in order to improve its risk assessment and as a basis for reasonable estimates.

50 Capital management

The Group's capital management objectives are as follows:

– maintain an adequate capital base to support the development of its business;

– support the Group's financial stability and profitable growth;

– allocate capital through an efficient and risk based approach to optimize risk-adjusted return to shareholders; and

– Safeguard the long-term sustainability of the Group's franchise so that it can continue to provide sufficient shareholder returns and benefits for other stakeholders.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

50 Capital management (Continued)

The "Capital Rules for Commercial Banks (Provisional)" issued by the CBRC in 2012 includes, among other things, requirements for minimum capital, capital conservation buffer, additional capital surcharge for systemically important banks, countercyclical buffer and Pillar II capital as follows:

– minimum regulatory requirements for Common Equity Tier-one Capital Adequacy Ratio, Tier-one Capital Adequacy Ratio and Capital Adequacy Ratio are 5%, 6% and 8%, respectively;

– capital conservation buffer requires additional 2.5% of Common Equity Tier-one Capital Adequacy Ratio;

– additional capital surcharge for systemically important banks requires additional 1% of Common Equity Tier-one Capital Adequacy Ratio;

– should the regulators require countercyclical buffer under particular circumstances or regulators impose additional Pillar II capital requirements for specific banks, these requirements shall be met within the specified time limits.

In April 2014, the CBRC has officially approved the Group to adopt the Internal Ratings – Based approach to measure its Credit Risk-weighted Assets for both retail and non-retail risk exposures and the Standardized approach to measure its Operational Risk-weighted Assets, respectively. Before that, the Group has been using the Weighted approach and the Basic Indicator approach to measure its Credit Risk-weighted Assets and Operational Risk-weighted Assets, respectively, for the purpose of calculating its Capital Adequacy Ratios. The CBRC will determine the parallel run period for the Group, which should last for at least three years. During the parallel run period, the Group should calculate its Capital Adequacy Ratios under the above two approaches, and should conform to the capital floor requirements as stipulated in the "Capital Rules for Commercial Banks (Provisional)".

As at 31 December 2016 and 31 December 2015, the Group adopted the Standardized approach for Market Risk-weighted Assets measurement.

Capital adequacy and the utilization of regulatory capital are closely monitored by the Group's management in accordance with the guidelines developed by the Basel Committee and relevant regulations promulgated by the CBRC. Required information related to capital levels and utilization is filed quarterly with the CBRC.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

50 Capital management (Continued)

The table below summarizes the Capital Adequacy Ratios and capital composition as at 31 December 2016 calculated pursuant to the "Capital Rules for Commercial Banks (Provisional)" and under the Internal Ratings – Based approach for Credit Risk-weighted Asset and the Standardized approach for Market Risk-weighted Assets and Operational Risk-weighted Assets, respectively, as approved by the CBRC in April 2014.

		31 December 2016	31 December 2015
Common Equity Tier-one Capital Adequacy Ratio	(1)	**10.38%**	10.24%
Tier-one Capital Adequacy Ratio	(1)	**11.06%**	10.96%
Capital Adequacy Ratio	(1)	**13.04%**	13.40%
Common Equity Tier-one Capital	(2)	**1,238,683**	1,130,285
Deductible Items from Common Equity Tier-one Capital	(3)	**(7,653)**	(5,595)
Net Common Equity Tier-one Capital		**1,231,030**	1,124,690
Additional Tier-one Capital	(4)	**79,904**	79,902
Net Tier-one Capital		**1,310,934**	1,204,592
Tier-two Capital	(5)	**235,566**	267,028
Net Capital		**1,546,500**	1,471,620
Risk-weighted Assets	(6)	**11,856,530**	10,986,302

Pursuant to the "Capital Rules for Commercial Banks (Provisional)":

(1) The scope of consolidation related to the calculation of the Group's Capital Adequacy Ratios includes Domestic Institutions, Overseas Institutions and affiliated financial subsidiaries specified in the Regulation.

