



**AGRICULTURAL BANK OF CHINA LIMITED**

**中國農業銀行股份有限公司**

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

**(Stock Code: 1288)**

## **2016 CAPITAL ADEQUACY RATIO REPORT**

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# 1 Overview

## 1.1 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 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 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.

## 1.2 Capital Adequacy Ratio

In 2014, the China Banking Regulatory Commission (hereinafter referred to as the "CBRC") approved the Bank's use of foundation Internal Ratings-Based (IRB) approach for non-retail exposures, IRB approach for retail exposures and standardized approach for operational risk on bank and group levels.

As a result, the Bank became the first batch of domestic banks implementing advanced approaches for capital management. In accordance with the *Capital Rules for Commercial Banks (Provisional)* (Decree of CBRC [2012] No. 1), CBRC determined the parallel implementation period for a commercial bank approved to adopt the advanced approaches of capital management. During the parallel implementation period, the banks shall calculate its capital adequacy ratios under both advanced approaches and other approaches, and shall comply with the capital floor requirements.

At the end of 2016, the Bank adopted the foundation IRB approach for non-retail exposures and IRB approach for retail exposures to measure credit risk-weighted assets, weighting approach to measure credit risk-weighted assets uncovered by Internal Ratings-Based approach, and standardized measurement approach to measure market risk-weighted assets and operational risk-weighted assets. Unless otherwise specified, such information as regulatory capital, risk exposure, capital requirement and risk-weighted assets contained herein were made by regulatory consolidation.

The table below sets out the net capital, risk-weighted assets and capital adequacy ratios pursuant to the *Capital Rules for Commercial Banks (Provisional)* calculated by the Bank.

*In millions of RMB, except for percentages*

**Table 1.2A: Capital Adequacy Ratio**

Item	31 December, 2016		31 December, 2015	
	The Group	The Bank	The Group	The Bank
CET 1 capital, net	1,231,030	1,221,815	1,124,690	1,115,628
Additional Tier 1 capital, net	79,904	79,899	79,902	79,899
Tier 1 capital, net	1,310,934	1,301,714	1,204,592	1,195,527
Tier 2 capital, net	235,566	236,568	267,028	266,067
Total capital, net	1,546,500	1,538,282	1,471,620	1,461,594
Risk-weighted assets	11,856,530	11,749,661	10,986,302	10,902,770
Credit risk-weighted assets	10,805,524	10,698,032	9,999,777	9,922,835
Portion covered by IRB	8,104,766	8,104,766	7,605,473	7,605,473
Portion uncovered by IRB	2,700,758	2,593,266	2,394,304	2,317,362
Market risk-weighted assets	133,907	139,098	87,123	84,322
Operational risk-weighted assets	917,099	912,531	899,402	895,613
Additional risk-weighted assets due to the requirement of the capital floor	-	-	-	-
CET 1 capital adequacy ratio	10.38%	10.40%	10.24%	10.23%
Tier 1 capital adequacy ratio	11.06%	11.08%	10.96%	10.97%
Capital adequacy ratio	13.04%	13.09%	13.40%	13.41%

At the end of 2016, the CET 1 and Tier 1 capital adequacy ratios calculated in accordance with advanced approaches increased a bit compared with 2015, mainly because that the business kept expanding and the risks were kept under control, retained earnings resulted in increased capital. Capital adequacy ratio decreased slightly compared with the end of 2015, mainly because that the arrangements in transitional period resulted in decrease of amount of conventional subordinated debt which could be

included into tier 2 capital and the reduction of the amount of provisions for excess loan loss which could be included into tier 2 capital.

The table below sets out the consolidated and unconsolidated capital adequacy ratios calculated in accordance with the *Rules on Capital Adequacy of Commercial Banks (Decree of CBRC [2007] No.11)* issued by the CBRC.

<b>Table 1.2B: Capital Adequacy Ratio</b>				
<b>Item</b>	<b>31 December, 2016</b>		<b>31 December, 2015</b>	
	<b>The Group</b>	<b>The Bank</b>	<b>The Group</b>	<b>The Bank</b>
Core capital adequacy ratio	10.32%	10.34%	10.00%	10.05%
Capital adequacy ratio	13.13%	13.15%	13.08%	13.13%

### 1.3 Disclosure Statement

Since 2013, the Bank has been disclosing to investors and the public the Capital Adequacy Ratio Report through public channels in accordance with the requirements of the *Capital Rules for Commercial Banks (Provisional)*. With a view to regulating this process the Bank formulated the *Administrative Measures on Information Disclosure of Capital Adequacy Ratio*, which was considered and approved by the Board of Directors of the Bank.

The information disclosure of capital adequacy ratio of the Bank can be classified into provisional disclosure and regular disclosure. Where changes arise from the common stocks and other capital instruments of the Bank, a provisional disclosure will be made in a timely manner. The Bank makes regular quarterly, interim and annual disclosures. The quarterly and interim disclosures are included in the reports of the listed company at the same period, while the annual disclosure is presented as a separate report. Investors and the public can visit the Investor Relations at the Bank's official Website (<http://www.abchina.com>) to inquire the Bank's disclosures.

This report was prepared pursuant to the regulatory requirements including the *Capital Rules for Commercial Banks (Provisional)* and the *Notice of the China Banking Regulatory Commission on Issuing the Supporting Policy Documents for the Capital Regulation of Commercial Banks (CBRC [2013] No.33)* issued by the CBRC. On 28 March 2017, the Board of Directors of the Bank considered and approved this report in the fourth meeting of 2017. On 28 March 2017, the Board of Supervisors of the Bank reviewed and approved this report in the first meeting of 2017.

It should be noted that this report is formulated in accordance with the regulatory requirements of the CBRC, while the annual report of the listed company is formulated in accordance with the PRC accounting standards and the International Financial Reporting Standards. As such, certain disclosure in this report is not directly comparable to the Bank's annual report of the listed company.

The report contains forward-looking statements on the Bank's financial positions, operation results and risk profile. These statements are made on basis of existing plans, estimates and forecast. The Bank believes that the expectations made in these forward-looking statements are reasonable. However, the Bank considers that the actual operation condition is related to the future external events, internal finance, progress of business development, risk occurrence conditions or other performance, therefore, investors shall not heavily rely on these statements.

## 2 Risk Management Framework

### 2.1 Firm-wide Risk Management

Firm-wide risk management refers to the timely identification, measurement, monitoring, reporting and control of risks in all aspects of business operations, processes and staff through the integration of elements of risk management including risk appetite, policies, organizations, tools and models, IT systems and risk culture, so as to ensure effective risk management in decision making, implementation and supervision. In 2016, the Bank kept pushing forward the establishment of firm-wide risk management system. Under the general requirement of preventing risks in a comprehensive manner and fighting against the risks, the bank stuck to the risk bottom line by keeping the principal line of preventing new risks and reducing existing risks. The Bank optimized the responsibility and duty of risk management departments, perfected the risk management accountability and performance assessment mechanism fulfilled the daily management of risks in a solid manner, strengthened the mitigation efforts of risk in key areas, maintained the stability of asset quality, and kept the leading position in risk reserve within the industry. The Bank continuously enhanced the market risk management in bond investment and asset management, deepened operational risk management constantly in risk case and other areas. Thus the efficiency of risk management of the Bank was further improved.

### 2.2 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 the Bank's 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 for Risk Appetite* described the types and levels of risks acceptable to the Bank during the course of operations. It established the risk limits, specified the basic principles for formulating risk policies and set up the general process for the formulation, adjustment, management duties and implementation of risk appetite.

The Bank is devoted to positioning itself as a top-notch modern commercial bank, maintaining its prudent risk appetite, operating in compliance with regulatory and legal requirements, and consistently implementing the advanced approaches for 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 sufficient risk allowance and capital adequacy, aims to improve the Bank's overall risk management capability for business development and innovation, and creates value through risk management, so as to effectively support the achievement of the Bank's strategic targets.

In 2016, the Bank adhered to the prudent risk appetite and advocated the risk management philosophy of emphasizing risks, envisaging risks and examining risks. The Bank also operated in compliance with laws and regulations and tried to keep balance between capital, risks and revenue while taking into



consideration of the security, profitability and liquidity. The Bank opposed over-aggressive or over-conservative attitude in undertaking risks, received the moderate returns through undertaking proper risks, and maintained an adequate reserve and capital adequacy to offset risks simultaneously.

## 2.3 Structure and Organization of Risk Management

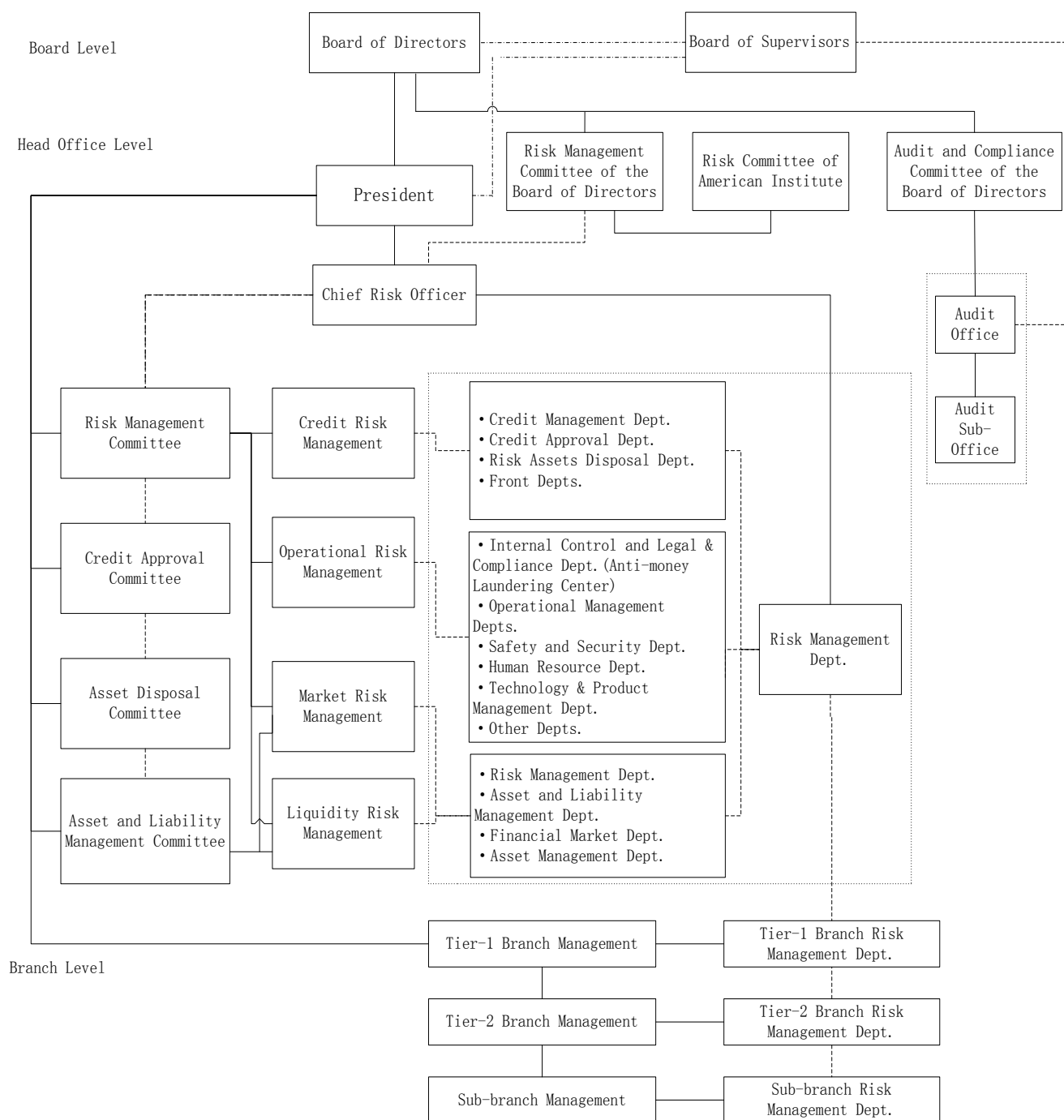
The Board of Directors assumes the ultimate responsibility for risk management. The Risk Management Committee, the Audit and Compliance Committee under the Board of Directors perform the risk management functions, review the key risk management issues and supervise and evaluate the establishment of risk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

Senior Management is the organizer and executor of risk management of the Bank. Under the senior management oversight, the Bank has 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, procedures and tools, analyzing and evaluating the overall risk profile 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 continued to strengthen the “Three Defense Lines” of the risk management which are comprised of business departments (departments bearing risk), Risk Management Department and Audit Department. 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 Board of Director set up the Risk Committee of the American Institute, 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 risk management departments. Specifically, the Risk Management Department is responsible for comprehensive risk management and market risk management across the Bank; the Credit Management Department is in charge of credit risk management across the Bank; and the Internal Control and Legal Compliance Department oversees the management of operational risk, compliance risk, 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 training programs to strengthen the professionalism and duty performance of the risk management staff of the Bank.



## Risk Management Organizational Chart



## 2.4 Risk Management Policies

In 2016, the Bank continued to refine its risk management policy systems. As for credit risk management, the Bank mainly formulated the annual credit policy guideline, identification guidelines for group clients and administrative rules on credit pre-approval for corporate clients, modified the rules on credit risk incident reporting and revised the rules on stress testing and rules on ratings of overseas

institutions. As for market risk management, the Bank mainly formulated the policies for market risk management, and revised the rules on segregation of the trading book and banking book, rules on measurement of risk value, rules on model validation of market risks, rules on valuation of trading and investment. As for operational risk management, the Bank mainly formulated the rules on information technology risk.

