

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE ADDRESSEES OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached supplemental offering circular (“**Supplemental Offering Circular**”). You are advised to read this disclaimer carefully before accessing, reading or making any other use of the attached Supplemental Offering Circular. In accessing the attached Supplemental Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

Confirmation of Your Representation: This Supplemental Offering Circular is being sent to you at your request, and by accepting the e-mail and accessing the attached document, you shall be deemed to represent to each of China Construction Bank Corporation Hong Kong Branch 中國建設銀行股份有限公司香港分行 (the “**Issuer**”), China Construction Bank (Asia) Corporation Limited, CCB International Capital Limited, China Construction Bank Corporation Singapore Branch, Citigroup Global Markets Limited, Standard Chartered Bank (together, the “**Joint Global Co-ordinators**”), Bank of China Limited, Bank of China (Hong Kong) Limited, China Minsheng Banking Corp., Ltd., Hong Kong Branch, Crédit Agricole Corporate and Investment Bank, First Abu Dhabi Bank PJSC, Industrial and Commercial Bank of China (Asia) Limited, Industrial and Commercial Bank of China Limited, Singapore Branch, KGI Asia Limited, Merrill Lynch International, Mizuho Securities Asia Limited, Société Générale and Wells Fargo Securities, LLC (together with the Joint Global Co-ordinators, the “**Joint Lead Managers**”) that (1) the e-mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories or possessions, and (2) that you consent to delivery of the attached and any amendments or supplements thereto by electronic transmission.

The attached document is being furnished in connection with an offering in offshore transactions outside the United States in compliance with Regulation S under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”) solely for the purpose of enabling a prospective investor to consider the purchase of the Notes described herein.

The attached document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Issuer, the Joint Lead Managers, the agents named herein (the “**Agents**”) nor their respective affiliates and their respective directors, officers, employees, representatives, agents and each person who controls the Issuer, a Joint Lead Managers, an Agent or their respective affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. **We will provide a hard copy version to you upon request.**

THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

Nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of the Issuer or the Joint Lead Managers to subscribe for or purchase any of the securities described therein, and access has been limited so that it shall not constitute in the United States or elsewhere directed selling efforts (within the meaning of Regulation S under the Securities Act). If a jurisdiction requires that the offering be made by a licensed broker or dealer and a Joint Lead Manager or any affiliate of it is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by it or such affiliate on behalf of the Issuer in such jurisdiction.

You are reminded that you have accessed the attached Supplemental Offering Circular on the basis that you are a person into whose possession this Supplemental Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver this document, electronically or otherwise, to any other person. **If you have gained access to this transmission contrary to the foregoing restrictions, you are not allowed to purchase any of the securities described in the attached.**

Actions that You May Not Take: If you receive this document by e-mail, you should not reply by e-mail to this announcement, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the “Reply” function on your e-mail software, will be ignored or rejected.

YOU ARE NOT AUTHORISED TO AND YOU MAY NOT FORWARD OR DELIVER THE ATTACHED SUPPLEMENTAL OFFERING CIRCULAR, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH SUPPLEMENTAL OFFERING CIRCULAR IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED SUPPLEMENTAL OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

You are responsible for protecting against viruses and other destructive items. If you receive this document by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.



中国建设银行
China Construction Bank

CHINA CONSTRUCTION BANK CORPORATION
HONG KONG BRANCH
中國建設銀行股份有限公司香港分行

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

U.S.\$1,200,000,000 Floating Rate Notes due 2020
issued under its
U.S.\$6,000,000,000 Medium Term Note Programme

This Supplemental Offering Circular is supplemental to, forms part of and must be read and construed in conjunction with, the offering circular dated 26 September 2016 (the "Offering Circular") prepared by China Construction Bank Corporation Hong Kong Branch 中國建設銀行股份有限公司香港分行 (the "Issuer"), in connection with the U.S.\$6,000,000,000 Medium Term Note Programme as described in the Offering Circular (the "Programme"). This Supplemental Offering Circular is prepared for the U.S.\$1,200,000,000 Floating Rate Notes due 2020 (the "Notes") to be issued by the Issuer under the Programme. Terms given a defined meaning in the Offering Circular shall, unless the context otherwise requires, have the same meaning when used in this Supplemental Offering Circular. To the extent there is any inconsistency between any statement in this Supplemental Offering Circular and any statement in the Offering Circular, the statement in this Supplemental Offering Circular shall prevail.

Application will be made to The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") for the listing of the Notes by way of debt securities to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "SFO")) (together, "Professional Investors") only. This document is for distribution to Professional Investors only. Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes are only suitable for Professional Investors.

The Hong Kong Stock Exchange has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme and the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes or the Issuer or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this document.

This Supplemental Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this Supplemental Offering Circular and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

Application will be made to the Singapore Exchange Securities Trading Limited (the "SGX-ST") for the listing and quotation of the Notes on the official list of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. Admission to the Official List of the SGX-ST and quotation of the Notes on the SGX-ST is not to be taken as an indication of the merits of the Issuer, its subsidiaries, its associated companies (if any) or the Notes. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Notes will be traded on the SGX-ST in a minimum board lot size of S\$200,000 (or its equivalent in other currencies).

This Supplemental Offering Circular complies with the requirements of Part 2 of the Markets Law (DIFC Law No. 1 of 2012) (the "Markets Law") and Chapter 2 of the Markets Rules (the "Markets Rules") of the Dubai Financial Services Authority (the "DFSA"). This Supplemental Offering Circular has been approved by the DFSA under the DFSA's Markets Rule 2.6 and is therefore an Approved Prospectus for the purposes of Article 14 of the Markets Law. Application has also been made to the DFSA for the Notes to be admitted to the official list of securities maintained by the DFSA (the "DFSA Official List") and to NASDAQ Dubai for such Notes to be admitted to trading on NASDAQ Dubai.

The DFSA does not accept any responsibility for the content of the information included in this Supplemental Offering Circular, including the accuracy or completeness of such information. The liability for the content of this Supplemental Offering Circular lies with the Issuer. The DFSA has also not assessed the suitability of any Notes issued under the Programme, to which this Supplemental Offering Circular relates, for any particular investor or type of investor. If you do not understand the contents of this Supplemental Offering Circular or are unsure whether any Notes to which this Supplemental Offering Circular relates are suitable for your individual investment objectives and circumstances, you should consult an authorised financial adviser.

This Supplemental Offering Circular relates to an Exempt Offer in accordance with the Markets Rules (the "Markets Rules") of the DFSA. This Supplemental Offering Circular is intended for distribution only to persons of a type specified in the Markets Rules. It must not be delivered to, or relied on by, any other person. The DFSA does not accept any responsibility for the content of the information included in this Supplemental Offering Circular, including the accuracy or completeness of such information. The liability for the content of this Supplemental Offering Circular lies with the Issuer. The DFSA has also not assessed the suitability of the Notes to which this Supplemental Offering Circular relates to any particular investor or type of investor. If you do not understand the contents of this Supplemental Offering Circular or are unsure whether the Notes to which this Supplemental Offering Circular relates are suitable for your individual investment objectives and circumstances, you should consult an authorised financial adviser.

The Issuer may also choose to apply for the Notes to be listed and admitted to trading on other stock exchanges (including, without limitation, the Bursa Malaysia Securities Berhad) in its sole discretion at any time after the Issue Date.

Pursuant to the Approval by the National Development and Reform Commission on the Pilot Enterprises (first batch) of Foreign Debt Scale Management Reform of 2017 (《國家發展改革委關於2017年度外債規模管理改革試點企業(第一批)的批復》(發改外資[2017]60號)) (the "NDRC Quota Approval") issued by the National Development and Reform Commission of the PRC (the "NDRC") wherein a quota of foreign debt (the "Quota") to be issued in 2017 was granted by the NDRC on 8 January 2017, the Bank is required to file with the NDRC the requisite information on the issuance of the Notes after the issuance of such Notes. The Bank intends to provide the requisite information on the issuance of the Notes to the NDRC within the time period prescribed by the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (《國家發展改革委關於推進企業發行外債備案登記制管理改革的通知》(發改外資[2015]2044號)) issued by the NDRC on 14 September 2015 which came into effect on the same day and any relevant rules and regulations from time to time issued by the NDRC (together, the "NDRC Regulations") and the terms of the NDRC Quota Approval.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and, subject to certain exceptions, may not be offered or sold within the United States and are only being offered and sold outside the United States in compliance with Regulation S under the Securities Act ("Regulation S"). For a description of these and certain restrictions on offers and sales of the Notes and the distribution of the Offering Circular, see "Subscription and Sale" in the Offering Circular. The Notes may be subject to additional selling restrictions as set out in "Pricing Supplement".

The Notes will be represented by beneficial interests in a global note (the "Global Note") in registered form which will be registered in the name of a nominee of, and shall be deposited on or about the Issue Date with, a common depositary for Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream"). Beneficial interests in the Global Note will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for the Notes will not be issued in exchange for interests in the Global Note. The provisions governing the exchange of interests in the Global Note for other Global Notes and definitive Notes are described in "Form of the Notes" in the Offering Circular.

The Notes are expected to be assigned a rating of "A1" by Moody's Investors Service ("Moody's"). The Bank has been rated A1 by Moody's. The Programme has been rated "(P) A1" by Moody's. These ratings are only correct as at the date of this Supplemental Offering Circular. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

Investing in the Notes involves risks. See "Risk Factors" beginning on page 23 for a discussion of certain factors to be considered in connection with an investment in the Notes.

The sections of the Offering Circular entitled "Selected Consolidated Financial Data", "Risk Factors", "Capitalisation", "Description of the Hong Kong Branch", "Description of the Bank", "Risk Management and Internal Control", "Directors, Supervisors and Senior Management", "Substantial Shareholders" and "General Information" have been supplemented and/or amended with the information in this Supplemental Offering Circular.

With effect from the date of this Supplemental Offering Circular the information appearing in the Offering Circular shall be amended and/or supplemented by the inclusion of the information set out below.

Joint Global Co-ordinators and Joint Lead Managers

China Construction Bank

Citi

Standard Chartered Bank

Joint Lead Managers

Bank of America Merrill Lynch

Bank of China

**China Minsheng Banking Corp.,
Ltd., Hong Kong Branch**

Crédit Agricole CIB

First Abu Dhabi Bank

ICBC

KGI Asia

Mizuho Securities

**Société Générale Corporate
& Investment Banking**

Wells Fargo Securities

The date of this Supplemental Offering Circular is 23 May 2017.

IMPORTANT NOTICE

Each of the Issuer and the Bank accepts responsibility for the information contained in this Supplemental Offering Circular and, having made all reasonable enquiries confirms that to the best of its knowledge and belief (i) this Supplemental Offering Circular (read together with the Offering Circular) contains all information with respect to the Issuer and the Bank and its subsidiaries taken as a whole (the “**Group**”) and to the Notes which is material in the context of the issue and offering of the Notes (including all information required by applicable laws and the information which, according to the particular nature of the Issuer, the Bank and of the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer and the Group and of the rights attaching to the Notes) in accordance with the facts; (ii) the statements contained herein relating to the Issuer, the Bank, the Group and the Notes are in every material respect true and accurate and not misleading and (iii) there are no other facts in relation to the Issuer, the Bank, the Group or the Notes, the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Supplemental Offering Circular (read together with the Offering Circular) misleading in any material aspect.

No person is or has been authorised by the Issuer to give any information or to make any representations other than those contained in this Supplemental Offering Circular (read together with the Offering Circular) in connection with the Programme or the Notes and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer or the Joint Lead Managers.

The Notes will be issued on the terms set out under “*Terms and Conditions of the Notes*” in the Offering Circular, as amended and/or supplemented by the pricing supplement specific to the Notes (the “**Pricing Supplement**”). This Supplemental Offering Circular and the Offering Circular must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein and, must be read and construed together with the Pricing Supplement. This Supplemental Offering Circular and the Offering Circular are to be read in conjunction with all documents, which are deemed to be incorporated herein or therein by reference (see “*Documents Incorporated by Reference*” in the Offering Circular). This Supplemental Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of the Offering Circular.

China Construction Bank (Asia) Corporation Limited, CCB International Capital Limited, China Construction Bank Corporation Singapore Branch, Citigroup Global Markets Limited and Standard Chartered Bank (together, the “**Joint Global Co-ordinators**”), Bank of China Limited, Bank of China (Hong Kong) Limited, China Minsheng Banking Corp., Ltd., Hong Kong Branch, Crédit Agricole Corporate and Investment Bank, First Abu Dhabi Bank PJSC, Industrial and Commercial Bank of China (Asia) Limited, Industrial and Commercial Bank of China Limited, Singapore Branch, KGI Asia Limited, Merrill Lynch International, Mizuho Securities Asia Limited, Société Générale and Wells Fargo Securities, LLC (together with the Joint Global Co-ordinators, the “**Joint Lead Managers**”) have not separately verified the information contained in this Supplemental Offering Circular or the Offering Circular to the fullest extent permitted by law. None of the Joint Lead Managers makes any representation, warranty or undertaking, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Supplemental Offering Circular or the Offering Circular. To the fullest extent permitted by law, none of the Joint Lead Managers accepts any responsibility for the contents of this Supplemental Offering Circular or the Offering Circular. Each of the Joint Lead Managers accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Supplemental Offering Circular or the Offering Circular or any such statement. Neither this Supplemental Offering Circular or the Offering Circular nor any financial statements included or incorporated herein or therein are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer or the Joint Lead Managers that any recipient of this Supplemental Offering Circular or the Offering Circular or any such financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Supplemental Offering Circular (read together with the Offering

Circular) and make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the risks involved. The purchase of Notes by investors should be based upon their investigation, as they deem necessary. None of the Joint Lead Managers undertakes to review the financial condition or affairs of the Issuer and the Group during the life of the arrangements contemplated by this Supplemental Offering Circular (read together with the Offering Circular), nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Joint Lead Managers.