The Common Equity Tier-one Capital Adequacy Ratio is calculated as Net Common Equity Tier-one Capital divided by Risk-weighted Assets. The Tier-one Capital Adequacy Ratio is calculated as Net Tier-one Capital divided by Risk-weighted Assets. The Capital Adequacy Ratio is calculated as Net Capital divided by Risk-weighted Assets.

(2) The Group's Common Equity Tier-one Capital includes: ordinary share capital, capital reserve (subject to regulatory limitations), investment revaluation reserve, surplus reserve, general reserve, retained earnings, non-controlling interests (to the extent permitted in the Common Equity Tier-one Capital under the Regulation), and the foreign currency translation reserve.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

50 Capital management (Continued)

(3) The Group's Deductible Items from Common Equity Tier-one Capital include: other intangible assets (excluding land-use rights), and Common Equity Tier-one Capital investments made in financial institutions over which the Group has control but are outside the regulatory consolidation scope for the Capital Adequacy Ratios calculation.

(4) The Group's Additional Tier-one Capital includes: preference shares issued and non-controlling interests (to the extent permitted in the Additional Tier-one Capital definition under the Regulation).

(5) The Group's Tier-two Capital includes: Tier-two capital instruments and related premium (to the extent allowed under the Regulation), excessive allowance for loan losses, and minority interests (to the extent permitted in the Tier-two Capital definition under the Regulation).

(6) Risk-weighted Assets include Credit Risk-weighted Assets, Market Risk-weighted Assets and Operational Risk-weighted Assets.

51 Fair value of financial instruments

The majority of the Group's assets and liabilities in the consolidated statement of financial position are financial assets and financial liabilities. Fair value measurement of non-financial assets and non-financial liabilities do not have a material impact on the Group's financial position and operations, taken as a whole.

The Group does not have any financial assets or financial liabilities subject to non-recurring fair value measurements for the years ended 31 December 2016 and 31 December 2015.

51.1 Valuation technique, input and process

The fair value of the Group's financial assets and financial liabilities are determined as follows:

– If traded in active markets, fair values of financial assets and financial liabilities with standard terms and conditions are determined with reference to quoted market bid prices and ask prices, respectively;

– If not traded in active markets, fair values of financial assets and financial liabilities are determined by using valuation techniques. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and generally accepted pricing models.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51 Fair value of financial instruments (Continued)

51.1 Valuation technique, input and process (Continued)

The Group has established an independent valuation process for financial assets and financial liabilities. The Finance Market Department is responsible for the valuation of financial assets and financial liabilities, and the Risk Management Department performs an independent review of the valuation methodologies, inputs, assumptions and valuation results. The Operations Department records the accounting for these items and prepares the disclosure of the financial assets and financial liabilities, based on the independently reviewed valuation.

The Group's valuation policies and procedures for different types of financial instruments are approved by the Risk Management Committee. Any change to the valuation policies, or the related procedures, must be reported to the Risk Management Committee for approval before they are implemented.

For the year ended 31 December 2016, there was no significant change in the valuation techniques or inputs used to determine fair value measurements.

51.2 Fair value hierarchy

The Group classifies financial assets and financial liabilities into the following three levels based on the extent to which inputs to valuation techniques used to measure fair value of the financial assets and financial liabilities are observable.

Level 1: fair value measurements are those derived from quoted prices (unadjusted) in an active market for identical assets or liabilities;

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: fair value measurements are not based on observable market data.