## 2.5 Risk Management Tools and IT Systems

### *Implementation of the advanced approaches for capital management*

The Bank further reinforced the implementation and application of the advanced approaches of capital management. In 2016, the Bank applied to the CBRC for the regulatory assessment and approval of the application scope of advanced approaches for capital management, including, implementing the Internal Model Approach for market risks, setting unified benchmarks for non-retail portfolios in domestic and overseas branches and removing the restriction that retail risk-weighted asset shall be no less than the level required under the weighting approach. In January 2017, the CBRC formally approved the above practices, facilitating the implementation and application of advanced approaches for capital management.

In respect of credit risk, the Bank launched the online application of the domestic and foreign non-retail Internal Ratings-Based (IRB) system in 2009 and 2007 respectively, and the retail IRB system was brought online in 2011. Since then, the quality of data gradually improved, while the model, risk parameters and risk identification ability have remained satisfactory, and widening use of risk rating is evident. During the Reporting Period, the Bank strictly controlled the assessment of customers' credit ratings and enhanced the dynamic adjustment mechanism for credit ratings in an effort to mitigate credit risks through revision of ratings. The Bank further strengthened sensitivity management in credit rating and the ability to detect potential default risk through assessments and systematic alerts. The Bank enhanced the rating mechanism for retail portfolios and promoted the importance of credit rating in risk management throughout the credit cycle. After fully considering the external changes in operating conditions and supervision requirements, the Bank, with reference to five years' historical data, made substantial revision to the estimation of risk parameters of retail loans. The Bank enhanced the risk monitoring and control over loans extended for agriculture, farmers and rural areas ("Sannong") and carried out monthly inspection of asset quality of our branches in order to promote stable development of loan business for Sannong.

In respect of market risk, the Bank launched the online application of Internal Models Approach (IMA) in 2012 and established the advanced measurement and management system for market risk with regard to organizational structure, policies and procedures, measurement methods and IT systems. In 2016, the Bank carried out the validation of the market risk IMA, optimized market risk measurement model, and raised the level of parameterization of the system. In addition, the Bank applied the measurement results of the IMA to product management, performance assessment and policy-making process in order to provide strong support to the risk analysis and investment decision-making in financial market business.

In respect of operational risk, the Bank kept on promoting the implementation of the advanced measurement approaches for operational risk, collected the internal loss data since 2008 and established an advanced measurement approach system based on the loss distribution approach, which has been applied in measuring operational risk economic capital since January 2014. During the internal operation procedure of the advanced approaches, the Bank continued to optimize the measurement models and measurement engines and explored measurement approaches that are suitable to our conditions; the Bank perfected the reporting standards for the internal loss data and enhanced the review in order to ensure the data quality about internal loss; the Bank optimized the operational risk management scoring card, and raised the weighting of quantitative indicators, which helped to strengthened the sensitivity to and early detection of operational risk.

Internal Capital Adequacy Assessment Process (ICAAP). In 2016, the Bank kept pushing forward the implementation of ICAAP and normalizing and consolidating its working mechanism, and actively carried out the 2016 ICAAP. The assessment report has been reviewed and approved by the Board of Directors. The Bank organized and carried out the 2016 special audit on ICAAP.

Information disclosure on capital adequacy ratio. In 2016, according to the requirements of the *Capital Rules for Commercial Banks (Provisional)*, the Bank completed the 2015 Capital Adequacy Ratio Report, which was published together with the Annual Report. The quarterly and semi-annual information of capital adequacy ratio were included in Quarterly Report and Interim Report of the Bank.

#### *Tools and measures for risk management*

The Bank actively promoted the implementation of the advanced approaches for capital management, and established an operation and transmission mechanism of risk management to balance capital, risk and return by using various risk management tools, such as economic capital, risk limits, credit rating, risk classification, impairment provision, stress test and risk appraisal. As such, the capability of risk identification, measurement, monitoring, control and reporting has been extensively enhanced.

The Bank continually refined the management of economic capital. In 2016, based on the principle of 'focusing on stability while seeking minor adjustments', the Bank optimized the measurement plan for economic capital in accordance with the changes in state of business, risks and management requirements, improved the business development direction, strengthened the guiding role of risk appetite, and enhanced risk management and control. The Bank intensified its efforts in adjustment of economic capital to such areas as high risk industries (including those in severe overcapacity condition), unauthorized lending and loans to complicated group. As such, capital allocation plays an important role in suppressing credit extension to industries with high energy consumption, high pollution and overcapacity. The Bank supported the business development related to national key construction projects and tilt its business policies more toward key projects and improved measurement discounting for credit term of trade financing operations. The Bank kept optimizing the measurement rules for financial institutions and simple loans, improved the consistency and sensitivity of measurement results and upgraded the delicacy management.

The Bank continued to carry out industry-specific exposure limit management. In 2016, the Bank

integrated 5 secondary industries, 9 tertiary industries and 24 fourth industries among the coal and steel industries with serious overcapacity and high risks into 12 controlled industries to which limits are applied. At the end of the year, credits granted to all controlled industries was kept within limit and the plans for suppressing credit extension to high risk industries were executed. The limit control effectively contained the risk exposure to high risk industries, thus facilitating the implementation of credit policies featuring 'secure credits to certain industries while reducing credits to some others' and optimizing the credit structure of controlled industries.

The Bank continued to deepen the application of the risk report, evaluation and appraisal across the entire bank, and constantly followed and monitored economic and financial trends and national industrial policies. With regard to the overall internal business operation, and through utilization of tools and methods like internal rating, value at risk (VaR), economic capital and stress test, the Bank carried out risk monitoring, analysis, and early warning for key regions, industries and clients. The Bank reported and submitted relevant risk reports to the Board of Directors, Board of Supervisors, and Senior Management in a timely manner. The Bank further intensified the horizontal and vertical mechanisms of risk appraisal, delegated the duties of risk management to each level of the branches and operating departments, improved the measurement for risk appraisal, optimized IT system functions, and upgraded the efficiency of assessment for risk examination.

The Bank's risk management information system links up with its core business system and a data pool for credit risks, market risks and operational risks has been established. The risk management tools, data pool and information system we built and used provided a solid base for enhancing the delicacy and scientific quality of risk management and facilitated decision making for business operation and management.

### 3 Information on Composition of Capital

#### 3.1 Scope for Calculating Capital Adequacy Ratio

The scope for calculating the Bank's consolidated capital adequacy ratio includes the Bank and the financial institutions in which the Bank has direct or indirect investments in compliance with the requirements of the *Capital Rules for Commercial Banks (Provisional)*. The scope for calculating the Bank's unconsolidated capital adequacy ratio covers all the domestic and foreign branches of the Bank.

The main difference between the scope of regulatory consolidation and the scope of accounting consolidation is that ABC Life Insurance Co., Ltd., which is controlled by the Bank, is not included in the scope of regulatory consolidation. As of the end of 2016, the Bank had 14 major subsidiaries. Pursuant to the *Capital Rules for Commercial Banks (Provisional)*, capital deduction was adopted for investments in ABC Life Insurance Co., Ltd., while the remaining 13 subsidiaries were included in the scope of regulatory consolidation.

**Table 3.1A: Consolidation Treatments for Different Invested Entities**

No.	Classification of Invested Entities	Consolidation Treatments
1	Financial institutions included in financial consolidation scope (excluding insurance company)	Include into the scope of regulatory consolidation
2	Financial institutions not included in financial consolidation scope (excluding insurance company)	Not include into the scope of regulatory consolidation
3	Insurance companies	Not include into the scope of regulatory consolidation
4	Other industrial and commercial enterprises	Not include into the scope of regulatory consolidation

The following table sets out basic information of invested entities within the calculation scope of consolidated capital adequacy ratio according to the balance of equity investment.

**Table 3.1B: Basic Information of the Invested Entities within the Calculation Scope of Consolidated Capital Adequacy**

No.	Name of invested entity	Date of establishment	Place of incorporation	Paid-in capital	Total sharehold-ing ratio (%)	Business nature and principal activities
1	China Agricultural Finance Co., Ltd.	1988	Hong Kong, PRC	HKD 588,790,000	100	Investment
2	ABC-CA Fund Management Co., Ltd.	2008	Shanghai, PRC	RMB 200,000,001	51.67	Funds
3	ABC Hubei Hanchuan Rural Bank Limited	2008	Hubei, PRC	RMB 31,000,000	50	Banking

	Liability Company					
4	ABC Hexigten Rural Bank Limited Liability Company	2008	Inner Mongolia, PRC	RMB 19,600,000	51.02	Banking
5	ABC International Holdings Limited	2009	Hong Kong, PRC	HKD 4,113,392,449	100	Investment
6	ABC Financial Leasing Co., Ltd.	2010	Shanghai, PRC	RMB 3,000,000,000	100	Financial Leasing
7	ABC Jixi Rural Bank Limited Liability Company	2010	Anhui, PRC	RMB 29,400,000	51.02	Banking
8	ABC Ansai Rural Bank Limited Liability Company	2010	Shaanxi, PRC	RMB 20,000,000	51	Banking
9	Agricultural Bank of China (UK) Limited	2011	London, UK	USD 100,000,000	100	Banking
10	ABC Zhejiang Yongkang Rural Bank Limited Liability Company	2012	Zhejiang, PRC	RMB 210,000,000	51	Banking
11	ABC Xiamen Tong'an Rural Bank Limited Liability Company	2012	Fujian, PRC	RMB 100,000,000	51	Banking
12	Agricultural Bank of China (Luxembourg) Limited	2014	Luxembourg	EUR 20,000,000	100	Banking
13	Agricultural Bank of China (Moscow) Limited	2014	Moscow, Russia	SUR 1,400,000,000	100	Banking

**Table 3.1C: Basic Information about the Invested Entity Subjected to Deduction Treatment**

No.	Name of invested entity	Date of establishment	Place of incorporation	Paid-in capital	Total sharehold-ing ratio (%)	Business nature and principal activities
1	ABC Life Insurance Co., Ltd.	2005	Beijing, PRC	RMB 2,949,916,475	51	Insurance

## 3.2 Regulatory Capital Shortfall of Investees

There was no regulatory capital shortfall of the investees in which the Bank has a majority equity interest or control.

## 3.3 Restrictions on Intra-group Capital Transfers

The Bank carried out intra-group capital transfers pursuant to the *Law of the People's Republic of China on Commercial Banks*, the *Measures for Implementation of Administrative Licensing Matters Concerning Chinese-funded Commercial Banks*, other related laws and regulations as well as related requirements of regulatory authorities.

## 3.4 Contrast between Regulatory Consolidation and Financial Statement

The Bank compiled the balance sheet within the scope of regulatory consolidation in accordance with the *Capital Rules for Commercial Banks (Provisional)* and the *Notice of the China Banking Regulatory Commission on Issuing the Supporting Policies for the Capital Regulation of Commercial Banks*. The contrast between the items of regulatory consolidation and financial statement is shown in the table below.

*In millions of RMB*

**Table 3.4: Balance Sheet as in Financial Statement and as under Regulatory Consolidation**

Item	31 December, 2016		31 December, 2015		Code
	Financial Statement	Regulatory Consolidation	Financial Statement	Regulatory Consolidation	
<b>Assets</b>					
Cash and balances at central banks	2,811,653	2,811,625	2,587,057	2,587,040	A01
Deposits with banks and other financial institutions	622,665	619,654	697,923	695,409	A02
Placements with banks and other financial institutions	580,949	580,949	504,252	504,252	A03
Financial assets designated at fair value and changes included into the profits and losses for the period	417,955	417,146	439,261	439,249	A04
Derivative financial instruments	31,460	31,460	16,038	16,038	A05
Financial assets held under resale agreements	323,051	322,951	471,809	470,187	A06
Interest receivables	110,370	109,487	104,775	104,233	A07
Loans and advances to	9,319,364	9,318,095	8,506,675	8,505,350	A08



customers					
Available-for-sale financial assets	1,408,881	1,380,609	1,214,542	1,198,763	A09
Hold-to-maturity investments	2,882,152	2,869,711	2,300,824	2,293,754	A10
Accounts receivable investment	624,547	608,367	557,420	542,941	A11
Long term equity investment	213	4,015	273	3,075	A12
Fixed Assets	158,669	158,164	156,178	155,710	A13
Land use rights	22,419	22,419	23,037	23,036	A14
Deferred tax assets	83,187	83,062	81,548	81,548	A15
Goodwill	1,381	-	1,381	-	A16
Intangible assets	2,847	2,677	2,739	2,566	A17
Other assets	168,298	151,266	125,661	98,209	A18
<b>Total assets</b>	<b>19,570,061</b>	<b>19,491,657</b>	<b>17,791,393</b>	<b>17,721,360</b>	<b>A00</b>
<b>Liabilities</b>					
Borrowings from central bank	291,052	291,052	60,599	60,599	L01
Deposits from banks and other financial institutions	1,156,044	1,158,482	1,221,901	1,223,878	L02
Placements from banks and other financial institutions	302,021	302,021	315,759	315,759	L03
Financial liabilities designated at fair value and changes included into the profits and losses for the period	301,170	301,170	430,443	430,443	L04
Financial assets sold under repurchase agreements	205,832	203,429	88,804	88,804	L05
Due to customers	15,038,001	15,038,059	13,538,360	13,538,345	L06
Derivative financial liabilities	20,758	20,758	12,192	12,192	L07
Debt securities issued	388,215	388,215	382,742	382,742	L08
Employee salary payables	39,902	39,675	39,890	39,746	L09
Taxes payables	21,578	21,591	45,214	45,183	L10
Interest payables	229,115	229,148	225,383	225,421	L11
Deferred tax liabilities	58	45	111	12	L12
Provisions	13,590	13,590	17,682	17,682	L13
Other liabilities	241,134	165,295	200,428	129,937	L14
<b>Total liabilities</b>	<b>18,248,470</b>	<b>18,172,530</b>	<b>16,579,508</b>	<b>16,510,743</b>	<b>L00</b>
<b>Owner's equity</b>					
Paid-in capital	324,794	324,794	324,794	324,794	E01

Other equity instruments	79,899	79,899	79,899	79,899	E02
Capital reserve	98,773	98,773	98,773	98,765	E03
Surplus reserve	115,136	115,135	96,748	96,748	E04
General reserve	198,305	198,305	175,606	175,606	E05
Undistributed profits	496,083	496,201	412,005	412,110	E06
Minority interests	3,398	638	1,794	565	E07
Other comprehensive income	5,203	5,382	22,266	22,130	E08
of which: Foreign currency translation reserve	1,625	1,625	(163)	(163)	E09
<b>Total owner's equity</b>	<b>1,321,591</b>	<b>1,319,127</b>	<b>1,211,885</b>	<b>1,210,617</b>	<b>E00</b>

### 3.5 Composition of Capital

Pursuant to the *Capital Rules for Commercial Banks (Provisional)*, the composition of regulatory capital is shown in the table below.