Neither this Supplemental Offering Circular (read together with the Offering Circular) nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer, any of the Joint Lead Managers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Supplemental Offering Circular (read together with the Offering Circular) nor the Pricing Supplement nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer or the Group is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Joint Lead Managers expressly do not undertake to review the financial condition or affairs of the Issuer or the Bank during the term of the Notes or to advise any investor in the Notes of any information coming to their attention.

The Notes have not been and will not be registered under the Securities Act. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States. For a further description of certain restrictions on the offering and sale of the Notes and on distribution of this Supplemental Offering Circular, see “*Subscription and Sale*” in the Offering Circular.

PRESENTATION OF FINANCIAL INFORMATION

This Supplemental Offering Circular contains the audited consolidated financial statements of the Group as at and for the year ended 31 December 2016 (the “**2016 Annual Report**”). These financial statements were prepared in accordance with the International Financial Reporting Standards (“**IFRS**”).

The audited consolidated financial statements of the Group as at and for the years ended 31 December 2014, 2015 and 2016 have been audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong (“**PricewaterhouseCoopers**”) and extracted from the audited consolidated financial statements of the Group as at and for the year ended 31 December 2015 (the “**2015 Annual Report**”) and the 2016 Annual Report as published by the Group.

The selected consolidated quarterly financial information of the Group as at and for the three months ended 31 March 2016 and 2017 was extracted from the unaudited and unreviewed consolidated quarterly financial statements of the Group as at and for the three months ended 31 March 2017 (the “**Group 2017 First Quarter Financial Statements**”) included in the quarterly report of the Group (the “**Group 2017 1Q Report**”) published on 27 April 2017 and prepared in accordance with IFRS.

The Group 2017 First Quarter Financial Statements (which include the comparative financial information as at and for the three months ended 31 March 2016) included in this Supplemental Offering Circular have neither been audited nor reviewed by PricewaterhouseCoopers.

Such unaudited and unreviewed consolidated quarterly financial information should not be relied upon to provide the same quality of information associated with information that has been subject to audit and/or review. Potential investors must exercise caution when using such data to evaluate the Group’s

financial condition, results of operations and results. Such unaudited and unreviewed consolidated quarterly financial information as at and for the three months ended 31 March 2016 and 2017 should not be taken as an indication of the expected financial condition and results of operations for the Group for the full financial year ending 31 December 2017.

CERTAIN DEFINITIONS

Unless otherwise specified or the context requires, references herein to the “**Bank**” refer to China Construction Bank Corporation 中國建設銀行股份有限公司; all references to the “**Group**” refer to the Bank and its subsidiaries; references herein to “**U.S. dollars**” and “**U.S.\$**” are to the lawful currency of the United States of America (the “**U.S.**”), references to “**Hong Kong dollars**” and “**HK\$**” are to the lawful currency of Hong Kong, references to “**Renminbi**”, “**RMB**” and “**CNY**” are to the lawful currency of the People’s Republic of China (the “**PRC**”), references to “**S\$**” are to the lawful currency of Singapore, references to “**Sterling**” and “**£**” are to the lawful currency of the United Kingdom and references to “**EUR**”, “**euro**” and “**€**” are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

In addition, references to “**Hong Kong**” are to the Hong Kong Special Administrative Region of the PRC, references to “**Macau**” are to the Macau Special Administrative Region of the PRC, references to “**Mainland China**” are to the PRC excluding Hong Kong and Macau and references to “**Greater China**” are to the PRC including Hong Kong and Macau.

Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

FORWARD-LOOKING STATEMENTS

The Issuer has included statements in this Supplemental Offering Circular and the Offering Circular which contain words or phrases such as “will”, “would”, “aim”, “aimed”, “is likely”, “are likely”, “believe”, “expect”, “expected to”, “will continue”, “anticipated”, “estimate”, “estimating”, “intend”, “plan”, “seeking to”, “future”, “objective”, “should”, “can”, “could”, “may”, and similar expressions or variations of such expressions, that are “forward-looking statements”. Actual results may differ materially from those suggested by the forward-looking statements due to certain risks or uncertainties associated with the Issuer’s expectations with respect to, but not limited to, its ability to successfully implement its strategy, its ability to integrate recent or future mergers or acquisitions into its operations, future levels of non-performing assets and restructured assets, its growth and expansion, the adequacy of its provision for credit and investment losses, technological changes, investment income, its ability to market new products, cash flow projections, the outcome of any legal or regulatory proceedings it is or becomes a party to, the future impact of new accounting standards, its ability to pay dividends, its ability to roll over its short-term funding sources, its exposure to operational, market, credit, interest rate and currency risks and the market acceptance of and demand for Internet banking services.

STABILISATION

In connection with the issue of the Notes, one or more of the Joint Lead Managers named as Stabilising Manager (or persons acting on behalf of any Stabilising Manager(s)) in the Pricing Supplement may over-allot the Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail for a limited period after the Issue Date. However, there is no obligation on such Stabilising Manager(s) to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

NOTICE TO RESIDENTS OF QATAR

The Notes will not be offered, sold or delivered, at any time, directly or indirectly, in the State of Qatar (including the Qatar Financial Centre) in a manner that would constitute a public offering. This Supplemental Offering Circular has not been and will not be reviewed or approved by or registered with the Qatar Financial Markets Authority, the Qatar Financial Centre Regulatory Authority, the Qatar Stock Exchange or the Qatar Central Bank in accordance with their regulations or any other regulations in the State of Qatar and the Qatar Financial Centre. The Notes are not and will not be traded on the Qatar Stock Exchange.

NOTICE TO RESIDENTS OF THE KINGDOM OF BAHRAIN

In relation to investors in the Kingdom of Bahrain, Notes may only be offered in registered form to existing account holders and accredited investors (each as defined by the Central Bank of Bahrain (the CBB)) in the Kingdom of Bahrain where such investors make a minimum investment of at least U.S.\$100,000 or the equivalent amount in any other currency or such other amount as the CBB may determine.

This Supplemental Offering Circular does not constitute an offer of securities in the Kingdom of Bahrain in terms of Article (81) of the Central Bank and Financial Institutions Law 2006 (decree Law No. 64 of 2006). This Supplemental Offering Circular and the related offering documents have not been and will not be registered as a prospectus with the CBB. Accordingly, no Notes may be offered, sold or made the subject of an invitation for subscription or purchase nor will this Supplemental Offering Circular or any related document or material be used in connection with any offer, sale or invitation to subscribe or purchase the Notes, whether directly or indirectly, to persons in the Kingdom of Bahrain, other than to accredited investors for an offer outside the Kingdom of Bahrain.

The CBB has not reviewed, approved or registered this Supplemental Offering Circular or related offering documents and it has not in any way considered the merits of the Notes to be offered for investment, whether in or outside of the Kingdom of Bahrain. Therefore, the CBB assumes no responsibility for the accuracy and completeness of the statements and information contained in this Supplemental Offering Circular and expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the content of this Supplemental Offering Circular. No offer of Notes will be made to the public in the Kingdom of Bahrain and this Supplemental Offering Circular must be read by the addressee only and must not be issued, passed to, or made available to the public generally.

NOTICE TO RESIDENTS OF THE KINGDOM OF SAUDI ARABIA

This Supplemental Offering Circular may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority of Saudi Arabia (the Capital Market Authority).

The Capital Market Authority does not make any representations as to the accuracy or completeness of this Supplemental Offering Circular, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Supplemental Offering Circular. Prospective purchasers of the Notes should conduct their own due diligence on the accuracy of the information relating to the Notes. If a prospective purchaser does not understand the contents of this Supplemental Offering Circular he or she should consult an authorised financial adviser.

This Supplemental Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Supplemental Offering Circular, the Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. None

of the Issuer or the Joint Lead Managers represents that this Supplemental Offering Circular or the Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Joint Lead Managers which would permit a public offering of any Notes or distribution of this Supplemental Offering Circular or the Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Supplemental Offering Circular, the Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Supplemental Offering Circular, the Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Supplemental Offering Circular or the Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Supplemental Offering Circular and the Offering Circular and the offer or sale of the Notes in the United States, the European Economic Area (including the United Kingdom), Singapore, Japan, Hong Kong, the People's Republic of China, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the Kingdom of Saudi Arabia, the Kingdom of Bahrain and the State of Qatar. See "*Subscription and Sale*".

TABLE OF CONTENTS

	Page
SELECTED CONSOLIDATED FINANCIAL DATA	8
PRICING SUPPLEMENT IN RELATION TO THE NOTES	15
USE OF PROCEEDS	22
RISK FACTORS	23
CAPITALISATION	42
DESCRIPTION OF THE HONG KONG BRANCH	43
DESCRIPTION OF THE BANK	45
RISK MANAGEMENT AND INTERNAL CONTROL	69
DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT	78
SUBSTANTIAL SHAREHOLDERS	89
GENERAL INFORMATION	90
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS	F-1

SELECTED CONSOLIDATED FINANCIAL DATA

The following tables set forth the summary consolidated financial information of the Group as at and for the periods indicated.

The selected consolidated financial data as at and for the years ended 31 December 2014, 2015 and 2016 are extracted from the Group's audited consolidated financial statements for the years ended 31 December 2015 and 2016 as prepared and presented in accordance with IFRS and have been audited by PricewaterhouseCoopers. The comparative financial information for the year ended 31 December 2014 was restated to reflect the acquisition of CCB Brazil and was extracted from the 2015 Annual Report.

The selected consolidated quarterly financial information of the Group as at and for the three months ended 31 March 2016 and 2017 was extracted from the Group 2017 First Quarter Financial Statements included in the Group 2017 1Q Report published on 27 April 2017 and prepared in accordance with IFRS. The Group 2017 First Quarter Financial Statements (which include the comparative financial information as at and for the three months ended 31 March 2016) included in this Supplemental Offering Circular have neither been audited nor reviewed by PricewaterhouseCoopers. Such unaudited and unreviewed consolidated quarterly financial information should not be relied upon to provide the same quality of information associated with information that has been subject to an audit and/or review.

None of the Joint Lead Managers makes any representation or warranty, express or implied, regarding the sufficiency of the Group's unaudited and unreviewed consolidated quarterly financial information as at and for the three months ended 31 March 2016 and 2017 for an assessment of the Group's financial condition and results of operations. Accordingly, potential investors must exercise caution when using such data to evaluate the Group's financial condition, results of operations and results. Such unaudited and unreviewed consolidated quarterly financial information as at and for the three months ended 31 March 2016 and 2017 should not be taken as an indication of the expected financial condition and results of operations of the Group for the full financial year ending 31 December 2017.

The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, the relevant consolidated financial statements of the Group, including the notes thereto, included elsewhere in this Supplemental Offering Circular and the Offering Circular.