51.3 Financial assets and financial liabilities not measured at fair value on the consolidated statement of financial position

The tables below summarize the carrying amounts and fair values of those financial assets and financial liabilities not measured in the consolidated statement of financial position at their fair value. Financial assets and financial liabilities for which the carrying amounts approximate fair value, such as balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets held under resale agreements, loans and advances to customers, receivable from the MOF, special government bond, borrowings from central bank, deposits and placements from banks and other financial institutions, due to customers, financial assets sold under repurchase agreements and certificates of deposit issued, interbank certificate of deposits issued and commercial papers issued are not included in the tables below.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51 Fair value of financial instruments (Continued)

51.3 Financial assets and financial liabilities not measured at fair value on the consolidated statement of financial position (Continued)

	31 December 2016				
	Carrying amount	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets					
Held-to-maturity investments	**2,882,152**	**2,892,525**	**1,528**	**2,890,997**	**–**
Debt instruments classified as receivables (excluding receivable from the MOF and special government bond)	**259,224**	**257,948**	**–**	**117,334**	**140,614**
Subtotal	**3,141,376**	**3,150,473**	**1,528**	**3,008,331**	**140,614**
Financial liabilities					
Bonds issued	**202,107**	**202,084**	**10,392**	**191,692**	**–**
Subtotal	**202,107**	**202,084**	**10,392**	**191,692**	**–**

	31 December 2015				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	2,300,824	2,387,518	2,058	2,385,423	37
Debt instruments classified as receivables (excluding receivable from the MOF and special government bond)	192,097	196,282	–	133,768	62,514
Subtotal	2,492,921	2,583,800	2,058	2,519,191	62,551
Financial liabilities					
Bonds issued	198,476	199,289	9,816	189,473	–
Subtotal	198,476	199,289	9,816	189,473	–

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51 Fair value of financial instruments (Continued)

51.4 Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position

The tables below summarize the fair values of the financial assets and financial liabilities measured in the consolidated statement of financial position at their fair value.

	31 December 2016			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
– Debt securities	–	108,095	–	108,095
– Precious metal contracts	–	15,523	–	15,523
Subtotal	–	123,618	–	123,618
Financial assets designated at fair value through profit or loss				
– Debt securities	6,256	163,137	1,850	171,243
– Deposits with banks and other financial institutions	–	–	40,953	40,953
– Placements with and loans to banks and other financial institutions	–	–	58,485	58,485
– Others	1,456	1,710	20,490	23,656
Subtotal	7,712	164,847	121,778	294,337
Derivative financial assets				
– Exchange rate derivatives	–	25,153	54	25,207
– Interest rate derivatives	–	1,042	19	1,061
– Precious metal contracts and others	–	5,192	–	5,192
Subtotal	–	31,387	73	31,460
Available-for-sale financial assets				
– Debt securities	46,517	1,343,906	255	1,390,678
– Equity instruments	3,482	–	1,567	5,049
– Fund investments	7,015	–	–	7,015
– Others	–	–	5,818	5,818
Subtotal	57,014	1,343,906	7,640	1,408,560
Total assets	64,726	1,663,758	129,491	1,857,975
Financial liabilities held for trading				
– Financial liabilities related to precious metals	–	(17,504)	–	(17,504)
Financial liabilities designated at fair value through profit or loss				
– Principal guaranteed wealth management products	–	–	(283,666)	(283,666)
Derivative financial liabilities				
– Exchange rate derivatives	–	(19,650)	(113)	(19,763)
– Interest rate derivatives	–	(585)	(19)	(604)
– Precious metal contracts	–	(391)	–	(391)
Subtotal	–	(20,626)	(132)	(20,758)
Total liabilities	–	(38,130)	(283,798)	(321,928)

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51 Fair value of financial instruments (Continued)

51.4 Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position (Continued)