*In millions of RMB*

**Table 3.5: Composition of Capital**

Item		31 December 2016	31 December 2015	Code
<b>CET 1 capital</b>				
1	Paid-in capital	324,794	324,794	E01
2	Retained earnings	809,641	684,464	
2a	Surplus reserve	115,135	96,748	E04
2b	General reserve	198,305	175,606	E05
2c	Undistributed profits	496,201	412,110	E06
3	Accumulated other comprehensive income and disclosed reserve	104,155	120,895	
3a	Capital reserve	98,773	98,765	E03
3b	Others	5,382	22,130	E08
4	Directly issued capital subject to phase out from CET 1 capital (only applicable to non-joint stock companies, banks of joint stock companies just fill with "0")	0	0	
5	Common share capital issued by subsidiaries and held by third parties	93	132	
6	<b>CET 1 capital before regulatory adjustments</b>	<b>1,238,683</b>	<b>1,130,285</b>	
<b>CET 1 capital: regulatory adjustments</b>				
7	Prudential valuation adjustments	-	-	
8	Goodwill (net of deferred tax liability)	-	-	A16

9	Other intangible assets other than land use rights (net of deferred tax liability)	2,677	2,566	A17
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-	
11	Cash-flow hedge reserve to the items not calculated at fair value	-	-	
12	Shortfall of provisions to expected losses on loans	-	-	
13	Securitization gain on sale	-	-	
14	Unrealized gains and losses due to changes in own credit risk on fair valued liabilities	-	-	
15	Defined-benefit pension fund net assets (net of deferred tax liability)	-	-	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	-	
17	Reciprocal cross-holdings in common equity	-	-	
18	Deductible amount of the CET 1 capital from insignificant minority capital investment of the financial institutions outside the scope of consolidation	-	-	
19	Deductible amount of the CET 1 capital from significant minority capital investment of the financial institutions outside the scope of consolidation	-	-	
20	Mortgage servicing rights	-	-	
21	Other deductible amount in the net differed tax asset that rely on future profitability of the bank	-	-	
22	Significant investments in the capital of financial institutions outside the scope of regulatory consolidation and other net deferred tax assets that rely on the Bank's future profitability (amount exceeding the 15% of the CET 1 capital)	-	-	
23	of which: significant investments in the capital of financial institutions	-	-	
24	of which: mortgage servicing rights	-	-	
25	of which: deductible amount in other net deferred tax assets that rely on the Bank's future profitability	-	-	
26a	Investment in CET 1 capital of financial institutions outside the scope of regulatory consolidation but in which the Bank has the control	4,976	3,029	
26b	Shortfall of CET 1 capital of financial institutions outside the scope of regulatory consolidation but in which the Bank has the control	-	-	
26c	Total other items deductible from CET 1 capital	-	-	
27	Regulatory adjustments applied to CET 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	-	

28	<b>Total regulatory adjustments to CET 1 capital</b>	<b>7,653</b>	<b>5,595</b>	
29	<b>CET 1 capital</b>	<b>1,231,030</b>	<b>1,124,690</b>	
<b>Additional Tier 1 capital</b>				
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	79,899	79,899	
31	of which: classified as equity	79,899	79,899	E02
32	of which: classified as liabilities	-	-	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	-	
34	Minority interest given recognition in Tier 1	5	3	
35	of which: instruments issued by subsidiaries subject to phase out	(1)	(2)	
36	<b>Additional Tier 1 capital before regulatory adjustments</b>	<b>79,904</b>	<b>79,902</b>	
<b>Additional Tier 1 capital: regulatory adjustments</b>				
37	Investments in own Additional Tier 1 instruments	-	-	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	-	
39	Additional Tier 1 capital from insignificant minority capital investment of the financial institutions outside the scope of consolidation	-	-	
40	Additional Tier 1 capital from significant minority capital investment of the financial institutions outside the scope of consolidation	-	-	
41a	Investments in Additional Tier 1 capital of financial institutions outside the scope of consolidation but in which the Bank has the control	-	-	
41b	Shortfall of Additional Tier 1 capital of financial institutions outside the scope of consolidation but in which the Bank has the control	-	-	
41c	Other items deductible from Additional Tier 1 capital	-	-	
42	Amount deductible from Additional Tier 2 capital but not yet deducted	-	-	
43	<b>Total regulatory adjustments to Additional Tier 1 capital</b>	<b>-</b>	<b>-</b>	
44	<b>Additional Tier 1 capital</b>	<b>79,904</b>	<b>79,902</b>	
45	<b>Tier 1 capital (CET 1 capital + Additional Tier 1 capital)</b>	<b>1,310,934</b>	<b>1,204,592</b>	
<b>Tier 2 capital</b>				
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	120,000	135,000	
47	of which: Directly issued capital instruments subject to phase out from Tier 2	90,000	105,000	

48	Tier 2 instruments (and CET 1 and AT 1 instruments not included in row 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	12	10	
49	of which: Portions not given recognition after the transition period	(1)	(2)	
50	Excess loan loss provisions	115,554	132,018	
<b>51</b>	<b>Tier 2 capital before regulatory adjustments</b>	<b>235,566</b>	<b>267,028</b>	
<b>Tier 2 capital: regulatory adjustments</b>				
52	Investments in own Tier 2 instruments	-	-	
53	Reciprocal cross-holdings in Tier 2 instruments	-	-	
54	Tier 2 capital from insignificant minority capital investment of the financial institutions outside the scope of consolidation	-	-	
55	Tier 2 capital from significant minority capital investment of the financial institutions outside the scope of consolidation	-	-	
56a	Investments in Tier 2 capital of financial institutions outside the scope of consolidation but in which the Bank has the control	-	-	
56b	Shortfall of Tier 2 capital of financial institutions outside the scope of consolidation but in which the Bank has the control	-	-	
56c	Other items deductible from Tier 2 capital	-	-	
<b>57</b>	<b>Total regulatory adjustments to Tier 2 capital</b>	-	-	
<b>58</b>	<b>Tier 2 capital</b>	<b>235,566</b>	<b>267,028</b>	
<b>59</b>	<b>Total capital (Tier 1 capital + Tier 2 capital)</b>	<b>1,546,500</b>	<b>1,471,620</b>	
<b>60</b>	<b>Total risk weighed assets</b>	<b>11,856,530</b>	<b>10,986,302</b>	
<b>Capital adequacy ratios and reserve capital requirements</b>				
61	CET 1 capital adequacy ratio	10.38%	10.24%	
62	Tier 1 capital adequacy ratio	11.06%	10.96%	
63	Capital adequacy ratio	13.04%	13.40%	
64	Institution specific buffer requirement	3.50%	3.50%	
65	of which: capital conservation buffer requirement	2.50%	2.50%	
66	of which: countercyclical buffer requirement	0.00%	0.00%	
67	of which: G-SIB buffer requirement	1.00%	1.00%	
68	CET 1 capital available to meet buffers (as a percentage of risk weighted assets)	5.04%	4.96%	
<b>National minimum</b>				
69	CET 1 minimum ratio	5%	5%	

70	Tier 1 minimum ratio	6%	6%	
71	Total capital minimum ratio	8%	8%	
<b>Amounts not deducted from the thresholds for deduction</b>				
72	Non-significant investments in the capital of other unconsolidated financial institutions	62,918	71,765	
73	Significant investments in the common stock of unconsolidated financial institutions	683	784	
74	Mortgage servicing rights (net of related tax liability)	N/A	N/A	
75	Other net deferred tax assets relying on the Bank's future profitability (net of deferred tax liabilities)	83,017	81,536	A15-L12
<b>Applicable caps on the inclusion of over-provision for loss on loans in Tier 2 capital</b>				
76	Provisions for excess loan loss actually provided under the Weighting Approach	16,339	36,331	
77	The caps of provision eligible for inclusion in Tier 2 capital excess loan loss under the Weighting Approach	33,555	29,559	
78	Provisions for loan loss actually provided under the Internal Ratings-Based approach	127,724	147,290	
79	The caps of provision eligible for inclusion in Tier 2 capital excess loan loss under the Internal Ratings-Based Approach	99,215	102,459	
<b>Capital instruments subject to phase-out arrangements</b>				
80	Amount included in CET 1 capital due to transitional arrangements	-	-	
81	Amount excluded from CET 1 capital due to transitional arrangements	-	-	
82	Amount included in Additional Tier 1 capital due to transitional arrangements	-	-	
83	Amount excluded from Additional Tier 1 capital due to transitional arrangements	-	-	
84	Amount included in Tier 2 instruments due to transitional arrangements	90,000	105,000	
85	Amount excluded from Tier 2 due to transitional arrangements	35,000	20,000	

### 3.6 Main Features of Eligible Capital Instruments

As of the end of 2016, the eligible capital instruments of the Bank included common stocks, preference shares and Tier 2 capital instrument. On 15 July 2010, A-shares of the Bank were listed on the Shanghai Stock Exchange, and H-shares of the Bank were listed on the Hong Kong Stock Exchange on 16 July 2010. In September 2014, the Bank was approved to conduct a private issue of no more than 800 million preference shares in China to raise no more than RMB80 billion with multiple issuances. As at 13 November 2014, the Bank completed the first issuance of 400 million preference shares, with RMB40 billion raised. In March 2015, the Bank completed the second issuance of 400 million

preference shares, with RMB40 billion raised. All of the raised funds after deducting issue expenses are used to replenish Additional Tier 1 capital.

During the period from 2009 to 2012, the Bank issued in aggregate conventional subordinated bonds amounting to RMB150 billion in the PRC inter-bank bond market. Pursuant to the requirement of *Capital Rules for Commercial Banks (Provisional)*, since 2013, the amount of conventional subordinated bonds that can be included in regulatory capital shall be reduced year by year, and as of the end of 2016, the aggregate amount that could be included in Tier 2 capital was RMB90 billion. As at 18 August 2014, with the approval from the CBRC and PBOC, the Bank successfully issued Tier 2 capital bonds amounting to RMB30 billion in national inter-banks securities market, all of which were included into Tier 2 capital. The following table sets forth the main features of eligible capital instruments of the Bank.

**Table 3.6: Main Features of Eligible Capital Instruments**

		<b>Ordinary share of A-shares</b>	<b>Ordinary share of H-shares</b>	<b>Preference shares</b>	<b>Tier 2 capital instruments</b>
1	Issuer	Agricultural Bank of China Limited	Agricultural Bank of China Limited	Agricultural Bank of China Limited	Agricultural Bank of China Limited
2	Unique code	601288	1288	360001 and 360009	1428012
3	Governing laws	“Company Law of the People’s Republic of China”, “Securities Law of the People’s Republic of China”, “Law of the People’s Republic of China on Commercial Banks”, “Rules Governing the Listing of Stocks on Shanghai Stock Exchange”, etc.	“Company Law of the People’s Republic of China”, “Securities Law of the People’s Republic of China”, “Law of the People’s Republic of China on Commercial Banks”, “Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited”, etc.	“Company Law of the People’s Republic of China”, “Securities Law of the People’s Republic of China”, “the Administrative Measures on the Pilot Scheme of Preference Shares”, etc.	“Law of the People’s Republic of China on Commercial Banks”, “Capital Rules for Commercial Banks (Provisional)”, “Measures for the Administration of the Issuance of Financial Bonds in the National Inter-bank Bond Market”, etc.
	Regulatory treatments				
4	of which: Application of Capital Rules for Commercial Banks (Provisional)	CET 1 capital	CET 1 capital	Additional Tier 1 capital	Tier 2 capital



	transitional rules				
5	of which: Application of Capital Rules for Commercial Banks (Provisional) post-transitional rules	CET 1 capital	CET 1 capital	Additional Tier 1 capital	Tier 2 capital
6	Eligible at the Bank / the Group	the Bank and the Group	the Bank and the Group	the Bank and the Group	the Bank and the Group
7	Instrument type	Ordinary shares	Ordinary shares	Preference shares	Tier 2 capital bonds
8	Recognized in regulatory capital (in million of RMB, most recent reporting date)	294,055	30,739	79,899	30,000
9	Par value	RMB1	RMB1	RMB100	RMB100
10	Accounting classification	Equity	Equity	Equity	Liability
11	Original date of issuance	2010-07-15	2010-07-16	2014-10-31 and 2015-03-06	2014-08-18
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Dated
13	of which: Original maturity dates	No maturity date	No maturity date	No maturity date	2024-08-18
14	Issuer call subject to prior regulatory approval	No	No	No	Yes (subject to prior regulatory approval)
15	of which: Optional call date, contingent call dates and redemption amount (in million of RMB)	-	-	-	2019-08-18, redemption amount 30,000
16	of which: Subsequent call dates, if applicable	-	-	-	-
	Bonus or Dividends				
17	of which: Fixed or floating dividend / bonus	Floating	Floating	The coupon rate of the preference shares will be adjusted every 5 years. The	Fixed

				dividend of the preference shares under the Issuance will be paid at an agreed fixed coupon rate during each dividend adjustment period.	
18	of which: coupon rate and any related index	Subject to the Board's decision	Subject to the Board's decision	Coupon rate of the first dividend adjustment period of the first issuance of preference shares is 6%. Coupon rate of the first dividend adjustment period of the second issuance of preference shares is 5.5%.	5.8%
19	of which: Existence of a dividend stopper	No	No	Yes	No
20	of which: Whether fully discretionary in cancellation of bonus or dividend	Full discretionary	Full discretionary	Full discretionary	Without discretionary
21	of which: Existence of step up or other incentive to redeem	No	No	No	No
22	of which: cumulative or non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	No	No	Yes	No
24	of which: If convertible, specify conversion trigger(s)	-	-	(1) If the CET 1 capital adequacy rate of the Bank decreased to 5.125% (or below), the preference shares issued will be fully or partially transferred to	-