Consolidated Statement of Financial Position as at 31 December 2014, 2015 and 2016

	As at 31 December		
	2014	2015	2016
	(Restated)	(Audited)	(Audited)
	(RMB millions, unless otherwise stated)		
Assets:			
Cash and deposits with central banks	2,610,781	2,401,544	2,849,261
Deposits with banks and non-bank financial institutions . . .	266,461	352,966	494,618
Precious metals	47,931	86,549	202,851
Placements with banks and non-bank financial institutions . .	248,525	310,779	260,670
Financial assets at fair value through profit or loss	332,235	271,173	488,370
Positive fair value of derivatives	13,769	31,499	89,786
Financial assets held under resale agreements	273,751	310,727	103,174
Interest receivable	91,495	96,612	101,645
Loans and advances to customers	9,222,897	10,234,523	11,488,355
Available-for-sale financial assets	926,139	1,066,752	1,633,834
Held-to-maturity investments	2,298,663	2,563,980	2,438,417
Receivables	170,801	369,501	507,963
Interests in associates and joint ventures	3,084	4,986	7,318
Fixed assets	151,607	159,531	170,095
Land use rights	15,758	15,231	14,742
Intangible assets	2,435	2,103	2,599
Goodwill	2,253	2,140	2,947
Deferred tax assets	39,494	25,379	31,062
Other assets	26,014	43,514	75,998
Total assets	16,744,093	18,349,489	20,963,705
Liabilities:			
Borrowings from central banks	91,216	42,048	439,339
Deposits from banks and non-bank financial institutions . . .	1,004,118	1,439,395	1,612,995
Placements from banks and non-bank financial institutions . .	202,402	321,712	322,546
Financial liabilities at fair value through profit or loss	296,009	302,649	396,591
Negative fair value of derivatives	12,373	27,942	90,333
Financial assets sold under repurchase agreements	181,528	268,012	190,580
Deposits from customers	12,899,153	13,668,533	15,402,915
Accrued staff costs	34,535	33,190	33,870
Taxes payable	62,644	49,411	44,900
Interest payable	185,874	205,684	211,330
Provisions	7,068	7,108	9,276
Debt securities issued	431,652	415,544	451,554
Deferred tax liabilities	401	624	570
Other liabilities	83,272	122,554	167,252
Total liabilities	15,492,245	16,904,406	19,374,051

	As at 31 December		
	2014	2015	2016
	(Restated)	(Audited)	(Audited)
	(RMB millions, unless otherwise stated)		
Assets:			
Equity:			
Share capital	250,011	250,011	250,011
Other equity instruments preference shares	0	19,659	19,659
Capital reserve	135,391	135,249	133,960
Investment revaluation reserve	4,066	23,058	(976)
Surplus reserve	130,515	153,032	175,445
General reserve	169,496	186,422	211,193
Retained earnings	558,705	672,154	786,860
Exchange reserve	(6,674)	(5,565)	348
Total equity attributable to equity shareholders of the Bank	1,241,510	1,434,020	1,576,500
Non-controlling interests	10,338	11,063	13,154
Total equity	1,251,848	1,445,083	1,589,654
Total liabilities and equity	16,744,093	18,349,489	20,963,705

Consolidated Statement of Comprehensive Income for the years ended 31 December 2014, 2015 and 2016

	For the year ended 31 December		
	2014	2015	2016
	(Audited)	(Audited)	(Audited)
	(RMB millions, unless otherwise stated)		
Interest income	739,126	770,559	696,637
Interest expense	(301,728)	(312,807)	(278,838)
Net interest income	437,398	457,752	417,799
Fee and commission income	112,238	121,404	127,863
Fee and commission expense	(3,721)	(7,874)	(9,354)
Net fee and commission income	108,517	113,530	118,509
Net trading gain	972	3,913	3,975
Dividend income	495	733	2,558
Net gain arising from investment securities	4,045	5,075	11,098
Other operating income, net	5,313	5,684	5,921
Operating income	556,740	586,687	559,860
Operating expenses	(195,988)	(194,826)	(171,515)
	360,752	391,861	388,345
Impairment losses on:			
Loans and advances to customers	(59,264)	(92,610)	(89,588)
Others	(2,647)	(1,029)	(3,616)
Impairment losses	(61,911)	(93,639)	(93,204)
Share of profits less losses of associates and joint ventures	245	275	69
Profit before tax	299,086	298,497	295,210
Income tax expense	(70,839)	(69,611)	(62,821)
Net profit	228,247	228,886	232,389

	For the year ended 31 December		
	2014	2015	2016
	(Audited)	(Audited)	(Audited)
	(RMB millions, unless otherwise stated)		
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations . . .	(294)	51	(839)
Others	24	4	68
Subtotal	<u>(270)</u>	<u>55</u>	<u>(771)</u>
Items that may be reclassified subsequently to profit or loss			
Gains of available-for-sale financial assets arising during the period	34,391	27,721	(27,841)
Less: Income tax relating to available-for-sale financial assets	(8,572)	(6,956)	7,055
Reclassification adjustments included in profit or loss	(2,135)	(1,429)	(3,930)
Net loss on cash flow hedges	138	10	(150)
Exchange difference on translating foreign operations	(520)	1,436	5,885
Subtotal	<u>23,302</u>	<u>20,782</u>	<u>(18,981)</u>
Other comprehensive income for the year, net of tax	<u>23,032</u>	<u>20,837</u>	<u>(19,752)</u>
Total comprehensive income for the year	<u>251,279</u>	<u>249,723</u>	<u>212,637</u>
Net profit attributable to:			
Equity shareholders of the Bank	227,830	228,145	231,460
Non-controlling interests	417	741	929
	<u>228,247</u>	<u>228,886</u>	<u>232,389</u>
Total comprehensive income attributable to:			
Equity shareholders of the Bank	250,562	248,311	212,418
Non-controlling interests	717	1,412	219
	<u>251,279</u>	<u>249,723</u>	<u>212,637</u>
Basic and diluted earnings per share (in RMB Yuan)	<u>0.91</u>	<u>0.91</u>	<u>0.92</u>

Consolidated Statement of Financial Position as at 31 March 2017

	As at 31 December 2016	As at 31 March 2017
	(Audited)	(Unaudited)
	(RMB millions, unless otherwise stated)	
Assets:		
Cash and deposits with central banks	2,849,261	2,981,283
Deposits with banks and non-bank financial institutions	494,618	416,047
Precious metals	202,851	220,142
Placements with banks and non-bank financial institutions	260,670	303,778
Financial assets at fair value through profit or loss	488,370	582,574
Positive fair value of derivatives	89,786	61,818
Financial assets held under resale agreements	103,174	247,613
Interest receivable	101,645	113,440
Loans and advances to customers	11,488,355	11,877,235
Available-for-sale financial assets	1,633,834	1,683,649
Held-to-maturity investments	2,438,417	2,372,235
Receivables	507,963	522,066

	As at 31 December 2016	As at 31 March 2017
	(Audited)	(Unaudited)
	(RMB millions, unless otherwise stated)	
Interests in associates and joint ventures	7,318	6,882
Fixed assets	170,095	167,626
Land use rights	14,742	14,574
Intangible assets	2,599	2,267
Goodwill	2,947	2,953
Deferred tax assets	31,062	37,765
Other assets	75,998	81,257
Total assets	<u>20,963,705</u>	<u>21,695,204</u>
Liabilities:		
Borrowings from central banks	439,339	492,736
Deposits from banks and non-bank financial institutions	1,612,995	1,411,115
Placements from banks and non-bank financial institutions	322,546	431,976
Financial liabilities at fair value through profit or loss	396,591	397,469
Negative fair value of derivatives	90,333	63,007
Financial assets sold under repurchase agreements	190,580	56,132
Deposits from customers	15,402,915	16,232,198
Accrued staff costs	33,870	30,074
Taxes payable	44,900	57,337
Interest payable	211,330	208,695
Provisions	9,276	9,897
Debt securities issued	451,554	466,060
Deferred tax liabilities	570	757
Other liabilities	167,252	187,144
Total liabilities	<u>19,374,051</u>	<u>20,044,597</u>
Equity:		
Share Capital	250,011	250,011
Other equity instruments preference shares	19,659	19,659
Capital reserve	133,960	133,845
Investment revaluation reserve	(976)	(9,992)
Surplus reserve	175,445	175,445
General reserve	211,193	211,221
Retained earnings	786,860	856,844
Exchange reserve	348	375
Total equity attributable to equity shareholders of the Bank	<u>1,576,500</u>	<u>1,637,408</u>
Non-controlling interests	13,154	13,199
Total equity	<u>1,589,654</u>	<u>1,650,607</u>
Total liabilities and equity	<u>20,963,705</u>	<u>21,695,204</u>

Consolidated Statement of Comprehensive Income for the three months ended 31 March 2016 and 2017

	For the three months ended 31 March	
	2016	2017
	(Unaudited)	
	(RMB millions, unless otherwise stated)	
Interest income	177,272	179,561
Interest expense	(69,386)	(72,638)
Net Interest income	107,886	106,923
Fee and commission income	40,234	41,542
Fee and commission expense	(1,858)	(2,775)
Net fee and commission income	38,376	38,767
Net trading gain	469	1,073
Dividend income	343	440
Net gain arising from investment securities	5,016	558
Other operating income, net:		
Other operating income	36,611	23,761
Other operating expense	(32,921)	(12,484)
Other operating income, net	3,690	11,277
Operating income	155,780	159,038
Operating expenses	(40,955)	(35,095)
	<u>114,825</u>	<u>123,943</u>
Impairment losses on:		
Loans and advances to customers	(27,025)	(35,322)
Others	324	(840)
Impairment losses	(26,701)	(36,162)
Share of (loss)/profits of associates and joint ventures	20	(8)
Profit before tax	88,144	87,773
Income tax expense	(20,233)	(17,542)
Net Profit	<u>67,911</u>	<u>70,231</u>

For the three months ended 31 March

	2016	2017
	(Unaudited)	
	(RMB millions, unless otherwise stated)	
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Others	7	—
Subtotal	7	—
Items that may be reclassified subsequently to profit or loss		
Losses of available-for-sale financial assets arising during the period	(852)	(12,425)
Income tax impact relating to available-for-sale financial assets ..	195	3,010
Reclassification adjustments included in profit or loss	(2,467)	234
Net (loss)/gain on cash flow hedges	3	(115)
Exchange difference on translating foreign operations	363	60
Sub-total	(2,758)	(9,236)
Other comprehensive income for the period, net of tax	(2,751)	(9,236)
Total comprehensive income for the period	65,160	60,995
Net profit attributable to:		
Equity shareholders of the Bank	67,952	70,012
Non-controlling interests	(41)	219
	67,911	70,231
Total comprehensive income attributable to:		
Equity shareholders of the Bank	65,385	60,908
Non-controlling interests	(225)	87
	65,160	60,995
Basic and diluted earnings per share (in RMB Yuan)	0.27	0.28

PRICING SUPPLEMENT IN RELATION TO THE NOTES

Pricing Supplement dated 23 May 2017

China Construction Bank Corporation Hong Kong Branch 中國建設銀行股份有限公司香港分行

Issue of U.S.\$1,200,000,000 Floating Rate Notes due 2020
under the U.S.\$6,000,000,000 Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Offering Circular dated 26 September 2016 (the “**Offering Circular**”). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular and the supplemental Offering Circular dated 23 May 2017 (the “**Supplemental Offering Circular**”). Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of the Offering Circular, the Supplemental Offering Circular and this Pricing Supplement. In particular, investors in the Notes should read the section titled “Risk Factors” contained therein which apply to the issue of Notes described herein.

This document is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (together, “**Professional Investors**”)) only. **Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes are only suitable for Professional Investors.**

The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme and Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes or the Issuer or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This document includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

- | | |
|--------------------------------------|---|
| 1. Issuer: | China Construction Bank Corporation Hong Kong Branch 中國建設銀行股份有限公司香港分行 |
| 2. (i) Series Number: | 038 |
| (ii) Tranche Number: | 001 |
| 3. Specified Currency or Currencies: | United States dollar (“ U.S.\$ ” or “ USD ”) |
| 4. Aggregate Nominal Amount: | U.S.\$1,200,000,000 |

5.	(i) Issue Price:	100 per cent. of the Aggregate Nominal Amount
	(ii) Net Proceeds:	Approximately U.S.\$1,197,600,000
6.	(i) Specified Denominations:	U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof
	(ii) Calculation Amount:	U.S.\$1,000
7.	(i) Issue Date:	31 May 2017
	(ii) Interest Commencement Date:	Issue Date
8.	Maturity Date:	Interest Payment Date falling in or nearest to May 2020
9.	Interest Basis:	3-month USD LIBOR + 0.77 per cent. Floating Rate (further particulars specified below)
10.	Redemption/Payment Basis:	Redemption at par
11.	Change of Interest Basis or Redemption/Payment Basis:	Not Applicable
12.	Put/Call Options:	Not Applicable
13.	Listing:	Hong Kong NASDAQ Dubai Singapore
	(i) Listing and Admission to trading (for NASDAQ Dubai):	Application has been, or will be, made by the Issuer (or on its behalf) for the Notes to be admitted to the Official List maintained by the Dubai Financial Services Authority and to trading on NASDAQ Dubai with effect from on or about 31 May 2017
	(ii) Estimate of total expenses related to admission to trading (for NASDAQ Dubai):	NASDAQ Dubai U.S.\$2,000
14.	Method of distribution:	Syndicated

Provisions relating to Interest (if any) Payable

15.	Fixed Rate Note Provisions:	Not Applicable
16.	Floating Rate Note Provisions:	Applicable
	(i) Interest Period(s):	The period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date, subject to adjustment in accordance with the Business Day Convention set out in (iv) below
	(ii) Specified Interest Payment Dates:	28 February, 31 May, 31 August and 30 November in each year, commencing on 31 August 2017 up to and including the Maturity Date, subject in each case to adjustment in accordance with the Business Day Convention set out in (iv) below

(iii) Interest Commencement Date:	Issue Date
(iv) Business Day Convention:	Modified Following Business Day Convention
(v) Business Centre(s) (Condition 5(j)):	Not Applicable
(vi) Manner in which the Rate(s) of Interest is/are to be determined:	Screen Rate Determination
(vii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	Not Applicable
(viii) Screen Rate Determination (Condition 5(b)(iii)(B)):	
— Reference Rate:	3-month USD LIBOR
— Interest Determination Date:	The day falling two Business Days in London for U.S. Dollar prior to the first day of the relevant Interest Accrual Period and, for the purposes of this definition of “Interest Determination Date”, “Business Day” shall mean a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in London
— Relevant Screen Page:	Reuters Page LIBOR01
— Relevant Time:	11.00 a.m. London time
— Relevant Financial Centre:	London
(ix) ISDA Determination (Condition 5(b)(iii)(A)):	Not Applicable
(x) Margin(s):	+0.77 per cent. per annum
(xi) Minimum Rate of Interest:	Not Applicable
(xii) Maximum Rate of Interest:	Not Applicable
(xiii) Day Count Fraction (Condition 5(j)):	Actual/360
(xiv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	Not Applicable
17. Zero Coupon Note Provisions:	Not Applicable
18. Index-Linked Interest Note Provisions:	Not Applicable
19. Dual Currency Note Provisions:	Not Applicable