	31 December 2015			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
– Debt securities	–	65,050	–	65,050
– Precious metal contracts	–	14,732	–	14,732
Subtotal	–	79,782	–	79,782
Financial assets designated at fair value through profit or loss				
– Debt securities	–	141,195	649	141,844
– Deposits with banks and other financial institutions	–	–	164,572	164,572
– Placements with and loans to banks and other financial institutions	–	–	5,529	5,529
– Others	1,019	700	45,815	47,534
Subtotal	1,019	141,895	216,565	359,479
Derivative financial assets				
– Exchange rate derivatives	–	13,833	38	13,871
– Interest rate derivatives	–	900	20	920
– Precious metal contracts	–	1,247	–	1,247
Subtotal	–	15,980	58	16,038
Available-for-sale financial assets				
– Debt securities	15,138	1,187,375	84	1,202,597
– Equity instruments	1,498	–	3,547	5,045
– Fund investments	6,586	–	–	6,586
Subtotal	23,222	1,187,375	3,631	1,214,228
Total assets	24,241	1,389,421	255,865	1,669,527
Financial liabilities held for trading				
– Financial liabilities related to precious metals	–	(24,036)	–	(24,036)
Financial liabilities designated at fair value through profit or loss				
– Principal guaranteed wealth management products	–	–	(406,407)	(406,407)
Derivative financial liabilities				
– Exchange rate derivatives	–	(11,129)	(65)	(11,194)
– Interest rate derivatives	–	(935)	(26)	(961)
– Precious metal contracts	–	(37)	–	(37)
Subtotal	–	(12,101)	(91)	(12,192)
Total liabilities	–	(36,137)	(406,498)	(442,635)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51 Fair value of financial instruments (Continued)

51.4 Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position (Continued)

Substantially all financial instruments classified within Level 2 of the fair value hierarchy are debt investments, currency forwards, currency swaps, interest rate swaps, currency options and precious metal contracts. Fair value of debt investments denominated in RMB is determined based upon the valuation published by the China Central Depository & Clearing Co., Ltd. Fair value of debt investments denominated in foreign currencies is determined based upon the valuation results published by Bloomberg. The fair value of currency forwards, currency swaps, interest rate swaps and currency options are calculated by applying discounted cash flow analysis or the Black Scholes Pricing Model. The fair value of precious metal contracts that are related to the Group's trading activities is determined with reference to the relevant observable market parameters. All significant inputs are observable in the market.

Level 3 financial assets of the Group mainly represented underlying assets invested by principal-guaranteed wealth management products issued by the Group including deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions and credit assets. The counterparties of these deposits and placements are primarily commercial banks in Mainland China. The credit assets are loans and advances to corporate customers in Mainland China. As not all of the inputs needed to estimate the fair value of these deposits, placements and credit assets are observable, the Group classified these investment products within Level 3 of the fair value measurement hierarchy. The significant unobservable inputs related to the credit assets are those parameter related credit risk and liquidity. Level 3 financial liabilities largely represented liabilities to the investors of these products and the unobservable inputs mainly represented those related to the credit risk of the Group. Management has made assumptions on unobservable inputs based on observed indicators of impairment, significant changes in yield, external credit ratings and comparable credit spreads, but the fair value of these underlying assets and liabilities could be different from those disclosed.

There were no significant transfers amongst the different levels of the fair value hierarchy during the years ended 31 December 2016 and 31 December 2015.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51 Fair value of financial instruments (Continued)

51.4 Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position (Continued)

The reconciliation of Level 3 classified financial assets and financial liabilities presented at fair value on the consolidated statement of financial position is as follows:

	2016				
	Financial assets designated at fair value through profit or loss	Derivative financial assets	Available - for-sale financial assets	Financial liabilities designated at fair value through profit or loss	Derivative financial liabilities
1 January 2016	216,565	58	3,631	(406,407)	(91)
Purchases	487,191	–	5,995	–	–
Issuance	–	–	–	(1,758,926)	–
Settlements/disposals	(588,006)	(11)	(1,999)	1,891,502	14
Total gains/(losses) recognized in					
– Profit or loss	6,028	26	–	(9,835)	(55)
– Other comprehensive income	–	–	13	–	–
31 December 2016	121,778	73	7,640	(283,666)	(132)
Change in unrealized (losses)/gains for the year included in profit or loss for assets/liabilities held at the end of the year	(657)	21	–	175	(47)