				<p>ordinary shares of A share, in order to make the CET 1 capital adequacy rate resumed to above 5.125%. In case of partial transfer, all preference shares issued will be transferred in proportion on the same conditions.</p> <p>(2) All preference shares issued will be transferred into ordinary shares of A share in case of the earlier occurrence of the following two situations: 1) the CBRC considers that the Bank could not survive in case no conversion will be carried out; 2) relevant authority considers that the Bank could not survive in case no capital injection with public departments or no provision of support with the same effectiveness.</p> <p>If the Bank mandatorily transfer the issued preference shares to ordinary shares, it shall report to the CBRC for investigation and making decision, and shall perform the obligations of disclosure of</p>	
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				temporary reports and announcements in accordance with Securities Law of the People's Republic of China and relevant requirements of the CSRC.	
25	of which: If convertible, fully or partially	-	-	Fully or partially	-
26	of which: If convertible, determine methods for conversion price	-	-	<p>The initial conversion price of the preference shares under the Issuance shall be the average trading price of the ordinary shares of the A Share of the Bank in 20 trading days preceding the date of the Board resolution on the Issuance Plan (i.e. RMB2.43 per share).</p> <p>After the date of the Board resolution, in the event the Bank issues stock dividends, converts capital reserves to share capital, conducts follow-on issuances of shares (excluding the ordinary shares that may be converted from the convertible capital instruments issued by the Bank such as preference shares and convertible corporate bonds), conducts a rights</p>	-

				<p>issue or acts under similar circumstances, the Bank will adjust the conversion price on a cumulative basis in accordance with the sequence of occurrences of the foregoing events. The specific adjustment measures are as follows:</p> <p>In the event of issuing stock dividends or converting capital reserves to share capital:  <math>P1 = P0 / (1 + n)</math>;</p> <p>In the event of conducting follow-on issuances of shares or rights issue:  <math>P1 = P0 \times (N + Q \times (A / M)) / (N + Q)</math>;</p> <p>Among which: "P0" is the conversion price before the adjustment; "n" is the ratio of stock dividends or converting capital reserves to share capital; "Q" is the number of ordinary shares issued in the follow-on issuances of shares or the rights issue; "N" is the total number of the Bank's ordinary shares before the increase or rights issue; "A" is the subscription price</p>	
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				<p>of the follow-on issuances of shares or rights issue; “M” is the newly issued shares’ closing price on the trading day one day prior to the date of the effective and irrevocable announcement on offering results in the follow-on issuances of shares or rights issue; P1 is the adjusted conversion price. When the above changes in the Bank’s shares and/or shareholder’s interests occur, the Bank will adjust the conversion price in sequence, and will make corresponding information disclosure in accordance with relevant requirements. The mandatory conversion price of the preference shares will not be adjusted according to the Bank’s distribution of cash dividends on ordinary shares.</p>	
27	of which: If convertible, mandatory or optional conversion	-	-	Yes	-
28	of which: If convertible, specify instrument type convertible into	-	-	Ordinary Shares	-

29	of which: If convertible, specify issuer of instrument it converts into	-	-	Agricultural Bank of China Limited	-
30	Write-down feature	No	No	No	No
31	of which: If write-down, write-down trigger(s)	-	-	-	Triggers refer to the occurrence of the earlier of the following two events: (1) the CBRC considers that the issuer could not survive if no write-down carried out; (2) relevant authority considers that the issuer could not survive in case no capital injection with public departments or no provision of support with the same effectiveness.
32	of which: If write-down, full or partial	-	-	-	Full write-down
33	of which: If write-down, permanent or temporary	-	-	-	Permanent
34	of which: If temporary write-down, description of write-up mechanism	-	-	-	-
35	Position in subordination hierarchy in	Subordinate to the depositors, creditors, junior	Subordinate to the depositors, creditors, junior	Subordinate to the depositors, creditors, junior	Subordinate to the depositors and creditors,



	liquidation (instrument type immediately senior to instrument)	debt and Additional Tier 1 capital instruments	debt and Additional Tier 1 capital instruments	debt, prior to CET 1 capital instruments	and prior to equity capital and other Tier 1 capital instrument
36	Non-eligible transitioned features	No	No	No	No
37	of which: If yes, specify non-eligible features	-	-	-	-

### 3.7 Threshold Deductions Limit and Limit of Excess Loan Loss

#### Provisions

According to the *Capital Rules for Commercial Banks (Provisional)*, the Bank's non-significant minority capital investments to financial institutions outside the scope of consolidation, significant minority capital investment in financial institutions outside the scope of consolidation and other deferred tax assets that rely on future profitability of the bank do not meet the threshold deduction limit, details of which are as followings.

*In millions of RMB*

**Table 3.7A: Threshold Deduction Limit**

Items applied threshold deduction approach	Amount	Capital deduction limit		Difference up to the cap
		Item	Amount	
Non-Significant minority capital investments in the financial institutions outside the scope of consolidation, of which:	62,918	10% of the CET 1 capital <sup>1</sup> , net	123,103	60,185
CET 1 capital investment	2,818			
Additional Tier 1 capital	943			
Tier 2 capital	59,157			
CET 1 capital of significant minority capital investments in financial institutions outside the scope of consolidation	683	10% of the CET 1 capital <sup>2</sup> , net	123,103	122,420
Other net deferred tax assets that rely on future profitability of the bank	83,017		123,103	40,086
Un-deducted part of CET 1 capital of significant capital investment in financial institutions outside the scope of	83,700	15% of the CET 1 capital <sup>3</sup> , net	184,655	100,955

consolidation and additional net deferred tax assets rely on the Bank's profitability				
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Notes: 1. The CET 1 capital, net of regulatory deduction refers to the balance after deducted all deductible items of the CET 1 capital.

2. The CET 1 capital, net of regulatory deduction refers to the balance after deducted all deductible items of the CET 1 capital and non-significant minority capital investment to financial institutions outside the consolidation.

3. The CET 1 capital, net of regulatory deduction refers to the balance after deducted all deductible items of the CET 1 capital, Non-significant minority capital investment of the financial institution outside the consolidation, CET 1 capital of significant minority capital investment in financial institutions outside the consolidation and other net deferred tax assets that rely on future profitability of the bank.

According to the *Capital Rules for Commercial Banks (Provisional)*, under the weighting approach, provisions of excess loan loss included in the Tier 2 capital is the excess of the provision of the loan loss actually provided by the Bank over the minimum requirement, which is not allowed to exceed 1.25% of the credit risk weighted asset. Under the Internal Ratings-Based approach, provisions of excess loan loss included in the Tier 2 capital is the excess of the provision of the loan loss actually provided by the Bank over the expected loss, which is not allowed to exceed 0.6% of the credit risk weighted asset. In the parallel run period, the amount of provisions of excess loan loss with the coverage lower than 150% included into Tier 2 capital is not allowed to exceed 0.6% of the credit risk weighted asset, and the provisions of excess loan loss with the coverage higher than 150% could be all included into Tier 2 capital.

*In millions of RMB*

**Table 3.7B: Limits of Excess Loan Loss Provisions Could be Included into the Tier 2 Capital**

Measurement method	Item	31 December 2016	31 December 2015
Portion uncovered by IRB approach	Provisions for loan loss	42,315	44,094
	The amount of provisions eligible for inclusion in Tier 2 capital	16,339	36,331
	The limit of provisions eligible for inclusion in Tier 2 capital	33,555	29,559
	If not reach the provision cap, the difference up to the cap	17,216	-
Portion covered by IRB approach	Provisions for loan loss	357,872	359,091
	The amount of provisions eligible for inclusion in Tier 2 capital	127,724	147,290
	The limit of provisions eligible for inclusion in Tier 2 capital	99,215	102,459
	If not reach the provision cap, the difference up to the cap	-	-

### **3.8 Changes in Paid-in Capital**

During the Reporting Period, the Bank did not have any increase or decrease in its paid-in capital, separation or consolidation matters.

### **3.9 Significant Capital Investments**

During the Reporting Period, the Bank had no significant capital investment.

## 4 Credit Risk

### 4.1 Credit Risk Management

Credit risk refers to the risk of loss from the default of an obligator or counterparty when payments fall due. The Bank is exposed to credit risk that is primarily distributed among loan portfolio, investment portfolio, guarantee business and various other credit risks on and off balance sheet. The Bank's objectives of credit risk management are to adhere to its risk appetite, and assume appropriate level of credit risk and earn returns commensurate with respective risks assumed based on its credit risk management capability and capital level, as well as to lower and control the loss for risk as a result of the default of obligators or counterparties, or the downgrading of credit rating or the weakening of contractual capability.

The Bank gradually established and consummated a clear, scientific and applicable and comprehensive credit risk management policy system which included basic policies, systems and measures, based on needs of business development and comprehensive risk management of the Bank, coordinated business development with risk control, formulated a same goal for business development and risk control, ensured the consistency between policies and procedures. The basic policies of credit risk management mainly covered the industry-specific credit, professional reviewing and approval, risk categorization, transaction control, code of conduct, capital insurance, etc., which served as the fundamental standard for credit risk management of the Bank as well as the fundamental basis for setting out management measures. Under the basic policies, sound systems and measures of credit risk management including credit reviewing and approval, limit management, internal rating, credit authority, draw-down management, collateral management, post-lending management, disposal or write-offs, etc. were established to make sure each risk management activity complying with regulations. In addition, the Bank continuously clarified and perfected the specific management measures and operation procedures of each business, product, customer operation for each department and business line, ensuring that the credit risk management system be comprehensively implemented.

The Bank authorized presidents of branches to conduct business and delegation according to the risk management capability of the branches, and all businesses undertaking credit risk should be conducted in accordance with procedures and permissions. The Bank designed and implemented the basic process of credit underwriting, i.e. customer's application and acceptance → business investigation (evaluation) → business examination, reviewed by credit approval committee and approval by authorized person → (filing) → business implementation → post-business management → (management of non-performing assets) → recovery of loans, based on credit scale, complexity, and risk characteristics on the basic principles of "separating the loan initiation from approval, adopting checks and balance, achieving symmetry between powers and responsibilities, and maintaining clarity and efficiency". The Bank implemented customer layering management. Customer management bank was determined by the requirement of customer maintenance and risk management. The business department of the customer management bank led daily management of customers. Credit management department and risk management department at all levels supervised and controlled customer risks, oversaw the

post-lending management of business departments, until the loan recovered upon the expiry of business. Where there was non-performing assets (including loan), disposal department of non-performing loan would take over the non-performing assets under required procedures and permissions by various disposal means until the non-performing assets reversed, recovered, transferred or written-off.

The Bank assesses the recoverability of loans due and classifies the loans by taking account of principle factors, including the borrower's repayment capacity, repayment record, willingness to repay the loan, profitability of the loan project, and the reliability of the secondary repayment source in accordance with the *Guidelines of Loan Credit Risk Classification* issued by the CBRC. The Bank classifies its loans into five categories, namely normal, special mention, substandard, doubtful and loss, in which loans classified as substandard, doubtful and loss are regarded as non-performing loans. Overdue loans refer to loans that customers fail to repay the principal or interest in accordance with the maturity dates stipulated in the contracts. The recognition and provision for impairment losses on loans are assessed individually and collectively. Provision made individually represents the aggregate allowance for impairment losses from corporate loans classified as substandard, doubtful and loss. Provision made collectively represents the aggregate allowance for impairment losses provided for corporate loans classified as normal and special mention, as well as retail loans (including card overdraft).