Provisions relating to Redemption

- | | | |
|-----|---------------------------------------|------------------------------------|
| 20. | Call Option: | Not Applicable |
| 21. | Put Option: | Not Applicable |
| 22. | Final Redemption Amount of each Note: | U.S.\$1,000 per Calculation Amount |
| 23. | Early Redemption Amount | U.S.\$1,000 per Calculation Amount |
- Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons (Condition 6(c) or, where otherwise specified herein, Condition 6(d) or Condition 6(e)) or an Event of Default (Condition 10) and/or the method of calculating the same (if required or if different from that set out in the Conditions):

General Provisions applicable to the Notes

- | | | |
|-----|---|--|
| 24. | Form of Notes: | Registered Notes:

Registered Notes may not be exchanged for Bearer Notes. The Global Certificate is exchangeable for Certificates in the limited circumstances described in the Global Certificate. |
| 25. | Additional Financial Centre(s) or other special provisions relating to payment dates: | Not Applicable |
| 26. | Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): | No |
| 27. | Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: | Not Applicable |
| 28. | Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made: | Not Applicable |
| 29. | Redenomination, renominalisation and reconventioning provisions: | Not Applicable |
| 30. | Other terms or special conditions: | Not Applicable |

Distribution

31. (i) If syndicated, names of Managers:
- China Construction Bank (Asia) Corporation Limited
CCB International Capital Limited
China Construction Bank Corporation Singapore Branch
Bank of China Limited
Bank of China (Hong Kong) Limited
China Minsheng Banking Corp., Ltd., Hong Kong Branch
Citigroup Global Markets Limited
Crédit Agricole Corporate and Investment Bank
First Abu Dhabi Bank PJSC
Industrial and Commercial Bank of China (Asia) Limited
Industrial and Commercial Bank of China Limited, Singapore Branch
KGI Asia Limited
Merrill Lynch International
Mizuho Securities Asia Limited
Société Générale
Standard Chartered Bank
Wells Fargo Securities, LLC
- (ii) Date of Subscription Agreement: The effective date of the Subscription Agreement is 23 May 2017
- (iii) Stabilising Manager(s) (if any): Any of the Managers appointed and acting in its capacity as stabilising manager

32. If non-syndicated, name of the relevant Dealer: Not Applicable

33. U.S. Selling Restrictions: Reg. S Category 1; TEFRA not applicable

34. Additional selling restrictions: Not Applicable

Yield

35. Indication of yield: Not Applicable

Operational Information

36. ISIN Code: XS1622512793

37. Common Code: 162251279

38. CMU Instrument Number: Not Applicable

39. Any clearing system(s) other than Euroclear/Clearstream, Luxembourg and the CMU and the relevant identification number(s): Not Applicable

40. Delivery: Delivery against payment

41. Additional Paying Agent(s) (if any): Not Applicable

42. Ratings: A1 by Moody's Investors Service Hong Kong Ltd.

General

43. The aggregate nominal amount of Notes issued has been translated into U.S. dollars at the rate of N/A, producing a sum of (for Notes not denominated in U.S. dollars): Not Applicable
44. In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong/Luxembourg: Not Applicable
45. In the case of Bearer Notes, specify the location of the office of the Fiscal Agent if other than London: Not Applicable

Listing

This Pricing Supplement comprises the final terms required to list the issue of the Notes described herein pursuant to the U.S.\$6,000,000,000 Medium Term Note Programme of China Construction Bank Corporation Hong Kong Branch 中國建設銀行股份有限公司香港分行.

Stabilising

In connection with the issue of the Notes, one or more of the Managers named as Stabilising Manager (or persons acting on behalf of any Stabilising Manager(s)) in this Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail for a limited period after the Issue Date. However, there is no obligation on such Stabilising Manager(s) to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

Material Adverse Change Statement

Save as disclosed in the Supplemental Offering Circular, there has been no significant change in the financial or trading position of the Issuer or of the Group since 31 December 2016 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 31 December 2016.

Responsibility

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

The Singapore Exchange Securities Trading Limited (the “SGX-ST”) assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this Pricing Supplement. The approval in principle from, and the admission of the Notes to the Official List of, the SGX-ST are not to be taken as indications of the merits of the Issuer, its subsidiaries, its associated companies (if any), the Programme or the Notes.

The Dubai Financial Services Authority (the “**DFSA**”) does not accept any responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this Pricing Supplement, including the accuracy or completeness of such information. The liability for the content of this Pricing Supplement lies with the Issuer. The DFSA has also not assessed the suitability of the Notes to any particular investor or type of investor. If you do not understand the contents of this Pricing Supplement or are unsure whether the Notes are suitable for your individual investment objectives and circumstances, you should consult an authorised financial adviser.

Signed on behalf of

China Construction Bank Corporation Hong Kong Branch

中國建設銀行股份有限公司香港分行

USE OF PROCEEDS

The net proceeds of the Notes will be applied by the Issuer for its funding and general corporate purposes.

RISK FACTORS

The risk factors under the sub-section entitled “— Risks relating to the Bank’s Business”, “— Risks Relating to the PRC Banking Industry”, “— Risks Relating to the PRC” from page 63 to 80 of the Offering Circular shall be deleted in their entirety and replaced with the following:

Risks Relating to the Bank’s Business

Uncertainties and instability in global market conditions could adversely affect the Bank’s business, financial condition and results of operations

The Group has been, and in the future will continue to be, materially affected by geo-political, economic and market conditions, including factors such as the liquidity of the global financial markets, the level and volatility of debt and equity prices, interest rates, currency and commodities prices, investor sentiment, inflation, and the availability and cost of capital and credit.

While the International Monetary Fund expects global economic growth to strengthen to 3.4% in 2017, following growth of 3.1% in 2016, there are a number of uncertainties ahead. In 2017, there is expected to be a more inward-looking policy agenda in the U.S. aimed at encouraging U.S. companies to bring back jobs, renegotiating trade pacts and stimulating the domestic economy via infrastructure spending and tax reforms. In Europe, the exit of the United Kingdom from the European Union, and any prolonged period of uncertainty which results, could have a significant negative impact on international markets. These could include further falls in stock exchange indices, a fall in the value of the Sterling, an increase in exchange rates between the Sterling and the Euro and/or greater volatility of markets in general due to the increased uncertainty.

The implications for the world and the Group are significant. First, a rise in global trade protectionism will negatively impact the trade-dependent economies in Asia. Second, the interplay of U.S. fiscal and monetary policies, and aggressive quantitative easing programmes in Japan and Europe may lead to more volatile global capital flows, which could in turn impact global growth. Third, financial market volatility and increased uncertainty may have a broader global economic impact that may in turn have a material adverse effect on the Group’s business, financial condition and results of operations.

Inflationary pressures have also started to increase as the rebound in global commodity prices and weak domestic currencies have led businesses to pass on their increased input costs to consumers through higher selling prices. This adds to the uncertain global economic outlook.

To the extent uncertainty regarding the economic outlook negatively impacts consumer confidence and consumer credit factors globally, the Group’s business and results of operations could be significantly and adversely affected.

Investors should be aware that there is a recent history of financial crises and boom-bust cycles in multiple markets in both emerging and developed economies which leads to risks for all financial institutions, including the Group. In addition, the Group remains subject to the risks posed by the indirect economic effect of the global credit crisis, some of which cannot be anticipated and the vast majority of which are not under its control. The Group also remains subject to counterparty risk arising from financial institutions that can fail or are otherwise unable to meet their obligations under their contractual commitment to the Group. If there is another global or regional financial crisis or a downturn in the economic condition of the Group’s primary markets, this would likely have a material adverse effect on the Group’s business, financial condition and results of operations.

The Bank has a concentration of credit exposure to certain customers and certain sectors

As at 31 December 2016, the Bank's loans and advances to the domestic (i) manufacturing industry; (ii) transportation, storage and postal services industries; (iii) leasing and commercial services industries; (iv) production and supply of electric power, heat, gas and water industries; and (v) wholesale and retail trade industries accounted for 10.02 per cent., 10.27 per cent., 6.38 per cent., 5.86 per cent. and 3.50 per cent. of the Bank's gross loans and advances to customers, respectively. If any of these industries in which the Bank's loans are highly concentrated experiences a significant downturn, the Bank's asset quality, business, financial condition and results of operations may be adversely affected, which in turn may negatively affect its ability to service the Notes and to satisfy its other obligations under the Notes.

Any significant or extended downturn in any of these sectors may reduce the borrowing activities in these sectors, as well as increase the level of the Bank's impaired loans and related provisions for impaired loans, any of which could in turn reduce its net profit and adversely affect its business, financial condition and results of operations.

The Bank is also exposed to the fluctuations of the real estate market through its extension of personal residential mortgage loans, individual commercial property mortgage loans and home equity loans. The Bank's real estate related loans mainly include both corporate real estate loans and personal residential mortgage loans. As at 31 December 2016, domestic corporate real estate loans amounted to RMB342,531 million, representing 2.91 per cent. of the Group's gross loans and advances to customers, and its corresponding NPL ratio was 2.53 per cent. As at 31 December 2016, domestic personal residential mortgage loans amounted to RMB3,585,647 million, representing 30.50 per cent. of the Group's gross loans and advances to customers and its corresponding NPL ratio was 0.28 per cent. For these purposes, "domestic" loans refers to loans made to borrowers in the following geographical segments as set out in 2016 Annual Report: Yangtze River Delta, Pearl River Delta, Bohai Rim, Central, Western, Northeastern and where the Head Office is located. Notwithstanding prudential measures the Bank has put in place to maintain a portfolio of high quality real estate loans with sustainable growth, including imposing stringent standards for the acceptance of new customers for personal residential mortgage loans, the PRC real estate market is subject to volatility and property prices have experienced significant fluctuations in recent years. In the event that PRC real estate prices experience a significant prolonged decline, the Bank's asset quality will likely be negatively affected. Further, the PRC government has already implemented and continues to implement certain adjustment measures aimed at managing the fluctuations of the real estate market. These policies may have an adverse effect on the quality of loans extended to the real estate industry and may also adversely affect the quality of the Bank's mortgage loan portfolio. In addition, if the real estate market in China experiences a significant downturn, the value of the real estate securing the Bank's loans may decrease, resulting in a reduction in the amount the Bank can recover. Any of the above developments or a combination thereof may adversely affect the Bank's asset quality, business, financial condition and results of operations, which in turn may negatively affect its ability to service the Notes and to satisfy its other obligations under the Notes.

In accordance with national policies aimed at limiting the over-development of certain industries with excess capacity, including the iron and steel, cement, electrolytic aluminium, plate glass and shipbuilding industries, the Bank carefully manages its exposure to these industries and has adopted a strict policy towards extending loans to these industries in order to reduce its loan exposure and risks associated with loans to these high-risk industries.

Notwithstanding the credit measures the Bank has put in place, in the event the PRC government issues policies to further restrict such industries or there is deterioration in the production and operation of the Bank's customers from industries with overcapacity, the quality of the Bank's loans could suffer, which could in turn have an adverse effect on its business, financial position and results of operations, and may negatively affect its ability to service the Notes and to satisfy its other obligations under the Notes.

Since 2012, with the aim of reinforcing the risk management of loans to local government financing vehicles (“LGFV”), the PRC State Council (“State Council”), the China Banking Regulatory Commission (“CBRC”) and the People’s Bank of China (“PBOC”), along with several other PRC regulatory authorities, have promulgated a series of notices, guidelines and other regulatory documents to direct PRC banks and other financial institutions to further optimise and strengthen their risk management measures regarding their loans to LGFV. The Bank has implemented a series of measures such as imposing stringent controls on granting loans to the LGFV and strengthening credit related policies to manage and control the risks associated with loans to LGFV. As at 31 December 2016, the amount of loans to LGFV classified under the regulated category decreased compared to 31 December 2015. Unfavourable developments in macroeconomic conditions, adverse changes to state policies, the financial condition of local governments or other factors may adversely affect the debt repayments of these financing platforms, which may in turn adversely affect the Bank’s asset quality, financial condition and results of operations. Such developments may negatively affect its ability to service the Notes and to satisfy its other obligations under the Notes.

While the Bank introduced heightened criteria in 2009 to manage the risks associated with LGFV loans, including stricter requirements for guarantees, it cannot be assured that these loans will not default in the event of macroeconomic instability or other policy changes introduced by the PRC government. Given their importance to the composition of the Bank’s loan portfolio, the default of any portion of such loans for any reason may affect its loan quality and will adversely affect its business, financial position and results of operations. Such developments may negatively affect its ability to service the Notes and to satisfy its other obligations under the Notes.