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51 Fair value of financial instruments (Continued)

51.4 *Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position (Continued)*

	2015				
	Financial assets designated at fair value through profit or loss	Derivative financial assets	Available - for-sale financial assets	Financial liabilities designated at fair value through profit or loss	Derivative financial liabilities
1 January 2015	256,785	223	1,440	(347,282)	(296)
Purchases	384,359	–	2,599	–	–
Issuance	–	–	–	(3,007,928)	–
Settlements/disposals	(438,356)	(131)	(408)	2,963,544	144
Total gains/(losses) recognized in					
– Profit or loss	13,777	(34)	3	(14,741)	61
– Other comprehensive income	–	–	(3)	–	–
31 December 2015	216,565	58	3,631	(406,407)	(91)
Change in unrealized gains/(losses) for the year included in profit or loss for assets/liabilities held at the end of the year	776	(177)	–	9	190

In Level 3 of the fair value hierarchy, total gains or losses included in profit or loss for the year are presented in Net Gain on Financial Instruments Designated at fair value through profit or loss of the consolidated income statement.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

52 Events after the reporting period

52.1 Profit appropriation

(1) Pursuant to the resolutions of the Board of Directors' meeting on 13 January 2017, a cash dividend at the dividend rate of 5.5% per annum related to the second tranche of preference shares amounting to RMB2,200 million in total was approved and the dividend was distributed on 13 March 2017.

(2) Pursuant to the meeting of the Board of Directors on 28 March 2017, the proposal for profit appropriations of the Bank for the year ended 31 December 2016 are set forth as follows:

(i) An appropriation of RMB18,294 million to the statutory surplus reserve (Note IV 41);

(ii) An appropriation of RMB31,947 million to the general reserve(Note IV 42);

(iii) A cash dividend of RMB0.17 per ordinary share in respect of the year ended 31 December 2016 based on the number of ordinary shares issued as at 31 December 2016 totaling RMB55,215 million (Note IV 10).

As at 31 December 2016, the statutory surplus reserve had been recognized as appropriation. The other two items will be recognized in the Group's consolidated financial statements after approval by ordinary equity holders in the forthcoming annual general meeting.

53 Comparatives

Certain comparative amounts have been reclassified to conform with the current year's presentation.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

54 Statement of financial position of the bank

	As at 31 December	
	2016	2015
Assets		
Cash and balances with central banks	**2,809,879**	2,586,843
Deposits with banks and other financial institutions	**616,450**	690,230
Precious metals	**59,105**	40,909
Placements with and loans to banks and other financial institutions	**590,223**	511,969
Financial assets held for trading	**93,880**	79,777
Financial assets designated at fair value through profit or loss	**286,123**	355,550
Derivative financial assets	**31,430**	15,803
Financial assets held under resale agreements	**322,948**	470,182
Loans and advances to customers	**9,282,320**	8,473,314
Available-for-sale financial assets	**1,375,156**	1,195,554
Held-to-maturity investments	**2,869,711**	2,293,949
Debt instruments classified as receivables	**604,991**	541,252
Investment in subsidiaries	**11,660**	10,660
Investments in associates	**213**	273
Controlled structured entities investments	**30,000**	–
Property and equipment	**152,457**	153,184
Deferred tax assets	**82,670**	81,213
Other assets	**221,425**	185,575
Total assets	**19,440,641**	17,686,237
Liabilities		
Borrowings from central bank	**290,992**	60,489
Deposits from banks and other financial institutions	**1,161,931**	1,226,793
Placements from banks and other financial institutions	**269,591**	290,389
Financial liabilities held for trading	**17,504**	24,036
Financial liabilities designated at fair value through profit or loss	**283,666**	406,414
Derivative financial liabilities	**20,734**	11,972
Financial assets sold under repurchase agreements	**202,938**	88,804
Due to customers	**15,035,744**	13,535,613
Debt securities issued	**378,094**	379,728
Other liabilities	**463,621**	453,468
Total liabilities	**18,124,815**	16,477,706