In 2016, the Bank actively supported the development of real economy and made more efforts in providing credits to key areas, projected related to people's livelihood and under-attended areas while focusing on 'capacity reduction, de-stocking, de-leveraging, cost reduction and improving under-developed areas'. The Bank suppressed credits to industries with overcapacity and proceeded to optimize credit structure by refining and revising certain policies regarding classification of loan risks, reviewing the ratings of high-risk clients, adjusting the measurement of economic capital based on actual situation and carrying out limits management. The Bank conducted special rectification programs to address risks and stabilized the quality of credit assets by focusing on key areas such as risky customers taking out large loans, high-risk guarantee circle and complicated group customers. The Bank continued to strengthen the management of global credit extension and consolidated credit granting, enhance risk management of local government debt and emerging businesses, and therefore resulting in an enhancement in the overall control of credit risks. The Bank established a system for authenticity examination and stepped up prevention and rectification of loan frauds. The Bank enhanced examination and approval for loans and strengthened the functions of risk supervision center. Besides, the centralization and professionalism of management have been enhanced, thus laying a solid foundation for credit management.

## 4.2 Credit Risk Exposure

During the Reporting Period, the Bank calculates the non-retail credit risk-weighted assets by foundation Internal Ratings-Based approach (IRB), of which risk exposure of company and financial institution has been applied for ratification of regulatory authorities, and adopted the Internal Ratings-Based approach (IRB) for retail credit risk-weighted assets and the weighting approach for the part of credit risk-weighted assets not covered by IRB approach.

*In millions of RMB*
**Table 4.2A: Credit Risk Exposure Covered by IRB Approach**

Item	31 December 2016	31 December 2015
Companies	6,074,330	6,274,267
Sovereignty	-	-
Financial institutes	2,867,298	2,953,813
Retail	3,309,064	2,707,028
Assets securitization	-	-
Equity	-	-
Others	-	-
<b>Total</b>	<b>12,250,692</b>	<b>11,935,108</b>

*In millions of RMB*
**Table 4.2B: Credit Risk Exposure Uncovered by IRB Approach**

Item	31 December 2016	31 December 2015
<b>On-balance sheet credit risk exposure</b>	<b>8,354,524</b>	<b>7,071,159</b>
Cash and cash equivalents	2,816,099	2,551,882
Debts issued by central governments and central banks	1,013,127	1,066,704
Loans to public sector entities	1,536,363	832,572
Loans to domestic financial institutions	1,221,962	916,276
Loans to foreign financial institutions	170,793	167,196
Loans to general enterprises	788,332	665,414
Loans to small and micro enterprises	2,837	3,137
Loans to individuals	182,733	222,112
Residual value of leasing assets	-	-
Equity investments	13,593	7,312
Real estate not for own use	1,251	579
Risk exposures from the settlement of securities, commodity and foreign currency transactions	-	-
Asset securitization items on balance sheet	1,925	3,140
Others	605,509	634,835
<b>Off-balance sheet credit risk exposure</b>	<b>672,582</b>	<b>524,599</b>
<b>Counterparty credit risk exposure</b>	<b>30,287</b>	<b>18,172</b>
<b>Total</b>	<b>9,057,393</b>	<b>7,613,930</b>

## **4.3 Internal Ratings-Based Approach**

### **4.3.1 Introduction of Internal Ratings-Based Approach**

Under the unified leadership of the Board of Directors and the senior management, the Bank implements the rating management mechanism of 'initiated by customers' department, reviewed by credit management department and monitored by risk management department'. Risk management department is the competent department of internal rating, responsible for managing the general internal rating for the Bank; departments of customers, credit management, audit, internal compliance, asset and liability management, science and technology, etc. perform their respective duties and jointly carry out the management of internal rating. In recent years, the Board of Directors, senior management and each relevant department of the Bank proactively performed their duties and effectively drove the construction and implementation of the internal rating system.

The Bank strengthened the rating management and enhanced its prudence in measuring the default risk. By leveraging the measuring results, the Bank improved its capability for risk decisions. Currently, the rating parameters have been widely used in credit approval, loan pricing, economic capital measurement, performance appraisal, risk monitor, risk report, loan clarification, limit management, risk appetite, reserve provision.

Customers with 90 days' overdue or occurred advance on its off-balance sheet credit assets such as letter of guarantee, acceptance, letter of credit, etc. will be deemed automatically as default by the system. As to circumstances of business deterioration or insolvency of debtor, it will be identified by the standardized and rigorous procedure.

The Bank has established a default database with date longer than 10 years, including numerous types of data, providing a helpful data support for the development, validation, optimization of the rating model of the Bank, as well as for the work of stress test and quantitative measurement.

Based on the statistical regression methods, after generally considering the fluctuation of systematic risk and individual risk during a full economic cycle, the Bank established probability of default model for non-retail sector, and prediction models of probability of default, loss at given default, exposure at default risk for retail sector. All of the major models are supported by sufficient data, which effectively ensured the accuracy and reliability of the models. The clarification ability of the models remains at a relatively high level. Basic assumptions of the rating models mainly include that the internal and external environment have no material change, the structure of customers and assets of the Bank have no material adjustment and the historical data could be used to predict the future, etc.

### **4.3.2 Non-retail Credit Risk Exposure Covered by IRB Approach**

Following table sets out non-retail risk exposure of the Bank classified by levels of probability of default as of the end of 2016.



*In millions of RMB, except for percentages*

**Table 4.3A: Non-retail Risk Exposure by Probability of Default**

<b>31 December 2016</b>					
<b>Probability of default</b>	<b>Exposure at default</b>	<b>Average PD</b>	<b>Weighted average LGD</b>	<b>Weighted average risk weight</b>	<b>Risk-weighted assets</b>
Rating 1	1,714,542	0.03%	44.55%	16.89%	289,503
Rating 2	1,190,560	0.16%	42.99%	43.94%	523,184
Rating 3	1,073,250	0.42%	44.57%	75.33%	808,523
Rating 4	1,229,322	0.78%	41.94%	75.94%	933,498
Rating 5	702,141	1.23%	42.47%	87.68%	615,657
Rating 6	711,150	1.71%	42.11%	96.45%	685,884
Rating 7	764,300	2.42%	41.36%	102.65%	784,549
Rating 8	488,459	3.21%	41.48%	110.97%	542,018
Rating 9	360,819	4.46%	40.82%	115.07%	415,180
Rating 10	229,517	5.76%	41.67%	133.16%	305,625
Rating 11	113,496	8.88%	41.51%	142.11%	161,283
Rating 12	69,352	13.27%	42.50%	171.11%	118,666
Rating 13	9,400	20.98%	41.67%	188.69%	17,738
Rating 14	5,395	28.57%	44.09%	224.42%	12,109
Rating 15	65,774	42.87%	41.44%	180.93%	119,003
Rating 16	202,113	100.00%	43.54%	41.76%	84,400
<b>Total</b>	<b>8,929,590</b>	<b>-</b>	<b>-</b>	<b>71.86%</b>	<b>6,416,820</b>
<b>31 December 2015</b>					
<b>Probability of default</b>	<b>Exposure at default</b>	<b>Average PD</b>	<b>Weighted average LGD</b>	<b>Weighted average risk weight</b>	<b>Risk-weighted assets</b>
Rating 1	1,504,543	0.03%	44.41%	18.35%	276,131
Rating 2	1,695,415	0.17%	42.97%	43.45%	736,636
Rating 3	907,392	0.42%	39.46%	62.15%	563,988
Rating 4	1,475,365	0.78%	42.75%	77.37%	1,141,499
Rating 5	916,265	1.23%	41.96%	87.06%	797,712
Rating 6	782,958	1.70%	39.16%	88.84%	695,553
Rating 7	763,687	2.40%	39.78%	98.62%	753,152
Rating 8	400,830	3.20%	40.01%	102.79%	412,010
Rating 9	271,399	4.43%	39.68%	107.97%	293,029
Rating 10	154,417	5.63%	41.42%	127.79%	197,326

Rating 11	86,609	8.95%	41.89%	141.54%	122,588
Rating 12	21,051	12.92%	41.83%	157.97%	33,254
Rating 13	5,052	18.51%	42.12%	197.33%	9,968
Rating 14	2,523	27.61%	43.37%	205.26%	5,178
Rating 15	59,622	42.87%	42.50%	198.56%	118,387
Rating 16	176,455	100.00%	43.26%	38.99%	68,803
<b>Total</b>	<b>9,223,583</b>	<b>-</b>	<b>-</b>	<b>67.49%</b>	<b>6,225,214</b>

Note: Counterparty credit risk exposure is excluded.

### 4.3.3 Retail Credit Risk Exposure Covered by IRB Approach

Following table sets out retail risk exposure of the Bank by types as of the end of 2016.

*In millions of RMB, except for percentages*

**Table 4.3B: Retail Risk Exposure by Types**

<b>31 December 2016</b>					
<b>Item</b>	<b>Exposure at default</b>	<b>Average PD</b>	<b>Weighted average LGD</b>	<b>Weighted average risk weight</b>	<b>Risk-weighted assets</b>
Personal residential mortgages	2,574,471	1.54%	24.96%	24.14%	621,363
Eligible circulation retail	369,180	2.41%	51.73%	26.88%	99,240
Other retail	365,413	3.82%	46.82%	54.96%	200,814
<b>Total</b>	<b>3,309,064</b>	<b>-</b>	<b>-</b>	<b>27.85%</b>	<b>921,417</b>
<b>31 December 2015</b>					
<b>Item</b>	<b>Exposure at default</b>	<b>Average PD</b>	<b>Weighted average LGD</b>	<b>Weighted average risk weight</b>	<b>Risk-weighted assets</b>
Personal residential mortgages	1,932,896	1.18%	21.60%	18.61%	359,632
Eligible circulation retail	341,636	2.62%	42.50%	25.53%	87,222
Other retail	432,496	3.15%	49.05%	46.26%	200,089
<b>Total</b>	<b>2,707,028</b>	<b>-</b>	<b>-</b>	<b>23.90%</b>	<b>646,943</b>

## 4.4 Credit Risk Exposure Uncovered under Internal Ratings-Based Approach

As of the end of 2016, the Bank calculated the part of credit risk exposure not covered by IRB approach by weighting approach, details of which are set out in the following table.

*In millions of RMB*

**Table 4.4A: Credit Risk Exposure**

Items	31 December 2016		31 December 2015	
	Risk exposure	Risk exposures after risk mitigation	Risk exposure	Risk exposures after risk mitigation
<b>On-balance sheet credit risk exposure</b>	<b>8,354,524</b>	<b>8,135,076</b>	<b>7,071,159</b>	<b>6,903,191</b>
Cash and cash equivalents	2,816,099	2,816,099	2,551,882	2,551,882
Debts issued by central governments and central banks	1,013,127	1,013,127	1,066,704	1,066,704
Loans to public sector entities	1,536,363	1,536,363	832,572	832,572
Loans to domestic financial institutions	1,221,962	1,085,920	916,276	825,188
Loans to foreign financial institutions	170,793	170,792	167,196	167,073
Loans to general enterprises	788,332	713,895	665,414	595,712
Loans to small and micro enterprises	2,837	1,867	3,137	2,273
Loans to individuals	182,733	174,792	222,112	215,978
Residual value of leasing assets	-	-	-	-
Equity investments	13,593	13,536	7,312	7,255
Real estate not for own use	1,251	1,251	579	579
Risk exposures from the settlement of securities, commodity and foreign currency transactions	-	-	-	-
Asset securitization items on balance sheet	1,925	1,925	3,140	3,140
Others	605,509	605,509	634,835	634,835
<b>Off-balance sheet credit risk exposure</b>	<b>672,582</b>	<b>647,025</b>	<b>524,599</b>	<b>466,091</b>
<b>Counterparty credit risk exposure</b>	<b>30,287</b>	<b>23,591</b>	<b>18,172</b>	<b>18,172</b>
<b>Total</b>	<b>9,057,393</b>	<b>8,805,692</b>	<b>7,613,930</b>	<b>7,387,454</b>

The table below sets forth the risk exposures before and after risk mitigation classified by risk weights as of the end of 2016.

*In millions of RMB*

**Table 4.4B: Risk Exposures before and after Risk Mitigation by Risk Weights**

Risk weights	31 December 2016		31 December 2015	
	Risk exposure	Risk exposures after risk mitigation	Risk exposure	Risk exposures after risk mitigation
0%	4,740,669	4,740,669	4,037,621	4,037,621
20%	1,668,115	1,568,823	966,770	906,239
25%	482,211	468,185	620,391	584,863
50%	8,686	8,683	12,075	12,075
75%	200,367	190,853	234,461	226,319
100%	1,829,188	1,707,075	1,634,185	1,511,967
150%	-	-	-	-
250%	87,083	87,083	83,695	83,695
400%	1,129	1,129	1,130	1,130
1250%	9,658	9,601	5,430	5,373
<b>Total</b>	<b>9,027,106</b>	<b>8,782,101</b>	<b>7,595,758</b>	<b>7,369,282</b>

Note: On-balance sheet and off-balance sheet credit risk exposures are included, but counterparty credit risk exposure is excluded.

The following table sets forth the risk exposures of capital instruments held by the Bank that were issued by other commercial banks, equity investments in industrial and commercial enterprises as well as real estate not for own use as of the end of 2016.

*In millions of RMB*

**Table 4.4C: Risk Exposures for the Holdings of Capital Instruments Issued by Other Commercial Banks, Equity Investments in Industrial and Commercial Enterprises and Real Estate Not for Own Use**

Item	31 December 2016	31 December 2015
CET 1 capital instruments issued by other commercial banks	338	398
Additional Tier 1 capital instruments issued by other commercial banks	943	649
Tier 2 capital instruments issued by other commercial banks	22,435	24,540
Equity investments in industrial and commercial enterprises	8,021	4,103
Real estate not for own use	1,251	579
<b>Total</b>	<b>32,988</b>	<b>30,269</b>

## 4.5 Credit Risk Mitigation

In 2016, the Bank proactively implemented the requirements of the *Capital Rules for Commercial Banks (Provisional)*, further refined the system and requirements of its credit risk mitigation management, enhanced the collateral access, value evaluation and risk control, promoted the construction of positions responsible for collateral evaluation, strengthened security and guarantee management, carried out rectification of guarantee circles, perfected management information systems, and constantly improved the share of qualified credit risk mitigation instruments and management level of credit risk mitigation.