As at 31 December 2016, the Group’s gross loans and advances to customers were RMB11,757,032 million representing an increase of 12.13 per cent. from 31 December 2015; its NPL ratio as at 31 December 2016 was 1.52 per cent., representing a decrease of 0.06 per cent. as compared to the corresponding ratio as at 31 December 2015. As at 31 December 2016, the NPL ratio for domestic corporate loans was 2.60 per cent., an increase of 0.10 percentage points from 31 December 2015, and the NPL ratio for personal loans and advances was 0.50 per cent., a decrease of 0.02 percentage points from 31 December 2015. The NPL ratio for overseas entities and subsidiaries was 0.46 per cent., representing an increase by 0.01 percentage points from 31 December 2015.

The Bank may be unable to realise the full value of the collateral or guarantees securing the Bank’s loan portfolio

As at 31 December 2016, the balances of the Group’s unsecured loans, guaranteed loans, loans secured by tangible assets other than monetary assets and loans secured by monetary assets were RMB3,471,042 million, RMB1,964,685 million, RMB5,095,325 million and RMB1,225,980 million, respectively, accounting for 29.52 per cent., 16.71 per cent., 43.34 per cent. and 10.43 per cent. of the Group’s gross loans and advances to customers, respectively. If there is substantial deterioration in the business condition of a borrower which adversely affects the borrower’s ability to repay, the Bank may not be able to recover the amounts lent under unsecured loans, which will in turn adversely affect the Bank’s financial position and results of operations, and may negatively affect the Bank’s ability to service the Notes and to satisfy its other obligations under the Notes. Guaranteed loans are loans that are guaranteed by affiliates of the borrower or other third parties. Notwithstanding the fact that such loans are guaranteed, the Bank’s exposure to the guarantor is generally unsecured and if the financial position of the guarantor deteriorates significantly, its ability to recover such loans will correspondingly deteriorate. Furthermore, the guarantee provided by such guarantor may be determined by the court as invalid if the guarantor fails to comply with certain laws and regulations in the PRC, including the “PRC Property Law” and “PRC Security Law”. A significant percentage of the Bank’s loan portfolio is secured by collateral, consisting mainly of domestic assets such as properties, land use rights and securities. The value of the collateral is generally higher than the amount loaned but such value is affected by factors the Bank cannot control including those affecting the PRC economy. If the PRC economy deteriorates, it could result in a decrease in the value of the collateral which will lead to the reduction of the amount of the loan that can be recovered. In addition, the procedures for liquidating or otherwise realising the value of collateral of borrowers in China may

be protracted, and the enforcement process in China may be difficult. According to a judicial interpretation issued by the Supreme Court of the PRC, effective 21 December 2005, courts may not enforce the eviction of a borrower and his dependent families out of their residence if such residence under collateral is their primary residence in the six months following the courts' decision authorising that such collateral be auctioned, sold or liquidated. As a result, it may be difficult and time-consuming for banks to take control of or liquidate the collateral securing NPLs. Furthermore, certain specified claims may enjoy priority over the Bank's rights on loan collaterals. According to the "PRC Enterprise Bankruptcy Law" promulgated on 27 August 2006 and effective as of 1 June 2007, claims raised by employees on arrears of pay as well as other fees and expenditures prior to 27 August 2006 for enterprises in bankruptcy proceedings shall be given priority over the Bank's rights to collateral, on the premise that other assets of the enterprise are not sufficient to fulfil such claims. Accordingly, if a borrower fails to repay and if the Bank is not able to timely realise the entire or sufficient part of the value of collateral, pledged assets or guarantees represented, the Bank's asset quality, business, financial condition and results of operations may be adversely affected, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The Bank may not be able to maintain or reduce its current NPL ratio

The Bank's results of operations have been negatively affected by its NPLs, which may continue to affect the Bank's current and future business performance. As at 31 December 2016, the amount of the Group's NPLs was RMB178,690 million and the NPL ratio was 1.52 per cent., representing a decrease of 0.06 per cent. as compared to the corresponding ratio as at 31 December 2015. As at 31 December 2016, the NPL ratio for domestic corporate loans was 2.60 per cent., an increase of 0.10 percentage points from 31 December 2015, and the NPL ratio for personal loans and advances was 0.50 per cent., a decrease of 0.02 percentage points from 31 December 2015. The NPL ratio for overseas entities and subsidiaries as at 31 December 2016 was 0.46 per cent., representing an increase by 0.01 percentage points from 31 December 2015.

It cannot be assured that the Bank will be able to reduce or even maintain the same level in the future. This is because the quality of the Bank's loan portfolio is affected by factors which the Bank is unable to control, including any adverse changes to the PRC economic structure, deterioration in the PRC's economy, deterioration in the global economy. Adverse changes in the economic environment in the PRC as well as force majeure events including natural disasters or outbreak of diseases may all have negative impact on the Bank's customers' ability to repay the loans. Factors such as deterioration in the credit conditions of the Bank's customers' trading partners, decline in both residential and commercial property prices, an increase in the unemployment rate in China and a deterioration in the profitability of corporate borrowers will also lead to a reduction in the quality of the Bank's assets. All of these factors can lead to an increase in the Bank's NPL ratio, which will correspondingly adversely affect its business, financial condition and results of operations, and may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The Bank's allowance for impairment losses may not be adequate to cover future actual losses to its loan portfolio

As at 31 December 2016, the Group's allowance for impairment losses on loans was RMB268,677 million, the ratio of its allowance for impairment losses to total loans extended to customers was 2.29 per cent., and the ratio of the Group's allowance for impairment losses to NPLs was 150.36 per cent. The amount of the allowance for impairment losses to loans is based on the Bank's current assessment of and expectations concerning various factors that may affect the quality of its loan portfolio. These factors include, among other things, the borrowers' financial condition, repayment ability and repayment intention, the realisable value of any collateral and the likelihood of support from guarantors, as well as the PRC's economy, macroeconomic policies, interest rates, exchange rates and legal and regulatory environment. The above-mentioned factors are beyond the Bank's control. If the Bank's assessment of and expectations concerning these factors differ from actual developments in the future, or if the quality of its loan portfolio deteriorates, its allowance for impairment losses may not

be adequate to cover its actual losses and the Bank may need to make additional provisions for impairment losses, which may adversely affect its business, financial condition and results of operations and, in turn, may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The expanding range of products and services exposes the Bank to new risks

The Bank has expanded and intends to continue to expand the range of its products and services. As at 31 December 2016, the Group had 28 tier-one overseas branches, covering 29 countries and regions including Hong Kong, Singapore, Germany, South Africa, Japan, South Korea, the U.S., the U.K., Vietnam, Australia, Russia, Dubai, Taiwan, Luxembourg, Macau, New Zealand, Canada, France, Netherlands, Spain, Italy, Switzerland, Brazil, Cayman Islands, Ireland, Chile, Indonesia and Poland and wholly-owned operating subsidiaries including CCB Asia, CCB London, CCB Russia, CCB Dubai, CCB Europe and CCB New Zealand. Expansion of its business activities exposes the Bank to a number of risks and challenges, including the following:

- the Bank may have limited or no experience in certain new business activities or geographies and may not be able, or may take a relatively long period, to compete effectively in these areas;
- the Bank may not be able to devote sufficient resources or management capacity to certain new business activities or geographies;
- there is no guarantee that the new business activities will meet the Bank's expectations of their profitability;
- the Bank may not be able to hire new personnel or retrain existing personnel who are able to conduct new business activities; and
- the Bank may not be able to continually add to the capability of its risk management and information technology systems to support a broader range of activities.

If the Bank is not able to achieve the intended results in these new business areas, its business, financial condition and results of operations may be adversely affected, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes. In addition, if the Bank fails to promptly identify and expand into new areas of business to meet the increasing demand for certain products and services, it may fail to maintain its market share or lose some of its existing customers to its competitors.

Furthermore, the Bank's international expansion into multiple jurisdictions exposes the Bank to a variety of new regulatory and business challenges and risks and has increased the complexity of its risks in a number of areas, including currency risk, interest rate risk, credit risk, regulatory and compliance risk, reputational risk and operational risk. If the Bank is unable to manage the risks resulting from its international expansion, its reputation, business, financial condition and results of operations may be adversely affected, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The Bank is subject to liquidity risk

The Bank regularly monitors the gap between its assets and liabilities for various maturities in order to assess its liquidity risk for different periods. As at 31 December 2016, the accumulated gap of various maturities of the Group was RMB1,589,654 million, an increase of RMB144,571 million as compared to 31 December 2015. As a result, there is a mismatch between the maturities of the Bank's liabilities and assets. Customer deposits have historically been the main source of the Bank's funding. Generally, the Bank's short-term customer deposits have not been withdrawn upon maturity and have represented a stable source of funding. However, it cannot be assured that this will continue to be the case. If a substantial portion of the Bank's depositors withdraw their demand deposits or do not roll

over their time deposits upon maturity, the Bank may have no choice but to seek other sources of funding to meet its funding requirements. It cannot be assured that the Bank can source financing based on normal commercial terms when necessary. Furthermore, the Bank's ability to obtain additional funds may also be affected by other factors including factors that the Bank may find difficult to control or be totally incapable of controlling, such as the deterioration of overall market conditions, severe disturbance to the financial market or a bleak outlook for industries where it has substantial credit exposure. Any of these factors could result in adverse effects on the Bank's liquidity, business, financial position and results of operations, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The formal implementation of the deposit insurance scheme may adversely affect the Bank's deposit-taking business and financial position

The “**Deposit Insurance Regulation**” formulated by the State Council came into effect on 1 May 2015, and it will result in the formal establishment of a deposit insurance scheme in the PRC. The Deposit Insurance Regulation requires that the commercial banks and other deposit-taking banking financial institutions established in the PRC shall take out deposit insurance and pay deposit insurance premiums to relevant deposit insurance fund management institutions, with such premiums to be used as deposit insurance funds to compensate depositors in the event of the liquidation or similar event of any PRC bank. Under the deposit insurance scheme, upon the liquidation or similar event of any PRC bank, the maximum compensation that a depositor may receive on the total principal and accrued interest deposited with such PRC bank will be capped at RMB500,000.

The deposit insurance premiums to be paid by the Bank in accordance with the Deposit Insurance Regulation and other relevant laws and regulations will increase the Bank's operating costs and capital requirements. Furthermore, the deposit insurance scheme may increase competition among PRC banks for deposits as some depositors may consider spreading out their deposits with different PRC banks. This may result in deposits currently held with the Bank being transferred by depositors to other PRC banks as well as the Bank needing to offer higher interest rates to retain existing depositors and attract new depositors, which may have an adverse effect on the Bank's business, financial position and operating results.

The Bank is subject to credit risks with respect to certain off-balance sheet commitments and guarantees

In the normal course of the Bank's business, the Bank makes commitments and guarantees which are not reflected as liabilities on its balance sheet, including providing bank acceptances, guarantees, letters of credit and other credit commitments. As at 31 December 2016, the balance of the Group's credit commitments was RMB2,461,840 million. The Bank is subject to credit risks on its commitments and guarantees because certain of its commitments and guarantees may need to be fulfilled as a result of the Bank's customers' default. If the Bank is not able to obtain payment from its customers in respect of these commitments and guarantees or enforce its contracts with them, the Bank's business, financial condition and results of operations may be adversely affected, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The Bank is subject to risks associated with its hedging activities and other derivative transactions

The Bank has entered into derivative transactions for hedging purposes as well as conducted derivative transactions on behalf of its customers. Accordingly, the Bank faces market and operational risks associated with these transactions. At present, the regulation of China's derivative market remains in the development stage and requires further improvement and this increases the risks of the derivative transactions the Bank enters into. Further, the Bank's ability to monitor, analyse and report these

transactions is limited by its information technology. Accordingly, the Bank's business, financial position and results of operations may be adversely affected given the volatility of the prices of these derivatives, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

Changes in accounting policy may impact the Bank's financial condition and results of operations

Some of China's generally accepted accounting standards are currently undergoing gradual improvement and relevant regulatory institutions are constantly adjusting specific accounting policies applicable to the banking sector. Changes in specific accounting policies may affect the Bank's financial position. The "Accounting Standards for Enterprises" promulgated by the PRC Ministry of Finance ("MOF") in February 2006 with effect from 1 January 2007 have been implemented by the Bank.

Going forward, the Bank may be required to revise its accounting policies and estimates according to the amendment of domestic and international accounting standards, the interpretation and guidance of promulgations and other regulatory changes. If the Bank is required to implement significant changes to the handling of certain financial items or the alteration of accounting estimates, it may have adverse effects on its business, financial condition and results of operations. Such developments may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The Bank's provisioning policies and loan classifications may be different in certain respects from those applicable to banks in certain other countries or regions

The Bank determines a level of allowance for impairment losses and recognises any related provisions made in a year using the concept of impairment under International Accounting Standards and their interpretations ("IAS 39"). The Bank's provisioning policies may be different in certain respects from those of banks incorporated in certain other countries or regions which do not assess loans under IAS 39. As a result, the Bank's allowance for impairment losses, as determined under the provisioning policies, may differ from those that would be reported if it was incorporated in those countries or regions.