(Amounts in millions of Renminbi, unless otherwise stated)

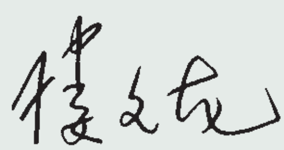
IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

54 Statement of financial position of the bank (Continued)

	Notes IV	As at 31 December 2016	2015
Equity			
Ordinary shares	37	**324,794**	324,794
Preference shares	38	**79,899**	79,899
Capital reserve	39	**98,574**	98,574
Investment revaluation reserve		**3,768**	22,258
Surplus reserve	41	**114,890**	96,567
General reserve	42	**197,695**	175,021
Retained earnings		**494,573**	411,401
Foreign currency translation reserve		**1,633**	17
Total equity		**1,315,826**	1,208,531
Total equity and liabilities		**19,440,641**	17,686,237

Approved and authorized for issue by the Board of Directors on 28 March 2017.

Chairman



Executive Director

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

55 Statement of changes in equity of the bank

	Note IV	Ordinary shares	Preference shares	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Foreign currency translation reserve	Total
As at 1 January 2016		324,794	79,899	98,574	22,258	96,567	175,021	411,401	17	1,208,531
Profit for the year		–	–	–	–	–	–	182,945	–	182,945
Other comprehensive (loss)/income		–	–	–	(18,490)	–	–	–	1,616	(16,874)
Total comprehensive (loss)/income for the year		–	–	–	(18,490)	–	–	182,945	1,616	166,071
Appropriation to surplus reserve	41	–	–	–	–	18,323	–	(18,323)	–	–
Appropriation to general reserve	42	–	–	–	–	–	22,674	(22,674)	–	–
Dividends to ordinary equity holders	10	–	–	–	–	–	–	(54,176)	–	(54,176)
Dividends to preference shareholders	10	–	–	–	–	–	–	(4,600)	–	(4,600)
As at 31 December 2016		324,794	79,899	98,574	3,768	114,890	197,695	494,573	1,633	1,315,826

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

55 Statement of changes in equity of the bank (Continued)

	Note IV	Ordinary shares	Preference shares	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Foreign currency translation reserve	Total
As at 1 January 2015		324,794	39,944	98,574	3,043	78,445	156,145	329,133	(629)	1,029,449
Profit for the year		–	–	–	–	–	–	180,779	–	180,779
Other comprehensive income		–	–	–	19,215	–	–	–	646	19,861
Total comprehensive income for the year		–	–	–	19,215	–	–	180,779	646	200,640
Issuance of preference shares	38	–	39,955	–	–	–	–	–	–	39,955
Appropriation to surplus reserve	41	–	–	–	–	18,122	–	(18,122)	–	–
Appropriation to general reserve	42	–	–	–	–	–	18,876	(18,876)	–	–
Dividends to ordinary equity holders	10	–	–	–	–	–	–	(59,113)	–	(59,113)
Dividends to preference shareholders	10	–	–	–	–	–	–	(2,400)	–	(2,400)
As at 31 December 2015		324,794	79,899	98,574	22,258	96,567	175,021	411,401	17	1,208,531

According to Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Banking (Disclosure) Rules, the Group discloses the following supplementary information:

1. LIQUIDITY COVERAGE RATIOS

	Three months ended			
	31 March 2016	30 June 2016	30 September 2016	31 December 2016
Average Liquidity Coverage Ratio	**138.3%**	**138.6%**	**137.8%**	**139.8%**

The liquidity coverage ratios were also in accordance with the Rules on Liquidity Risk management of Commercial Banks (Provisional) issued by the CBRC and applicable calculation requirements, and based on the data determined under the PRC GAAP.