Under the IRB approach, the Bank acknowledged the mitigation effect of risk mitigation instruments, such as qualified collateral and pledges, net amount settlement, guarantees etc. based on relevant requirements of the *Capital Rules for Commercial Banks (Provisional)*. The effect was reflected by the decrease of the loss at given default, exposure at default and probability of default. Eligible collateral and pledges include financial pledges, receivables, commercial and residential properties, and other collateral and pledges. Qualified guarantees mainly consist of guarantees provided by financial institutions and common companies. The Bank took a full consideration of the impact of currency mismatch and term mismatch on the value of the mitigation instruments and determined prudently result of mitigation. When a single risk exposure has various credit risk mitigation instruments, the Bank will consider its risk mitigation effect by subdividing the risk exposure into exposure covered by each risk mitigation instrument.

Under the weighting approach, the Bank identified eligible credit risk mitigation tools, and confirmed that the risk mitigation effect of the eligible collateral and pledges or of the guarantee provided by the eligible guarantors in accordance with the relevant requirements of the *Capital Rules for Commercial Banks (Provisional)*. Loans pledged by eligible collaterals and pledges have the same risk weights as the collateral, or take the risk weights of the direct creditor rights against the collateral's issuers or acceptors. For loans with partial pledges, the portion being protected by pledges have a relatively lower risk weight. Any loan being fully guaranteed by the eligible guarantors directly has the risk weight of the guarantor. For the loans that are partly guaranteed, the part of which obtains a relatively lower risk weight.

*In millions of RMB*
**Table 4.5A: Credit Risk Mitigation Quantitative Information under IRB Approach**

<b>31 December 2016</b>							
Risk exposure type	Covered by qualified collateral and pledges				Covered by netting settlements	Covered by qualified guarantor	Covered by credit derivatives
	Commercial and residential property	Financial collateral	Receivables	Other collateral and pledges			
Companies	840,484	144,162	12,915	52,403	-	326,277	-
Sovereignty	-	-	-	-	-	-	-
Financial institutes	-	132,755	234	-	-	1,375	-
Retail	-	-	-	-	-	-	-
Assets securitization	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-
<b>Total</b>	<b>840,484</b>	<b>276,917</b>	<b>13,149</b>	<b>52,403</b>	<b>-</b>	<b>327,652</b>	<b>-</b>

*In millions of RMB*
**Table 4.5B: Credit Risk Mitigation under Weighting Approach**

Item	<b>31 December 2016</b>		
	Covered by netting settlements	Covered by financial collateral and guarantees	Covered by other eligible mitigations
<b>On-balance sheet credit risk mitigation</b>	-	<b>219,448</b>	-
Cash and cash equivalents	-	-	-
Debts issued by central governments and central banks	-	-	-
Loans to public sector entities	-	-	-
Loans to domestic financial institutions	-	136,042	-
Loans to foreign financial institutions	-	1	-
Loans to general enterprises	-	74,437	-
Loans to micro and small enterprises	-	970	-
Loans to individuals	-	7,941	-
Residual value of leasing assets	-	-	-
Equity investments	-	57	-

Others	-	-	-
Risk exposures from the settlement of securities, commodity and foreign currency transactions	-	-	-
Asset securitization items on balance sheet	-	-	-
<b>Off-balance sheet credit risk mitigation</b>	-	25,557	-
<b>Counterparty credit risk mitigation</b>	<b>6,696</b>	-	-
<b>Total</b>	<b>6,696</b>	<b>245,005</b>	-

## 4.6 Loans and Advances to Customers

As of the end of 2016, the total loans and advances to customers based on our accounting consolidation amounted to RMB9,719,639 million. The relevant data of loans and advances to customers in this section are prepared under the scope of the accounting consolidation. The distribution of the loans and advances to customers of the Bank is shown in the table below.

*In millions of RMB, except for percentages*

**Table 4.6A: Distribution of Loans and Advances to Customers by Geographical Area**

Item	31 December 2016		31 December 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
<b>Corporate loans and advances</b>				
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
<b>Subtotal</b>	<b>6,373,225</b>	<b>100</b>	<b>6,175,301</b>	<b>100</b>
<b>Personal loans and advances</b>				
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
<b>Subtotal</b>	<b>3,346,414</b>	<b>100</b>	<b>2,734,617</b>	<b>100</b>
<b>Total loans and advances to customers</b>	<b>9,719,639</b>	<b>-</b>	<b>8,909,918</b>	<b>-</b>

*In millions of RMB, except for percentages*

**Table 4.6B: Distribution of Loans and Advances to Customers by Industry**

Item	31 December 2016		31 December 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
<b>Corporate loans and advances</b>				
Manufacturing	1,325,386	20.9	1,481,883	24.0
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
Transportation, logistics and postal services	1,052,336	16.5	924,356	15.0
Wholesale and retail	497,976	7.8	650,670	10.5
Water, environment and public utilities management	241,365	3.8	205,797	3.3
Construction	187,931	2.9	216,636	3.5
Mining	243,396	3.8	260,558	4.2
Leasing and commercial services	560,270	8.8	461,772	7.5
Finance	735,915	11.5	457,823	7.4
Others	344,559	5.4	363,105	5.9
<b>Subtotal</b>	<b>6,373,225</b>	<b>100</b>	<b>6,175,301</b>	<b>100</b>
<b>Personal loans and advances</b>				
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 card overdraft	242,451	7.2	222,206	8.1
Loans to rural households	191,770	5.7	167,695	6.1
Others	1,519	0.1	1,712	0.1
<b>Subtotal</b>	<b>3,346,414</b>	<b>100</b>	<b>2,734,617</b>	<b>100</b>
<b>Total loans and advances to customers</b>	<b>9,719,639</b>	<b>-</b>	<b>8,909,918</b>	<b>-</b>



*In millions of RMB*
**Table 4.6C: Distribution of Loans and Advances to Customers by Contractual Period and Collateral**

<b>31 December 2016</b>				
<b>Item</b>	<b>Less than 1 year</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Loans secured by mortgage	947,139	519,723	3,127,606	4,594,468
Loans secured by pledged	786,985	69,113	629,535	1,485,633
Guaranteed loans	618,532	330,718	344,430	1,293,680
Unsecured loans	992,899	466,138	886,821	2,345,858
<b>Total</b>	<b>3,345,555</b>	<b>1,385,692</b>	<b>4,988,392</b>	<b>9,719,639</b>
<b>31 December 2015</b>				
<b>Item</b>	<b>Less than 1 year</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Loans secured by mortgage	1,127,445	649,224	2,489,132	4,265,801
Loans secured by pledged	623,149	71,132	503,719	1,198,000
Guaranteed loans	692,293	263,559	393,338	1,349,190
Unsecured loans	916,995	340,169	839,763	2,096,927
<b>Total</b>	<b>3,359,882</b>	<b>1,324,084</b>	<b>4,225,952</b>	<b>8,909,918</b>

*In millions of RMB*
**Table 4.6D: Distribution of Loans and Advances to Customers by Period Overdue**

<b>31 December 2016</b>					
<b>Item</b>	<b>1 to 90 days past due</b>	<b>91 to 360 days past due</b>	<b>361 days to 3 years past due</b>	<b>Over 3 years past due</b>	<b>Total</b>
Loans secured by mortgage	53,772	52,054	60,454	6,405	172,685
Loans secured by pledged	1,976	2,209	6,901	447	11,533
Guaranteed loans	19,386	23,586	26,612	2,937	72,521
Unsecured loans	4,411	8,619	4,460	406	17,896
<b>Total</b>	<b>79,545</b>	<b>86,468</b>	<b>98,427</b>	<b>10,195</b>	<b>274,635</b>
<b>31 December 2015</b>					
<b>Item</b>	<b>1 to 90 days past due</b>	<b>91 to 360 days past due</b>	<b>361 days to 3 years past due</b>	<b>Over 3 years past due</b>	<b>Total</b>
Loans secured by mortgage	67,076	63,271	37,878	6,716	174,941

Loans secured by pledged	2,600	7,202	5,049	1,568	16,419
Guaranteed loans	21,478	26,103	18,134	4,143	69,858
Unsecured loans	7,311	8,522	2,190	271	18,294
<b>Total</b>	<b>98,465</b>	<b>105,098</b>	<b>63,251</b>	<b>12,698</b>	<b>279,512</b>

*In millions of RMB, except for percentages*

**Table 4.6E: Five-category Classification of Loans and Advances**

Item	31 December 2016		31 December 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Normal	9,111,458	93.75	8,322,619	93.41
Special mentioned	377,347	3.88	374,432	4.20
<b>Non-performing loans</b>	<b>230,834</b>	<b>2.37</b>	<b>212,867</b>	<b>2.39</b>
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
<b>Total</b>	<b>9,719,639</b>	<b>100</b>	<b>8,909,918</b>	<b>100</b>

*In millions of RMB, except for percentages*

**Table 4.6F: Non-performing Loans by Product Type**

Item	31 December 2016			31 December 2015		
	Amount	Percentage (%)	NPL ratio (%)	Amount	Percentage (%)	NPL ratio (%)
<b>Corporate loans</b>	<b>188,767</b>	<b>81.8</b>	<b>3.52</b>	<b>177,453</b>	<b>83.3</b>	<b>3.30</b>
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
<b>Discounted bills</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Retail loans</b>	<b>37,980</b>	<b>16.4</b>	<b>1.14</b>	<b>31,884</b>	<b>15.0</b>	<b>1.17</b>
Residential mortgage loans	11,014	4.8	0.43	8,257	3.9	0.43
Credit card overdraft	6,983	3.0	2.88	6,059	2.8	2.73
Personal consumption	3,119	1.4	2.04	2,892	1.4	1.61

loans						
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	-	8.58	161	0.1	12.43
<b>Overseas and others</b>	<b>4,086</b>	<b>1.8</b>	<b>0.93</b>	<b>3,530</b>	<b>1.7</b>	<b>0.79</b>
<b>Total</b>	<b>230,834</b>	<b>100</b>	<b>2.37</b>	<b>212,867</b>	<b>100</b>	<b>2.39</b>

*In millions of RMB, except for percentages*

**Table 4.6G: Distribution of Non-performing Loans by Geographical Area**

Item	31 December 2016			31 December 2015		
	Amount	Percentage (%)	NPL ratio (%)	Amount	Percentage (%)	NPL 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
Northeastern 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
<b>Total</b>	<b>230,834</b>	<b>100</b>	<b>2.37</b>	<b>212,867</b>	<b>100</b>	<b>2.39</b>

*In millions of RMB, except for percentages*

**Table 4.6H: Non-performing Loans by Industry to Domestic Enterprises**

Item	31 December 2016			31 December 2015		
	Amount	Percentage (%)	NPL ratio (%)	Amount	Percentage (%)	NPL 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
<b>Total</b>	<b>188,767</b>	<b>100</b>	<b>3.52</b>	<b>177,453</b>	<b>100</b>	<b>3.30</b>

*In millions of RMB*

**Table 4.6I: Balance and Changes to the Allowance for Impaired Losses**

Item	31 December 2016			31 December 2015		
	Individually assessed	Collectively assessed	Total	Individually assessed	Collectively assessed	Total
At 1 <sup>st</sup> January 2016	133,900	269,343	403,243	73,094	284,977	358,071
Charge for the year	74,169	4,759	78,928	95,085	(13,188)	81,897
-Addition	96,110	64,216	160,326	103,532	49,622	153,154
-Reversal	(21,941)	(59,457)	(81,398)	(8,447)	(62,810)	(71,257)
Write-offs and transfer-out	(73,949)	(8,797)	(82,746)	(33,921)	(7,408)	(41,329)
Transfer-in	(515)	1,365	850	(358)	336	(22)
-Recoveries of loans and advances written-off in previous years	925	1,421	2,346	805	425	1,230
-Unwinding of discount on allowance	(1,730)	(479)	(2,209)	(1,302)	(463)	(1,765)
-Exchange difference	290	423	713	139	374	513
Other transfer-in/out	-	-	-	-	4,626	4,626
<b>At 31<sup>st</sup> December 2016</b>	<b>133,605</b>	<b>266,670</b>	<b>400,275</b>	<b>133,900</b>	<b>269,343</b>	<b>403,243</b>

*In millions of RMB*
**Table 4.6J: Credit Quality of Loans and Advances**

<b>Item</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Neither past due nor impaired	9,433,058	8,623,179
Past due but not impaired	55,747	73,872
Impaired	230,834	212,867
<b>Subtotal</b>	<b>9,719,639</b>	<b>8,909,918</b>
Less: Allowance for impairment losses of loans and advances to customers	(400,275)	(403,243)
Book value of loans and advances to customers	9,319,364	8,506,675

## 5 Market Risk

### 5.1 Market Risk Management

Market risk refers to the risk of loss in the on- and off-balance sheet businesses of banks as a result of an adverse change in market prices (interest rates, exchange rates, commodity prices and stock prices, etc.). The major types of market risks that the Bank is exposed to are interest rate risk, exchange rate risk and commodity price risk. The Bank's objectives of market risk management are to adhere to the risk appetite, identify, measure, monitor and control market risk of all trading and non-trading business activities, ensure that the level of market risk is controlled within a reasonable range.