The Bank classifies its loans as "normal", "special mention", "sub standard", "doubtful" and "loss" by using the five-category classification system according to requirements of the CBRC. The Bank's five-category classification system may be different in certain respects from those of banks incorporated in certain other countries or regions. As a result, it may reflect a different degree of risk than what would be reported if the Bank was incorporated in those countries or regions.

The Bank's business, financial position and results of operations may be affected by its policies regarding provisioning and loan classification. If the Bank's approach to provisioning policies and/or loan classification proves not to be adequate, the Bank's business, financial position and results of operations may be negatively affected, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

Implementation of IFRS 9 in 2018 and interpretive guidance on its application will require the Bank to change its provisioning practice

The Bank assesses its loans and investment assets for impairment under IAS 39, as amended from time to time. The International Accounting Standards Board ("IASB") published IFRS 9 "Financial Instruments" (replacement of IAS 39) in July 2014, which proposed the introduction of an expected loss impairment model to replace the existing incurred loss model. Future implementation of IFRS 9 and interpretive guidance on the application of IFRS 9 may require the Bank to change its current provisioning practice and may, as a result, affect the Bank's business, financial condition and results of operations, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The Bank's risk management and internal control policies and procedures may not be effective in completely managing and avoiding all of its risks

In recent years, the Bank has achieved progress in terms of risk management by improving its policies and procedures. However, as these policies and procedures are relatively new, the Bank will require additional time to fully measure the impact of, and evaluate its compliance with, these policies and procedures. Moreover, the Bank's staff will require time to adjust to these policies and procedures and it cannot be assured that the Bank's staff will be able to consistently follow or correctly apply these new policies and procedures. In addition, the Bank's risk management capabilities are limited by the information, tools and technologies available to the Bank. Furthermore, the Bank's ability to control market risk and liquidity risk is constrained by the current PRC laws and regulations that restrict the types of financial instruments and investments the Bank may hold. If the Bank is unable to effectively implement the enhanced risk management and internal control policies and procedures, or if the intended results of such policies and procedures are not achieved in a timely manner, its asset quality, business, financial condition and results of operations may be adversely affected, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The Bank's business is highly dependent on the proper functioning and improvement of its information technology systems

The Bank's business is highly dependent on the ability of its information technology systems to accurately process large numbers of transactions across numerous markets and products in a timely manner. The proper functioning of the Bank's financial control, risk management, accounting, customer service and other data processing systems, together with the communication networks between the Bank's various branch outlets and its main data processing centre, is critical to its business and its ability to compete effectively. The Bank's data centres provide backup data that could be used in the event of a system breakdown or a failure of the Bank's primary systems, and have established alternative communications networks where available. However, the Bank does not operate all of its backup systems on a real-time basis and it cannot be assured that the Bank's business activities would not be substantially disrupted if there was a partial or complete failure of any of these primary information technology systems or communications networks. Such failures could be caused by, among other things, software flaws, computer virus attacks or conversion errors due to system upgrading. In addition, any security breach caused by unauthorised access to information or systems, or intentional destruction or loss or corruption of data, software, hardware or other computer equipment, could have an adverse effect on the Bank's business, financial condition and results of operations, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The Bank's ability to remain competitive will depend in part on its ability to upgrade its information technology systems on a timely and cost-effective basis. In addition, the information available to and received by the Bank through its existing information technology systems may not be timely or sufficient for the Bank to manage risks and plan for, and respond to, market changes and other developments in its current operating environment. As a result, the Bank is making and intends to continue making investments to improve or upgrade its information technology systems. Any substantial failure to improve or upgrade the Bank's information technology systems effectively or on a timely basis could adversely affect its competitiveness, business, financial condition and results of operations, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The Bank may not be able to detect and prevent fraud or other misconduct committed by its employees or third parties on a timely basis

The Bank may suffer from economic loss, penalties from regulatory institutions and severe damage to its reputation as a result of fraud or other misconduct committed by the Bank's employees or third parties. Types of misconduct conducted by the Bank's employees in the past include, among other things, theft, embezzlement or misappropriation of customers' funds; mishandling of customer deposits and settlement of payment transactions; improper extensions of credit; improper accounting; fraud; and acceptance of bribes. Types of misconduct by third parties which may affect the Bank include, among other things, fraud, theft, robbery and certain armed crimes. In addition, the Bank's employees may commit errors that could subject the Bank to financial claims as well as regulatory actions. While the Bank is constantly strengthening its inspection efforts and increasing its precautionary measures to prevent misconduct by employees and third parties, given the Bank's significant number of branch outlets, it cannot be assured that the Bank can identify and prevent all fraudulent behaviours of misconduct or that the preventive measures the Bank has adopted will be effective in every circumstance. As at 31 December 2016, the Bank had a total of 14,956 domestic operating outlets. It cannot be assured that any fraud or other misconduct committed by the Bank's employees or third parties, whether involving past acts that have gone undetected or future acts, will not have an adverse effect on the Bank's business, financial condition and results of operations, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The Bank may not be able to detect money laundering and other illegal or improper activities fully or on a timely basis, which could expose it to additional liability and harm its business or reputation

The Bank is required to comply with applicable anti-money-laundering, anti-terrorism laws and other regulations in the PRC, Hong Kong and other jurisdictions where the Bank has operations. These laws and regulations require the Bank, among other things, to adopt and enforce "know your customer" policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities in different jurisdictions. While the Bank has adopted policies and procedures aimed at detecting and preventing the use of its banking network for money laundering activities or by terrorists and terrorist-related organisations and individuals generally, such policies and procedures may not completely eliminate instances where the Bank may be used by other parties to engage in money laundering or other illegal or improper activities. To the extent the Bank may fail to fully comply with applicable laws and regulations, the relevant government agencies to whom the Bank reports have the power and authority to impose fines and other penalties on the Bank, which could harm its business and reputation, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The Bank does not possess the relevant land use right certificates or building ownership certificates for some of the properties it holds, and it is subject to risks that its leases over certain properties may not be renewed

The Bank leases a significant number of properties in the PRC, primarily as business premises for its branch outlets. It cannot be assured that all lessors of the Bank's leased business premises have the relevant land use right certificates or building ownership certificates. As a result, third parties may be able to challenge the validity of the Bank's leases. In addition, it cannot be assured that the Bank will be able to renew its leases on acceptable terms upon their expiration. If any of the Bank's leases were terminated as a result of challenges by third parties or failure of the lessors to renew them upon expiration, the Bank may be forced to relocate affected branch outlets and, if it fails to find suitable replacement sites on acceptable terms, its business, financial condition and results of operations may be adversely affected. This may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

In addition, the Bank occupies certain parcels of land and buildings for which it does not have the relevant land use right certificates or building ownership certificates. The Bank is in the process of applying for the relevant land use rights and building ownership certificates that the Bank does not yet hold. However, it cannot be assured that the Bank's ownership rights would not be adversely affected in respect of any parcels of land or buildings for which the Bank was unable to obtain the relevant certificates.

The Bank may face situations where it cannot meet the capital adequacy requirements imposed by the relevant PRC regulators or as a G-SIB pursuant to the Basel Capital Accord

According to the “**Measures for the Management of Capital Adequacy Ratios of Commercial Banks**” formulated by the CBRC in 2004 and amended in July 2007, the minimum capital adequacy ratio and core capital adequacy ratio for commercial banks are 8 per cent. and 4 per cent., respectively. According to the “**Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)**” (“**CBRC Capital Regulations**”) formulated by the CBRC to implement the Basel Capital Accord in June 2012 and effected on 1 January 2013, the capital adequacy ratio of different tiers of a commercial bank shall not be lower than the following minimum requirements at any point in time: (i) the core tier 1 capital adequacy ratio shall not be lower than 5 per cent.; (ii) the tier 1 capital adequacy ratio shall not be lower than 6 per cent.; and (iii) the capital adequacy ratio shall not be lower than 8 per cent. In addition, the Bank as a domestic systemically important bank will also be required to maintain a further 1 per cent. capital surcharge above prevailing core tier 1 capital requirements. Since January 2013, the Bank calculated its capital adequacy ratio in accordance with these measures. As at 31 December 2016, the Group's core capital adequacy ratio was 12.55 per cent. and the capital adequacy ratio was 15.31 per cent., and therefore, in compliance with the CBRC Capital Regulations.

In recent years, the CBRC has issued several regulations and guidelines governing capital adequacy requirements applicable to commercial banks in China. In 2010, the CBRC began regulating the capital adequacy of commercial banks, and implemented separate regulatory target requirements for separate banks. Furthermore, the Financial Stability Board identified the Bank as a globally systemically important bank (**G-SIB**) in November 2015. As a G-SIB, the Bank is required to satisfy heightened capital adequacy ratios pursuant to Basel III. As at 31 December 2016, the Bank's core capital adequacy ratio was 12.57 per cent. and the capital adequacy ratio was 15.16 per cent., and therefore, in compliance with the applicable regulatory requirements.

Although the Bank has already implemented medium to long term capital management policies to strengthen capital management and its capability to maintain growth, some regulatory developments may affect the Bank's ability to continually comply with capital adequacy requirements, including the decline in asset quality, the decline in value of its investments, the raising of minimum capital adequacy ratios by the CBRC and the changes in calculations of capital adequacy ratios by the CBRC.

In order to support the steady growth and development, the Bank may need to raise more capital to ensure that its capital complies with or exceeds the minimum regulatory requirement. In its future plans to raise capital, the Bank may issue any share securities that can contribute towards core tier 1 capital or additional tier 1 capital or any debt securities that can contribute towards tier 2 capital. On 12 December 2014, the Board of Directors of the Bank reviewed and approved the *Proposal on the Plan of Issuance of Domestic Preference Shares by China Construction Bank Corporation and the Proposal on the Plan of Issuance of Offshore Preference Shares by China Construction Bank Corporation*, pursuant to which, the Bank proposed to issue preference shares with an aggregate of no more than RMB80 billion (inclusive) or its equivalent in domestic and offshore markets, which include the issuance of domestic preference shares of no more than RMB60 billion (inclusive) and the issuance of offshore preference shares of no more than RMB20 billion (inclusive) or its equivalent. On 5 November 2015, the Bank received approval from the CBRC for the issuance of up to 200 million offshore preference shares, and on 3 December 2015, the Bank received approval from the China Securities Regulatory Commission for the same. Pursuant to the approvals of relevant regulatory authorities and *inter alia* the shareholders' resolutions, the Bank issued U.S.\$3.05 billion in the

aggregate principal amount of 4.65 per cent. non-cumulative perpetual offshore preference shares on 16 December 2015, and the listing of the offshore preference shares on the Hong Kong Stock Exchange became effective on 17 December 2015. On 13 May 2015, the Bank issued US\$2,000,000,000 in the aggregate principal amount of 3.875 per cent. tier 2 dated capital bonds due 2025. In December 2015, the Bank issued RMB24 billion in the aggregate principal amount of 4 per cent. tier 2 capital bonds due 2025 in the domestic interbank market. The net proceeds from the issue of such bonds were used to increase the tier 2 capital of the Bank in accordance with the applicable laws and for the purposes approved by the regulatory authorities. On 22 December 2015, the Bank issued RMB24 billion tier 2 capital bonds (the “**RMB Bonds**”) in the domestic interbank bond market with a coupon rate of 4.00 per cent. The maturity period is 10 years, and the Bank has a redemption right at the end of the fifth year. The proceeds from the issuance of the RMB Bonds will be used to replenish the Bank’s tier 2 capital in accordance with the applicable laws and as approved by the regulatory authorities. Any share securities issued by the Bank (including any preference shares) may dilute the interest and benefits of its shareholders.

The Bank’s capital-raising ability may be restricted by the Bank’s future business, financial and operational results, the Bank’s credit rating, necessary regulatory approvals, overall market conditions including PRC and global economic, political and other conditions at the time of capital raising.

If the Bank fails to meet the capital adequacy requirements, the CBRC may require the Bank to take corrective measures, including, for example, restricting the growth of its loans and other assets or restricting its declaration or distribution of dividends. These measures could adversely affect the Bank’s reputation, business, financial condition and results of operations, which in turn may negatively affect the Bank’s ability to service the Notes and to satisfy its other obligations under the Notes.

The Bank is subject to certain operational requirements as well as guidelines set by the PRC banking regulatory authorities. The Bank is also subject to the supervision and inspection of domestic regulators and overseas regulators in jurisdictions where it operates.

The Bank is subject to regular and irregular supervision and inspection by China’s regulatory institutions, including the MOF, the PBOC, the CBRC, the China Securities Regulatory Commission (“**CSRC**”), the China Insurance Regulatory Commission (“**CIRC**”), the State Administration of Taxation (“**SAT**”), the State Administration of Industry & Commerce (“**SAIC**”), the State Administration of Foreign Exchange (“**SAFE**”) and the National Audit Office (“**NAO**”).