2. CURRENCY CONCENTRATIONS

	Equivalent in millions of RMB			
	USD	**HKD**	**Other**	**Total**
31 December 2016				
Spot assets	**796,141**	**91,772**	**99,101**	**987,014**
Spot liabilities	**(770,531)**	**(84,739)**	**(76,865)**	**(932,135)**
Forward purchases	**727,185**	**53,211**	**47,571**	**827,967**
Forward sales	**(635,018)**	**(42,645)**	**(65,803)**	**(743,466)**
Net options position	**(91,553)**	**–**	**–**	**(91,553)**
Net long position	**26,224**	**17,599**	**4,004**	**47,827**
Net structural position	**3,426**	**6,133**	**1,541**	**11,100**

	Equivalent in millions of RMB			
	USD	HKD	Other	Total
31 December 2015				
Spot assets	651,473	76,506	67,668	795,647
Spot liabilities	(647,679)	(103,726)	(56,023)	(807,428)
Forward purchases	640,006	48,691	62,503	751,200
Forward sales	(644,902)	(16,954)	(99,559)	(761,415)
Net options position	1,470	5	(182)	1,293
Net long position	368	4,522	(25,593)	(20,703)
Net structural position	3,424	5,445	1,445	10,314

(Amounts in millions of Renminbi, unless otherwise stated)

3. INTERNATIONAL CLAIMS

International claims are the sum of cross-border claims in all currencies and local claims in foreign currencies. The Group is principally engaged in business operations within Mainland China, and regards all the claims on third parties outside Mainland China as cross border claims.

International claims include balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets held for trading, financial assets designated at fair value through profit or loss, loans and advances to customers, financial assets held under resale agreements, available-for-sale financial assets, held-to-maturity investments and debt instruments classified as receivables.

International claims are disclosed based on different countries or regions. A country or region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfer is 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.

	Banks	**Official sector**	**Non-bank private sector**	**Total**
31 December 2016				
Asia Pacific	**85,923**	**19,290**	**99,834**	**205,047**
– of which attributable to Hong Kong	**31,327**	**6,606**	**63,763**	**101,696**
Europe	**34,844**	**3,763**	**36,331**	**74,938**
North and South America	**162,511**	**48,612**	**175,762**	**386,885**
Africa	**640**	**–**	**279**	**919**
Total	**283,918**	**71,665**	**312,206**	**667,789**

	Banks	Official sector	Non-bank private sector	Total
31 December 2015				
Asia Pacific	76,289	16,791	84,691	177,771
– of which attributable to Hong Kong	19,010	13,888	67,530	100,428
Europe	24,437	1,478	18,989	44,904
North and South America	117,738	46,497	173,856	338,091
Africa	396	–	213	609
Total	218,860	64,766	277,749	561,375

(Amounts in millions of Renminbi, unless otherwise stated)

4. OVERDUE AND RESCHEDULED ASSETS

(1) Gross amount of overdue loans and advances to customers

	As at 31 December	
	2016	2015
Overdue		
within 3 months	**79,545**	98,465
between 3 and 6 months	**29,080**	38,809
between 6 and 12 months	**57,388**	66,289
over 12 months	**108,622**	75,949
Total	**274,635**	279,512
Percentage of overdue loans and advances to customers in total loans		
within 3 months	**0.82%**	1.11%
between 3 and 6 months	**0.30%**	0.44%
between 6 and 12 months	**0.59%**	0.74%
over 12 months	**1.12%**	0.85%
Total	**2.83%**	3.14%

(2) Overdue and rescheduled loans and advances to customers

	As at 31 December	
	2016	2015
Total rescheduled loans and advances to customers	**52,491**	27,919
Including: rescheduled loans and advances to customers overdue for not more than 3 months	**17,437**	13,644
Percentage of rescheduled loans and advances to customers overdue for not more than 3 months in total loans	**0.18%**	0.15%

(3) Gross amount of overdue placements with and loans to banks and other financial institutions

The gross amount of the Group's overdue placements with and loans to banks and other financial institutions as at 31 December 2016 and 31 December 2015 were not material.

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