In 2016, the Bank kept on improving its market risk management policies and systems, refined the categorization of limits, and improved various functions of market risk management system including pre-warning of limits and parameter management. The Bank also measured, monitored and reported risk exposure limits automatically through systems. The Bank continued to optimize the market risk measurement model and conducted the third verification of the Internal Model Approach. The market risk internal model project was evaluated by the CBRC in the second round on-site compliance assessment. The Bank also coordinated with the CBRC to conduct the research on advanced approaches and quantitative measurement regarding market risks. In response to rising default risk as well as significant adjustment of bond rates and treasury bond futures in the domestic bond market, and to the substantial fluctuations as seen in major markets worldwide involving foreign exchange rates, bonds, commodities and stocks, the "Brexit" vote and the U.S. presidential election, the Bank actively adopted various measures and appropriately controlled the size and duration of available-for-sale accounts, keeping our exposure to proprietary transactions at a relatively low level. As a result, the Bank's market risks were generally stable.

### 5.2 Market Risk Exposure

As of the end of 2016, the Bank's market risk capital requirement measured by standardized approach was RMB 10,713 million.

*In millions of RMB*

**Table 5.2: Market Risk Capital Requirements Measured by Standardized Approach**

Item	31 December 2016	31 December 2015
Interest rate risk	1,754	1,758
Equity risk	-	-
Foreign exchange risk	8,785	5,141
Commodity risk	174	71
Option risk	-	-
<b>Total</b>	<b>10,713</b>	<b>6,970</b>

## 6 Operational Risk

### 6.1 Operational Risk Management

Operational risk refers to the risk caused by imperfect or problematic internal procedures, personnel and information technology systems as well as external events, including legal risk, but excluding strategic risk and reputation risk. The Bank's objectives of operational risk management are to adhere to the risk appetite, and incessantly improve the capacity of operational risk management, control the operational risk within the tolerable range as well as maintain a balance among risk, cost and return. The Bank set up operational risk tolerance management mechanisms, based on which the strategy and strength of operational risk management were determined. The Bank established the process of operational risk management covering identification, assessment, monitoring, reporting, control / mitigation and measurement.

In 2016, the Bank continued to deepen the application of management tools for operational risks. The Bank stipulated the standards about operational risks reports of overseas institutions and affiliates and enhanced control over the examination of lost data and upgraded the quality in collection of lost data. The Bank continued to carry out daily supervision of lost data and report to senior management on a weekly basis, and learned the latest types and the features of risks. Also, the Bank conducted thematic risk assessment for areas showing high frequency of risk incidences, enhanced risk management for new products in advance and improved the capability to identify, prevent and control risks in key areas. The Bank further improved our risk tolerance management mechanisms, optimized the key risk indicators which are under regular checks, provided additional economic capital to cover operational risk when thresholds are surpassed, thus guiding relevant institutions and business departments to strengthen their weak points. The Bank formulated administrative rules for information technology (IT) related risks, carried out bank-wide IT risk assessment and completed the analysis on the effects on the Bank's business performance and thereby enhancing our capability in IT risk management. The Bank optimized the measurement scheme for economic capital, added risk indicators in high risk areas, and took off those indicators with low risk sensitivity or attached a lower weight to them, and guided the branches to enhance management in high risk areas. The Bank gradually improved our system of economic capital measurement score cards for operational risks designed for overseas institutions, reported the measurement results of those institutions on a monthly basis and urged them to raise the level of operational risk management.

### 6.2 Operational Risk Exposure

As of the end of 2016, the Bank adopted standardized approach to measure the regulatory capital for operational risk, in which the regulatory capital requirement for the Group was RMB73,368 million, and for the Bank was RMB73,002 million.

## 7 Other Risks

### 7.1 Securitization Risk

#### 7.1.1 Information on Securitization Business

Securitization refers to that the originator packages and transfers the asset to the special purpose vehicle which generates future cash flows and in turn issues securities supported by the future cash flow of the assets, with different payment order and credit ratings. The Bank participates in securitization business, mainly serving as originator, lending services provider and investor.

##### *As Originator and Lending Services Provider*

To mobilize asset inventories, adjust the asset and liability proactively, enrich the risk management measures and promote operational transformation, the Bank carried out one issue of non-performing asset securitization business in 2016- “Nongying Non-performing Asset Securitization Trust Assets-backed Securities (ABS) 2016 Issue I”. The underlying asset for the product is the non-performing loans to corporate clients by the Bank, the scale is RMB3,064 million. In the issue process, the Bank served as the originator, participating in the selection of the underlying assets, transaction structure design and road-show activities. As the lending services provider, the Bank provided post-lending management, receiving the principal and the interest, fund transfer and information disclosure for the assets pool.

As of the end of 2016, the balance of the underlying assets in the securitization for the Bank as the originator was RMB13,088 million, of which the balance of normal corporate loans’ principal was RMB3,141 million, and the balance of non-performing corporate loans’ principal was RMB9,947 million.

##### *As Investor*

As an investor in the ABS market, the Bank generates investment returns through purchasing and holding assets-backed securities, and exposes to the relevant credit risk, market risk and liquidity risk. Investment amount is determined with reference to the annual investment strategy and risk-adjusted returns.

#### 7.1.2 Accounting Policies

In the normal course of business, the Bank transfers credit assets to a special purpose trust which then issues ABS to investors.

The Bank may retain a part of subordinated tranches, which may give rise to part of the risks and returns of the transferred assets. The Bank will, according to the retention degree of risk and returns, analyze and judge whether to terminate recognition of relevant credit assets. Those financial assets concerning the continuing involvement are recognized on the consolidated statement of financial



position to the extent of the Bank's continuing involvement. The extent of the Bank's continuing involvement is the extent to which the Bank is exposed to changes in the value of the transferred assets.

### 7.1.3 Securitization Risk Exposure

The Bank adopted the standardized approach to measure the risk-weighted assets in securitization in accordance with the *Capital Rules for Commercial Banks (Provisional)*. As of the end of 2016, the risk exposure of the Bank was RMB1,925 million, and the capital requirement was RMB775 million.

*In millions of RMB*

**Table 7.1A: Securitization Originated by the Bank, not Settled during the Reporting Period**

Asset securitization product	Originating year	Underlying assets at origination	Underlying assets at the end of 2016	External credit rating institution
Nongyin Credit Asset-backed Securities 2014 Issue II	2013	8,003	360	China Chengxin International Credit Rating Co., Ltd., China Credit Rating Co., Ltd.
Nongying Credit Asset Securitization Trust Asset-backed Securities 2015 Issue I	2015	5,092	2,781	
Nongying Non-performing Asset Securitization Trust Asset-backed Securities 2016 Issue I	2016	10,154	9,947	

Note: The originating date of products of 2014 Issue II was in 2013 and the issuing date was in 2014.

*In millions of RMB*

**Table 7.1B: Balance of Risk Exposures of Securitization**

Type	31 December 2016		31 December 2015	
	As originator <sup>1</sup>	As Investor	As originator <sup>1</sup>	As Investor
<b>Risk exposure by transaction types</b>				
Balance of risk exposures of traditional asset securitization	878	1,047	1,039	2,101
Balance of risk exposures of synthetic asset securitization	-	-	-	-
<b>Risk exposure by risk exposure types</b>				
Asset-backed securities	878	52	1,039	301
Mortgage-backed securities (MBS)	-	995	-	1,800
Credit enhancement	-	-	-	-
Liquidity facility	-	-	-	-
Interest rate or currency swap	-	-	-	-
Credit derivatives	-	-	-	-

Offset by tranche	-	-	-	-
Others	-	-	-	-

Note:1. Serving as originator refers to risk exposure arising from the assets securitization retained and issued by the Bank other than aggregate amount of the assets securitization program issued as the originator.

*In millions of RMB*

**Table 7.1C: Risk Exposures of Securitization Based on Risk Weights**

Risk weights	31 December 2016		31 December 2015	
	Risk exposure	Capital requirement	Risk exposure	Capital requirement
Risk weights≤20%	1,169	19	2,254	36
20%<Risk weights≤50%	-	-	-	-
50%<Risk weights≤100%	-	-	-	-
100%<Risk weights≤350%	-	-	-	-
350%<Risk weights≤1250%	756	756	886	886
Total	<b>1,925</b>	<b>775</b>	<b>3,140</b>	<b>922</b>

*In millions of RMB*

**Table 7.1D: Securitization Assets of Originator**

31 December 2016				
Type	Balance of underlying assets	Balance of the non-performing assets	Balance of the overdue loans	Profits or Losses recognized during the Reporting Period <sup>1</sup>
Loans to corporate customers	13,088	-	-	102
Personal residential mortgage loans	-	-	-	-
Other personal loans	-	-	-	-
Re-securitization	-	-	-	-
Others	-	-	-	-
Total	<b>13,088</b>	<b>-</b>	<b>-</b>	<b>102</b>
31 December 2015				
Type	Balance of underlying assets	Balance of the non-performing assets	Balance of the overdue loans	Profits or Losses recognized during the Reporting Period <sup>1</sup>
Loans to corporate customers	7,791	-	-	60
Personal residential	-	-	-	-

mortgage loans				
Other personal loans	-	-	-	-
Re-securitization	-	-	-	-
Others	-	-	-	-
<b>Total</b>	<b>7,791</b>	<b>-</b>	<b>-</b>	<b>60</b>

Note: 1. Losses recognized during the reporting period refers to the impairment and write-off of the securitization retained by the Bank as originator during the reporting period;

2. As of the end of the Reporting Period, no normal asset expires or performs badly.

## 7.2 Counterparty Credit Risk

Counterparty credit risk refers to the risk from the default of the counterparty to a transaction before the final settlement of the transaction's cash flows. The counterparty credit risk of Bank is mainly from Over-the-Counter (OTC) derivative transactions. During the Reporting Period, the Bank continuously improved the management of counterparty credit risk, prudently selected counterparties, and accurately measured the counterparty credit risk. The Bank developed relevant management measures, which required clients to accept a risk rating assessment and pay a corresponding proportion of margins before entering into derivative transactions. The clients should enter into derivative transactions on an as-required basis, so as to avoid clients conducting derivative transactions for speculative purpose and reduce wrong-way risk. Collateral were monitored periodically to keep abreast of changes in collateral. If the Bank's credit rating was downgraded, the Bank would reduce such impact by providing sufficient amount of additional collaterals and pledges, hedging in the market or adjusting trading strategies.

As of the end of 2016, the Bank adopted the Current Exposure Method (CEM) to measure the counterparty credit risk exposure and took into account the risk mitigation effect of netting. Details are shown in the following table.

*In millions of RMB*

**Table 7.2A: Net Credit Risk Exposures of Counterparties**

<b>Item</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Total positive contractual fair value (without netting)	7,458	12,024
Total current credit risk exposures (without netting)	15,472	19,579
Total current credit risk exposures (after netting)	15,481	19,582
Less: Collateral and pledges	-	-
Net credit risk exposure of derivatives	15,481	19,582

**Table 7.2B: Distribution of Current Credit Risk Exposures by Product Type**

Item	31 December 2016	31 December 2015
Interest rate contracts	311	3,631
Exchange rate contracts	15,170	15,951
Stock contracts	-	-
Commodity contracts	-	-
Credit derivatives tools	-	-
<b>Total</b>	<b>15,481</b>	<b>19,582</b>

### 7.3 Equity Risk of Banking Book

The equity investments of the Bank are classified into three types: long-term equity investments, financial assets at fair value through profit and loss for the current period and available-for-sale financial assets. Long-term equity investments are initially measured at initial investment costs, and are subsequently measured by cost method and equity method. Available-for-sale equity investments are measured at fair value for both initial and subsequent measurement.

In accordance with the *Capital Rules for Commercial Banks (Provisional)*, for the non-significant minority capital investments in unconsolidated financial institutions, the Bank deducted the amount exceeding 10% of its CET 1 net capital in aggregate from the regulatory capital at all tiers respectively. For the significant minority capital investments in unconsolidated financial institutions, the Bank deducted the amount of investment in CET 1 capital exceeding 10% of its CET 1 net capital in aggregate from its CET 1 capital, and for investments in Additional Tier 1 capital and Tier 2 capital, deducted in full from the corresponding tiers of capital. Where the significant minority capital investments in unconsolidated financial institutions and the corresponding net deferred tax assets are not deducted from CET 1 capital of the Bank, the aggregate amount shall not exceed 15% of the Bank's CET 1 net capital.

As of the end of 2016, the Bank adopted the weighting approach for the measurement of equity investments in financial institutions and other equity investments in banking book that were not deducted. Details are shown in the following table.

**Table 7.3: Risk Exposures of Equity in Banking Book**

<b>31 December 2016</b>			
<b>Types of the invested entity</b>	<b>Risk exposures of publicly traded equity <sup>1</sup></b>	<b>Risk exposures of non-publicly traded equity <sup>1</sup></b>	<b>Unrealized profit or loss on potential risk <sup>2</sup></b>
Financial institutes	1,541	3,933	283
Companies	1,133	7,006	2,126
<b>Total</b>	<b>2,674</b>	<b>10,939</b>	<b>2,409</b>

<b>31 December 2015</b>			
<b>Types of the invested entity</b>	<b>Risk exposures of publicly traded equity <sup>1</sup></b>	<b>Risk exposures of non-publicly traded equity <sup>1</sup></b>	<b>Unrealized profit or loss on potential risk <sup>2</sup></b>
Financial institutes	1,366	1,501	246
Companies	87	5,760	613
<b>Total</b>	<b>1,453</b>	<b>7,261</b>	<b>859</b>

Note: 1. Risk exposures of publicly traded equity refers to the risk exposures of listed companies, and risk exposures of non-publicly traded equity refers to the risk exposures of unlisted companies.