The Bank is subject to certain operational requirements and guidelines set by the PRC banking regulatory authorities. It cannot be assured that the Bank will be able to meet these operational requirements and guidelines in the future at all times, or that no sanction will be imposed on the Bank in the future if the Bank fails to do so. If sanctions are imposed on the Bank for the breaches of these or other operational requirements and guidelines, its business, financial condition and results of operations may be adversely affected, which in turn may negatively affect the Bank’s ability to service the Notes and to satisfy its other obligations under the Notes.

Furthermore, the Bank may also be subject to inspection and supervision of overseas regulatory institutions in overseas jurisdictions where it operates. The Bank’s overseas branches, subsidiaries and representative offices must follow local laws, regulations and the regulatory requirements of relevant local regulatory institutions of their respective jurisdictions. It cannot be assured that the Bank’s overseas branches, subsidiaries and representative offices will be able to meet the applicable laws and regulatory requirements at all times. If the Bank is not able to meet these requirements, there may be an adverse impact on the Bank’s business in these jurisdictions. Some of these inspections have led to penalties and other sanctions imposed on the Bank as a result of non-compliance. Although none of the penalties and sanctions imposed on the Bank have had a material adverse impact on the Bank’s operations, financial position, and business performance, it cannot be assured that future inspections

by regulatory institutions will not result in penalties or sanctions which may adversely affect the Bank's operations, reputation, business, financial position and results of operations, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The Bank may be subject to OFAC penalties if it conducts transactions in violation of OFAC regulations

The United States currently imposes various economic sanctions, which are administered by the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC") and which apply only to U.S. persons and, in certain cases, to foreign subsidiaries of U.S. persons or to transactions involving certain items subject to U.S. jurisdiction. Similar sanctions are administered by the United Kingdom, the European Union, United Nations Security Council and other applicable jurisdictions. These sanctions are intended to address a variety of policy concerns, among other things, denying certain countries, and certain individuals and entities, the ability to support international terrorism and to pursue weapons of mass destruction and missile programmes. Countries which are currently subject to sanctions for different reasons include but are not limited to Crimea region of Ukraine, Cuba, Iran, Libya, North Korea, Syria and Sudan. The Bank does not believe that these sanctions are applicable to any of the Group's activities. However, if the Group engages in any prohibited transactions by any means or it was otherwise determined that any of the Group's transactions violated applicable sanctions regulations, the Group could be subject to penalties and its reputation and ability to conduct future business in the U.S. or other relevant jurisdictions or with U.S. persons or other relevant persons could be adversely affected. As the Bank's business, financial condition and results of operations may be adversely affected, the Bank's ability to service the Notes and to satisfy its other obligations under the Notes may also be negatively affected.

Potential investors should not place undue reliance on the financial information incorporated by reference that is not audited or reviewed.

The unaudited and unreviewed consolidated quarterly financial information as at and for the three months ended 31 March 2016 and 2017 has not been and will not be audited or reviewed by the Bank's independent auditors. The unaudited and unreviewed consolidated quarterly financial information as at and for the three months ended 31 March 2016 and 2017 should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. Potential investors should exercise caution when using such data to evaluate the Bank's financial condition and results of operations. The unaudited and unreviewed consolidated quarterly financial information as at and for the three months ended 31 March 2016 and 2017 should not be taken as an indication of the expected financial condition or results of operations of the Bank for the relevant full financial year.

Risks Relating to the PRC Banking Industry

The highly competitive nature of the PRC banking industry could adversely affect the Bank's profitability

The PRC banking industry is intensely competitive. The Bank competes primarily with other domestic commercial banks and financial institutions, as well as foreign-invested financial institutions. These commercial banks and financial institutions compete with the Bank for substantially the same loans, deposits and fees from customers.

Following the removal of regulatory restrictions on their geographical presence, customer base and operating licence in China in December 2006 as part of China's WTO accession commitments, the Bank has experienced increased challenges from foreign-invested commercial banks. Furthermore, the "Mainland and Hong Kong Closer Economic Partnership Arrangement", which permits smaller Hong Kong banks to operate in China, has also increased the competition in China's banking industry.

The increased competitive pressures resulting from the above and other factors may adversely affect the Bank's business, financial condition and results of operations by, among other things:

- reducing the Bank's market share in its principal products and services;
- affecting the growth of the Bank's loan portfolio or deposit base and other products and services;
- decreasing the Bank's interest income or increasing its interest expense, thereby decreasing its net interest margin;
- reducing the Bank's fee and commission income;
- increasing the Bank's non-interest expenses, such as marketing expenses;
- reducing the Bank's asset quality; and
- increasing the turnover of senior management and qualified professional personnel.

The Bank may not always be able to maintain its competitive advantage or successfully compete in all the business areas in which it currently or will in the future operate. The adverse developments described above may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The Bank may also face competition for funds from other forms of investment alternatives as the PRC capital market continues to develop. For example, as the PRC capital market continues to develop and become a more viable and attractive investment alternative, the Bank's deposit customers may elect to transfer their funds into bonds, equities and other capital market instruments, which may reduce the Bank's deposit base and adversely affect the Bank's business, financial condition and results of operations. This may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The Bank's businesses are highly regulated which may be adversely affected by future regulatory changes

The Bank's business and operations are directly affected by changes in China's policies, laws and regulations relating to the banking industry, such as those affecting the extent to which the Bank can engage in specific businesses, as well as changes in other governmental policies. There can be no assurance that the policies, laws and regulations governing the banking industry will not change in the future or that any such changes will not adversely affect the Bank's business, financial condition and result of operations nor can the Bank assure investors that it will be able to adapt to all such changes on a timely basis. In addition, there may be uncertainties regarding the interpretation and application of new policies, laws and regulations, which may result in penalties and restrictions on the Bank's activities and could also have a significant impact on the Bank's business. The adverse developments described above may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The PBOC has increased the reserve requirement ratio for commercial banks over the years, which has been increased from 7.5 per cent. in 2006 to 20 per cent. in May 2012, and has issued a circular in August 2011 requiring commercial banks to bring three kinds of margin deposits including bank acceptances, letters of guarantee and letters of credit into the depository scope of required reserve. In 2014, the PBOC implemented "**Oriented Reduction of Reserve Requirement Ratio**" measures several times, including reducing the reserve requirement ratio by 0.5 per cent. specifically for those commercial banks satisfying certain requirements since 16 June 2014. The reserve requirement refers to the amount of funds that banks must hold in reserve against deposits made by their customers. The PBOC may further adjust the reserve requirement ratio or revise its calculation basis in the future. Increases in the bank reserve requirement ratio or expansion of the calculation basis of the reserve

requirement may negatively impact the amount of funds available for loans to businesses by the Bank and other commercial banks in China and therefore may adversely affect the Bank's ability to earn interest income, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The growth rate of the PRC banking market may not be sustainable

The Bank expects the banking market in the PRC to expand as a result of anticipated growth in the PRC economy, increases in household wealth, continued social welfare improvement, demographic changes and the opening of the PRC banking market to foreign participants. However, the prospective impact on the PRC banking industry of certain trends and events, such as the pace of economic growth in the PRC and the ongoing reform of the social welfare system is currently not clear. Consequently, it cannot be assured that the growth and development of the PRC banking market will be sustainable.

Fluctuations in interest rates may adversely affect the Bank's lending business and its financial condition

As with most commercial banks, the Bank's results of operations depend to a great extent on the Bank's net interest income. For the year ended 31 December 2016, net interest income represented 74.63 per cent. of the Group's operating income. Fluctuations in interest rates could affect the Bank's financial condition and profitability in different ways. For example, a decrease in interest rates may reduce the Bank's interest income and yields from interest-earning assets. An increase in interest rates may decrease the value of the Bank's investment debt securities portfolio and raise the Bank's funding costs. In addition, an increase in interest rates may reduce overall demand for loans, and, accordingly, reduce the Bank's origination of new loans, as well as increase the risk of customer default. Interest rate fluctuations will also affect the market value of and return on derivative financial instruments. Volatility in interest rates may also result in a gap between the Bank's interest rate sensitive assets and interest rate sensitive liabilities.

In addition, increasing competition in the banking industry and further deregulation of interest rates by the PBOC may result in more volatility in market interest rates. If the interest rates the Bank pays for its deposits increase to a greater extent than the interest rates it receives for its loans, the Bank's net interest margin will narrow, leading to a reduction in its net interest income. Increases in interest rates might also affect borrowers' financial condition and hence their ability to repay loans. As a result, fluctuations in interest rates may adversely affect the Bank's lending operations, financial condition and results of operations, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

PRC regulations impose limitations on the types of investments the Bank may make and, as a result, the Bank has limited abilities to seek optimal investment returns, to diversify its investment portfolio and to hedge the risks of its Renminbi-denominated assets

As a result of the PRC regulatory restrictions, substantially all of the Renminbi-denominated investment assets of PRC commercial banks are concentrated in the limited types of investments permitted by the PRC government. These permitted investments include PRC treasury bonds, finance bonds issued by PRC policy banks, notes issued by PBOC, and subordinated bonds. These restrictions on the Bank's ability to diversify its investment portfolio limit its ability to seek an optimal return. The restrictions also expose the Bank to significantly greater risk of investment loss in the event a particular type of investment the Bank holds suffers a decrease in value. For example, a general increase in interest rates may result in a significant decline in the value of the fixed income debt securities held by the Bank. In addition, due to the limited hedging tools available, the Bank's ability to manage market and credit risks relating to Renminbi-denominated assets is limited, and any resulting decline in the value of its Renminbi-denominated assets will adversely affect the Bank's financial condition and results of operations. This may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The Bank's results of operations may be adversely affected if the PBOC further expedites the deregulation of interest rates

In recent years, the PBOC has adopted reform measures to liberalise China's interest rate regime. For example in 2002, the PBOC substantially liberalised interest rates for foreign currency-denominated loans and deposits. In October 2004, the PBOC eliminated restrictions in respect of the maximum interest rate for RMB-denominated loans and the minimum interest rate for RMB-denominated deposits. In June 2012, PBOC lowered the one-year Renminbi benchmark deposit and loan interest rates each by 0.25 percentage points. At the same time, the PBOC also adjusted the upper limit of the floating range for deposit interest rates and the lower limit of the floating range for loan interest rates. On 19 July 2013, the PBOC published the **"Notice on Furthering Market-based Interest Rate Reform"** pursuant to which, other than the restriction that commercial banks in China cannot set interest rates for RMB-denominated residential mortgage loans below 70 per cent. of the relevant PBOC benchmark rate (since 27 October 2008), restrictions on the loan interest rates were fully liberalised. According to existing PBOC regulations, RMB-denominated deposits in commercial banks in China remain subject to restrictions and the interest rate for RMB-denominated deposits cannot be set above 110 per cent. of the relevant PBOC benchmark rate. On 25 October 2013, the PBOC introduced a new prime lending rate, officially known as the **"loan prime rate"**, which is based on a weighted average of lending rates from nine commercial banks. In 2015, the PBOC made consecutive interest rates cuts and removed the deposit interest rate ceiling, giving rise to greater competitions among banks and general shrinking of returns in the bond and monetary markets. The PBOC may further liberalise the existing interest rate restrictions on RMB-denominated loans and deposits. If the existing regulations are substantially liberalised or eliminated, competition in China's banking industry will likely intensify as China's commercial banks seek to offer more attractive interest rates to customers. Further adjustments by the PBOC to the benchmark interest rates or liberalisation by the PBOC may result in the narrowing of the spread in the average interest rates between RMB-denominated loans and RMB-denominated deposits, thereby adversely affecting the Bank's business, financial condition and results of operations, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

The effectiveness of the Bank's credit risk management system is affected by the quality and scope of information available in the PRC

National credit information databases developed by the PBOC have been in operation since January 2006. However, as the information infrastructure in China is still under development and there remains limitations on the availability of information, national credit information databases are generally under-developed and are not able to provide complete credit information on many of the Bank's credit applicants. Therefore, the Bank's assessment of the credit risk associated with a particular customer may not be based on complete, accurate or reliable information, and the Bank's ability to effectively manage the Bank's credit risk may be adversely affected. This may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

Certain facts and statistics and information relating to the Bank and the Group are derived from publications not independently verified by the Bank, the Joint Lead Managers or any of their respective directors, employees, representatives, affiliates or advisers

Certain facts and statistics in this Supplemental Offering Circular relating to the PRC, its economy and its banking industry are derived from various official and publicly available sources generally believed to be reliable. While the Bank has taken reasonable care to ensure that the facts and statistics or information relating to the Bank and the Group presented are accurately extracted from such sources, such facts, statistics and information have not been independently verified by the Bank, the Joint Lead Managers or any of their respective directors, employees, representatives, affiliates or advisers and, therefore, none of them makes any representation as to the accuracy of such facts and statistics or information, which may not be consistent with other information compiled within or outside the PRC and may not be complete or up-to-date.

Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice or other reasons, the statistics herein may be inaccurate or may not be comparable from period to period or to statistics produced for other economies and should not be unduly relied upon.

Risks Relating to the PRC

PRC economic, political and social conditions and government policies could affect the Bank's financial condition and results of operations

A substantial majority of the Bank's businesses, assets and operations are located in China. Accordingly, the Bank's financial condition, results of operations and business prospects are, to a significant degree, subject to the economic, political and legal developments in China. China's economy differs from the economies of most developed countries in many respects, including, among other things, government involvement, level of development, growth rate, control of foreign exchange and allocation of resources.