2. Unrealized profit or loss on potential risk refers to gain or loss that has been recognized in the balance sheet but not yet been recognized in the income statement.

## 7.4 Interest Rate Risk of Banking Book

Interest rate risk refers to risk of loss to the Bank's income or economic value arising from adverse movements of the statutory or market interest rate. The interest rate risk of the banking book (IRRBB) mainly arises from a mismatch of the maturity or re-pricing dates of interest rate-sensitive assets and liabilities in the banking book and the inconsistencies in the change of the benchmark interest rate on which assets and liabilities are based.

In 2016, the Bank started the construction project of bank account interest rate risk system. And, the technical deployment for the first phase has been achieved. Through introducing mature and highly efficient calculation engine, the Bank diversified our measurement tools for interest risk calculation and upgraded the accuracy and promptness in interest risk measurement. With regard to pricing management, the Bank established a hierarchy pricing management system for the deposits, optimized our supporting policies and promoted a balanced development of quantity and pricing, thus improving our pricing capability in marketization and differentiation.

As of the end of 2016, the details of IRRBB of the Bank are set forth in the table below. The table indicates the movements in income and equity under different interest rates, on the premise that there is a parallel shift in the yield curve, and without taking into account the early payment of loans, demand-deposits sunk, and any risk management actions that might be adopted by the management to reduce interest rate risk.

**Table 7.4: Sensitivity Analysis of Interest rate Risk of Banking Book**

<b>31 December 2016</b>				
<b>Major currencies</b>	<b>Interest rate increased by 100 bps</b>		<b>Interest rate decreased by 100 bps</b>	
	<b>Impacts on the profit</b>	<b>Impacts on the equity</b>	<b>Impacts on the profit</b>	<b>Impacts on the equity</b>
RMB	(19,625)	-	19,625	-
USD	(34)	-	34	-
Others	-	-	-	-
<b>Total</b>	<b>(19,659)</b>	<b>-</b>	<b>19,659</b>	<b>-</b>
<b>31 December 2015</b>				
<b>Major currencies</b>	<b>Interest rate increased by 100 bps</b>		<b>Interest rate decreased by 100 bps</b>	
	<b>Impacts on the profit</b>	<b>Impacts on the equity</b>	<b>Impacts on the profit</b>	<b>Impacts on the equity</b>
RMB	(15,471)	-	15,471	-
USD	260	-	(260)	-
Others	-	-	-	-
<b>Total</b>	<b>(15,211)</b>	<b>-</b>	<b>15,211</b>	<b>-</b>

## 7.5 Liquidity Risk

Liquidity risk refers to the risk that the Bank is unable to acquire sufficient funds in a timely manner at a reasonable cost, in response to repay due debts, fulfill other payment obligations and meet other funding needs during normal course of business. The objective of liquidity risk management of the Bank is to establish a scientific and sound liquidity risk management framework, satisfy the liquidity requirement arising from assets, liabilities and off-balance sheets operations and the obligation of external payment in a timely manner in normal or stressed operating environment balance profitability and safety of the funds, strengthen management and supervision on liquidity risk for branches, subsidiaries and business lines, and safeguard the Bank against overall liquidity risk.

### *Liquidity Risk Management*

The Bank closely monitored the changes in monetary policies and market movements, strengthened analysis and judgment of the macroeconomic and financial situation and factors affecting liquidity, upheld the liquidity risk baseline to balance safety, liquidity and profitability so as to ensure a healthy liquidity position. The Bank adjusted and optimized the structure of assets and liabilities, stabilized sources of deposits, enhanced management over active liability, expanded our channels for capital, and maintained a proper ratio of high quality liquidity assets on reserve to meet customers payment obligations. The Bank strengthened prediction and judgment, enhanced real-time monitoring and flexible adjustment and re-allocation of fund positions, ensured adequate reserves and increased the return on fund operation. Through such efforts, the impact of capital market fluctuation in the Reporting

Period on liquidity management of the Bank was addressed effectively. The Bank enhanced emergency management over liquidity and successfully conducted exercises to cope with liquidity emergency and improved our capability to treat such emergencies. The Bank carefully implement the policy regarding deposit of reserves against deposit by overseas participating banks and the examination policy regarding the average method for the deposit base of reserves against deposit of central bank, thus meeting requirements about supervision. The Bank perfected different policies of capital management, and supported business of free trade zone and peer trade business. The Bank continued to optimize the liquidity management, enhanced level of delicacy in management, improved the mechanism of forecast and assessment of liquidity, carried out cost apportionments for liquidity, established emergency mechanism for investment through cross-border payment system and pushed forward the construction of measurement system of liquidity risks. The Bank disclosed indicator values and detailed breakdown of liquidity coverage on a quarterly basis in compliance with regulatory requirements.

### *Liquidity Risk Analysis*

In 2016, China maintained prudent monetary policies. Through coordinated uses of a number of tools, the People's Bank of China (the central bank) adjusted the liquidity of the capital market appropriately. The central bank adopted an average balance method in checking deposit reserve of banks, improved macro-policy in a prudent manner and upgraded the mechanism for reserve against deposit into MPA. The Bank used routine operation for open market and short term liquidity operation (SLO), standing lending facility (SLF), mid-term lending facility (MLF) and pledge supplement loans (PSL) to lower the reserve against the deposit by 0.5 percentage point and maintain suitable liquidity. The Bank adopted a philosophy of containing short term loans and loosening control over long-term loans in order to de-leverage, prevent risks and stabilize exchange rate while maintaining reasonable and sufficient liquidity. The Bank continued to monitor monetary policies, changes in market liquidity, as well as the development of the asset and liability businesses and the liquidity position of the Bank. Based on adequate liquidity, the Bank improved the return on the funds and the adaptability to manage liquidity risk. During the Reporting Period, the Bank rationalized the arrangement of cash flow for due payment, and the liquidity position was adequate, safe and controllable in general.

*In millions of RMB*

**Table 7.5: Liquidity Gap Analysis**

<b>Term</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Past due	52,387	48,107
On demand	(9,355,146)	(8,194,380)
In 1 month	(62,220)	126,537
1-3 months	(510,004)	(263,526)
3-12 months	643,576	825,092
1-5 years	2,295,700	1,681,453
Over 5 years	5,409,806	4,385,011
Not Dated	2,588,061	2,393,379
<b>Total</b>	<b>1,062,160</b>	<b>1,001,673</b>



## 8 Internal Capital Adequacy Assessment

### 8.1 Internal Capital Adequacy Assessment Methods and Process

The Bank coordinated and facilitated the construction of the Second Pillar, consolidated the foundation of capital governance, and primarily established Internal Capital Adequacy Assessment Process (ICAAP) with the features of the Bank. Based on the corporate governance principles of modern commercial bank, the Bank gradually optimized the management system of ICAAP, and further clarified the reporting lines and the responsibilities of the Board of Directors, senior management and various departments on capital management, thereby making the division of responsibilities and process clearer. The Board of Directors took the primary responsibility for capital management, the senior management was responsible for organizing and implementing the work of the capital management, and all relevant departments cooperated for the internal growth, conservation and release of capital.

In 2016, the Bank kept on pushing forward the implementation of ICAAP, normalizing and consolidating the working mechanism. The Bank carried out the annual assessment of internal capital adequacy, and completed the report of internal capital adequacy assessment. The report was reviewed and approved by the Board of Directors, and filed with the regulatory authority. During the Reporting Period, the Bank carried out special audit of ICAAP to ensure compliance, effectiveness, and continuity of capital management. Based on the development strategy, with balancing conformity to regulatory standard, risk coverage, value creation, and peer comparability, the Bank strengthened capital planning management and reasonably set budget for short, medium and long term capital adequacy ratio. Through refining capital allocation and enhancing monitoring and assessment, the Bank further improved capital management and had a sound control over the pace of capital consumption, and continued to strength the capacity of value creation.

### 8.2 Capital Planning and Capital Adequacy Ratio Management Plan

In 2013, the Bank formulated the *Compliance Plan of Capital Adequacy Ratios for 2013-2018 of Agricultural Bank of China*, which was reviewed and approved by the Board of Directors. In 2016, according to the relevant rules and regulations on commercial banks and requirements of corporate governance, the Bank formulated the *Capital Plan for 2016-2018 of Agricultural Bank of China*, which was reviewed and approved by the Board of Directors. The Bank continued to strengthen economic capital management, optimize allocation of economic capital, refine the mechanism of capital control, raise efficiency of capital utilization, optimize the size and structure of risk-weighted assets, and improve the long-term capital management mechanism.

As the Global Systemically Important Banks (G-SIBs), in accordance with regulations of the Financial Stability Board (FSB) and other international and domestic regulatory requirements, the Bank had completed the annual update of the *Recovery Plan of Agricultural Bank of China Limited*, and the *Resolution Plan of Agricultural Bank of China Limited*. These documents have been examined and reviewed by the Board of Directors of the Bank, and reviewed and approved by the cross-border crisis management group composed of international and domestic regulatory authorities.



## 9 Remuneration

As of the end of 2016, Nomination and Remuneration Committee of Board of Directors of the Bank was composed of 7 directors, including executive director Mr. Zhao Huan, non-executive directors Mr. Zhou Ke, Mr. Xu Jiandong, independent non-executive directors Mr. Wen Tiejun, Ms. Xiao Xing, Mr. Lu Jianping, and Mr. Wang Xinxin. Mr. Wen Tiejun is chairman of Nomination and Remuneration Committee of the Board of Directors. The primary duties of the Nomination and Remuneration Committee are to formulate selection and appointment standards and procedures of the Bank's directors, chairperson and members of all special committees under the Board of Directors and senior management, make recommendations to the Board of Directors on the election procedures and qualifications, formulate remuneration measures of directors, supervisors and senior management, propose remuneration distribution plans and submit to the Board of Directors for reviewing. During the Reporting Period, the Nomination and Remuneration Committee under the Board of Directors convened 6 meetings. For details of basic information about members of senior management and staff in positions that exert significant influence on risks, please refer to the section headed "Directors, Supervisors and Senior Management" in the Bank's 2016 Annual Report.

In order to attract, retain and incentivize employees, the Bank established a position-based wage system among its domestic branches on the principles that the salary and bonus are determined based on positions, capabilities and performance, and varies with positions, whereby the employees' pay levels are determined based on such factors as post value, short-term and long-term performance. A remuneration system in line with the operational and management needs of a modern commercial bank has been initially established. The Bank formulated and adjusted the remuneration policy in strict accordance with relevant regulatory requirement, laws and regulations, and requirements under corporate governance of the Bank. The remuneration of the staff of the risk and compliance department of the Bank was determined based on factors such as personal ability, performance and dedication, without direct relation to its supervisory duties.

In compliance with the regulatory requirements, the Bank established a performance-based salary deferred payment system. An appropriate proportion of the performance-based salary for the current period for its senior management and employees whose professional activities could have a material impact on the Bank's risk profile, was deferred. Having considered the actual performance and time-lag risk, such payment would be made after expiry of deferred payment period, thereby linking the employees' current and long-term responsibilities and contributions with the development of the Bank.

The Bank's overall pay level was linked to the growth of its net profit, and subject to the regulation of and approval by the Ministry of Finance as well as the Ministry of Human Resources and Social Security of the PRC. According to the remuneration management system, the remuneration of the Bank's institutions was associated with the operating results of the unit and the comprehensive appraising results, and the remuneration of employees was associated with the performance appraisal results of the units and individuals.

The performance appraisal of the Bank's institutions and employees at all levels included the assessment of performance, risk indicator and other indicators of sustainable development, reflecting long-term performance and risk profile in aggregate. According to the results of the performance appraisal, the Bank adjusted the pay level by means of salary distribution, deferred payment and other forms.

The Bank's variable remuneration primarily comprised of performance-based pay (including deferred salary payment, etc.), which was paid in cash. Variable remuneration was allocated based on factors including the current and long-term contributions of employees and risk profile. If a cut or issue of a performance-based pay and deferred salary payment is applicable under relevant rules and stipulations, the variable remuneration would be adjusted accordingly.

## **10 Outlook**

The Bank adheres to the operation philosophy of modern commercial banks, implements the prudent risk appetite, and continuously works on improving the corporate governance mechanism, maintaining a balance among safety, liquidity and profitability, and striking a balance among capital, risk and return. The Bank also proactively pushes forward the development of the firm-wide risk management system and implementation of advanced approaches for capital management, so as to ensure that the asset quality has been stable as a whole, the risk-resisting ability has kept strong, and the ability in risk management has been constantly enhanced.

In the future, the Bank will closely monitor any changes in the trends of domestic and global economy and finance, comply strictly with regulatory and compliance requirements at home and abroad, further strengthen the guiding role of the prudent risk appetite, enhance implementation of advanced approaches for capital management and utilization of its contributions, and keep on improving the effectiveness of the firm-wide risk management system. The Bank will improve the system for credit operation management and continue to enhance the risk governance over key areas including local government debts, customers with large exposure, new business, big personal loans and credit cards. The Bank will focus on the offshore yuan market conditions and strengthen management and control over risks of bond and finance products in key markets. The Bank will improve the management level of internal control and compliance, step up the prevention and control of internal and external cases, strengthen risk management of its domestic and foreign subsidiaries, and increase its management ability in risk consolidation. The Bank will constantly strengthen its capital adequacy level and ability to manage risk, forging ahead on the road to becoming a top-notch modern commercial bank in the international arena.