China's economy has historically been a planned economy. A substantial portion of productive assets in China are still owned by the PRC government. The PRC government also exercises significant control over China's economic growth by allocating resources, setting monetary policy and providing preferential treatment to particular industries or companies. These measures are aimed at benefiting the overall economy of the PRC, but some of the measures may have negative effects on certain industries, including the commercial banking industry. For example, the Bank's operating results may be adversely affected by government control over capital investments or changes in the interpretation of, and application of, applicable tax regulations.

The PRC government is entitled to implement macroeconomic control measures to regulate the economy of China. China's GDP growth maintained its rapid pace for years before it slowed down due to the recent global financial crisis. In response to the global financial crisis and market volatility, the PRC government implemented a series of macroeconomic measures and relatively loose monetary policies from the second half of 2008, including a RMB4 trillion economic stimulus package and lower benchmark interest rates. Some of the measures may have effects on the Bank's business, financial condition, results of operations and asset quality. The PRC government may take measures to prevent the economy of China from overheating following the success of the above economic stimulus measures, including restraining investment in industries with excess production capacity, adjusting its tax policy on real estate, raising benchmark interest rates, raising deposit reserve rate or issuing administrative guidelines to control bank lending. Furthermore, there are signs that the growth of the PRC economy may slow down, therefore the PRC government may again implement its macroeconomic control measures accordingly. As the PRC government continues to regulate the economy by using monetary and fiscal policies, the Bank's business, financial condition and results of operations may be continuously affected, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

Interpretation of PRC laws and regulations may involve uncertainty

The Bank is organised under the laws of the PRC. The PRC legal system is based on written statutes. Since 1979, the PRC government has promulgated laws and regulations dealing with economic matters, such as foreign investment, corporate organisation and governance, commerce, taxation and trade, with a view towards developing a comprehensive system of commercial law. However, as many of these laws and regulations are relatively new and continue to evolve, these laws and regulations may be subject to different interpretation and inconsistently enforced. In addition, there is a limited volume of published court decisions, and although they may be cited for reference, they are not binding on subsequent cases and have limited precedential value unless the Supreme People's Court otherwise provides. These uncertainties relating to the interpretation and implementation of PRC laws and regulations may adversely affect the legal protections and remedies that are available to the Bank and the Noteholders.

Noteholders may experience difficulties in effecting service of legal process and enforcing judgments against the Bank and its directors and officers

The Bank is a company incorporated under the laws of the PRC, and substantially all of its assets and its subsidiaries are located in the PRC. In addition, most of the Bank's directors and officers reside within the PRC, and the assets of its directors and officers may be located within the PRC. As a result, it may not be possible to effect service of process outside of the PRC upon most of the Bank's directors and officers. On 14 July 2006, Hong Kong and the PRC entered into the "Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned" (the "**Agreement**"), pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial proceeding according to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in the PRC. Similarly, a party with final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Agreement in which a Hong Kong court or a PRC court is expressly designated as the court having exclusive jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in dispute do not agree to enter into a choice of court agreement in writing. As a result, it may be difficult or impossible for the Noteholders to effect service of process against the Bank's assets or its directors and officers in the PRC in order to seek recognition and enforcement for foreign judgments in the PRC.

Furthermore, the PRC has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of the United States, the United Kingdom, Japan or most other Western countries. Hence, the recognition and enforcement in China of a judgment issued by a court in any of these jurisdictions in relation to any matter not subject to a binding jurisdiction provision may be difficult or impossible.

The Bank is subject to PRC government controls on currency conversion and future movements in exchange rates

The Bank receives a substantial majority of its revenues in RMB, which is currently not a freely convertible currency. A portion of these revenues must be converted into other currencies in order to meet the Bank's demands for foreign currency.

The value of the RMB against the U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in Chinese and international political and economic conditions. Since 1994, China had adopted a market-based, managed and unified floating exchange rate regime to determine the exchange rate of RMB with reference to the exchange rate determined by the PBOC based on the interbank exchange rates and the prevailing rate of the international financial market on the previous business day. Thereafter, the official exchange rate of RMB against the U.S. dollar remained stable. On 21 July 2005, the PRC government adopted a more flexible market-based and managed floating exchange rate regime with reference to a basket of currencies when the exchange rate of RMB against the U.S. dollar recorded a one-off increase of 2 per cent. Under the new system, the exchange rate of RMB was allowed to fluctuate within a regulated band. In addition, a market maker system was introduced to the interbank spot foreign exchange market. In July 2008, China announced that its exchange rate regime was further transformed into a managed floating mechanism based on market supply and demand. Given the domestic and overseas economic developments, the PBOC decided to further improve the RMB exchange rate regime in June 2010 to enhance the flexibility of the RMB exchange rate and widen the daily fluctuation band for the U.S.\$/RMB exchange rate in April 2012 and in March 2014.

The Bank is also currently required to obtain the approval of SAFE before converting significant sums of foreign currencies into RMB. All of these factors could adversely affect the Bank's business, financial condition, results of operations and compliance with capital adequacy ratios and operational ratios, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes.

Any force majeure events, including future occurrence of natural disasters or outbreaks of contagious diseases in China may have an adverse effect on the Bank's business operations, financial condition and results of operations

Any future force majeure events, such as occurrence of natural disasters or outbreaks of health epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, or SARS, and swine flu caused by H1N1 virus, (“H1N1 Flu”), or avian influenza caused by H7N9 virus (“H7N9 Flu”) may adversely affect the Bank's business, financial condition and results of operations, which in turn may negatively affect the Bank's ability to service the Notes and to satisfy its other obligations under the Notes. Possible force majeure events may give rise to additional costs to be borne by the Bank and have adverse effects on the quality of the Bank's assets, business, financial condition and results of operations. An outbreak of a health epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activity in affected areas, which may in turn adversely affect the Bank's business. Moreover, China has experienced natural disasters such as earthquakes, floods and drought in the past few years. For example, in May 2008, April 2010 and April 2013, China experienced earthquakes with reported magnitudes of 8.0, 7.1 and 7.0 on the Richter scale in Sichuan province, Qinghai Province and Sichuan province respectively, resulting in the death of tens of thousands of people. Any future occurrence of severe natural disasters in China may adversely affect its economy and in turn the Bank's business. There is no guarantee that any future occurrence of natural disasters or outbreak of avian influenza, SARS, H1N1 Flu, H7N9 Flu or other epidemics, or the measures taken by the PRC government or other countries in response to a future outbreak of avian influenza, SARS, H1N1 Flu, H7N9 Flu or other epidemics, will not seriously interrupt the Bank's operations or those of the Bank's customers, which may have an adverse effect on the Bank's business, financial condition and results of operations.

Risks relating to the Notes

For the risks relating to the Notes, please refer to page 80 to page 89 of the Offering Circular, except that:

The risk factor “*The Financial Institutions (Resolution) Ordinance (No. 23 of 2016) may override the contractual terms of the Notes*” on page 82 shall be deleted in its entirety and replaced with the following:

The Financial Institutions (Resolution) Ordinance (No. 23 of 2016) may override the contractual terms of the Notes.

In early 2014, the Hong Kong government launched the initial stage of a public consultation on establishing a “resolution regime” for authorised institutions and other financial institutions in Hong Kong. A second consultation was launched in early 2015. A consultation response paper dated 9 October 2015 (the Response Paper) was published concluding the two consultations and summarising the key comments received and the authorities' responses and proposals in relation to those comments. The Response Paper also discusses certain further issues which remain under development internationally. On 22 June 2016, the Financial Institutions (Resolution) Bill was passed by the Legislative Council of Hong Kong and enacted as the Financial Institutions (Resolution) Ordinance (No. 23 of 2016) on 30 June 2016 but has not yet commenced operation as at the date of this Supplemental Offering Circular. The Financial Institutions (Resolution) Ordinance will come into effect on 7 July 2017.

The resolution regime seeks to provide the relevant resolution authorities with administrative powers to bring about timely and orderly resolution in order to stabilise and secure continuity for a failing financial institution in Hong Kong. In particular, it has been envisaged that subject to certain safeguards, the relevant resolution authority would be provided with powers to affect contractual and property rights as well as payments (including in respect of any priority of payment) that creditors would receive in resolution. These may include but are not limited to, powers to write off or convert all or a part of the principal amount of, or interest on, the Notes, which may inter alia be in addition to any write off pursuant to the contractual provisions relating to loss absorption of the Notes (if any), and powers to amend or alter the contractual provisions of the Notes. Although the Financial Institutions (Resolution) Ordinance has not commenced operation as at the date of this Supplemental Offering Circular, Noteholders will be subject to and bound by the Financial Institutions (Resolution) Ordinance once it comes into operation on 7 July 2017.

CAPITALISATION

The following table sets forth the Bank's capitalisation and indebtedness as at 31 December 2016.

This table should be read in conjunction with the consolidated financial statements of the Bank and related notes thereto which are included elsewhere in this Supplemental Offering Circular.

	As at 31 December 2016
	(unaudited)
	(RMB in millions)
Total liabilities ⁽¹⁾	19,374,051
Equity	
Share capital	250,011
Other equity instruments preference shares	19,659
Capital reserve	133,960
General reserve	211,193
Retained earnings	786,860
Other reserves ⁽²⁾	174,817
Minority interest	13,154
Total equity	<u>1,589,654</u>
Total capitalisation ⁽³⁾	<u>20,963,705</u>

Note(s):

- (1) Total liabilities include borrowings from central banks, deposits from banks and non-bank financial institutions, placements from banks and non-bank financial institutions, financial liabilities at fair value through profit or loss, negative fair value of derivatives, financial assets sold under repurchase agreements, deposits from customers, accrued staff costs, taxes payable, interest payable, provisions, debt securities issued, deferred tax liabilities and other liabilities.

The Bank has published the Group 2017 1Q Report on 27 April 2017. For further information, please refer to the "Selected Consolidated Financial Data" section.

- (2) Other reserves comprise the surplus reserve, investment revaluation reserve and exchange reserve.

- (3) Total capitalisation equals the sum of total liabilities and total equity.

Except as disclosed above, there has not been any material adverse change in the Bank's capitalisation and indebtedness since 31 December 2016.

DESCRIPTION OF THE HONG KONG BRANCH

The section “Description of the Hong Kong Branch” on pages 91 and 92 of the Offering Circular shall be deleted in its entirety and replaced with the following:

Business Activities

The Hong Kong branch of the Bank was established in 1995. It was the first branch of the Bank outside Mainland China. Today the Hong Kong branch of the Bank, specialising in wholesale banking business, offers a wide range of products to corporate customers in trade finance, remittance, foreign exchange, money market, derivatives, deposits taking, loans, project and structured finance, loan syndications and financial advisory services. As at 31 December 2016, its amount of gross loans and advances was HK\$220,155 million. As at the same date, its amount of total deposits was HK\$303,593 million, and its amount of total assets was HK\$576,913 million. In the year ended 31 December 2016, it generated HK\$8,504 million of interest income and HK\$357 million of fee and commission income.

The Hong Kong branch of the Bank offers a wide range of corporate and commercial banking products and services in Hong Kong. The Hong Kong branch of the Bank provides services including conventional transactional, foreign exchange, loans, investments and RMB services, while corporate and commercial banking includes a wide variety of products and services in trade financing, working capital and trade lending, foreign exchange and investment banking.

The Hong Kong branch of the Bank receives extensive support from the Bank in terms of funding, settlement, information technology (IT) and client resources. The wide-ranging collaboration between the Hong Kong branch and the Bank enables the Hong Kong branch to better serve its customers, maximise cross selling efforts, expand its product range and capture the emerging business opportunities in Hong Kong and the PRC.

The Hong Kong branch of the Bank does not have any employees. The personnel team of China Construction Bank (Asia) Corporation Limited (“CCBA”) currently performs functions and provides services and support to both the Hong Kong branch of the Bank and CCBA. CCBA receives fees from the Hong Kong branch of the Bank in exchange for such services and support, determined on an arm’s length basis.

Hong Kong Banking Industry Regulatory Regime

The banking industry in Hong Kong is regulated under the provisions of the Banking Ordinance (Cap. 155) of Hong Kong (the “**Banking Ordinance**”) and subject to the powers and functions ascribed by the Banking Ordinance to the HKMA. The Banking Ordinance provides that only banks which have been granted a banking license (“**license**”) by the HKMA may carry on banking business (as defined in the Banking Ordinance) in Hong Kong and contains controls and restrictions on such banks (“**licensed banks**”).

The provisions of the Banking Ordinance are implemented by the HKMA, the principal function of which is to promote the general stability and effectiveness of the banking system, especially in the area of supervising compliance with the provisions of the Banking Ordinance. The HKMA supervises licensed banks through, *inter alia*, a regular information gathering process, the main features of which are as follows:

- each licensed bank must submit a monthly return to the HKMA setting out the assets and liabilities of its principal place of business in Hong Kong and all local branches and a further comprehensive quarterly return relating to its principal place of business in Hong Kong and all local branches, unless the HKMA permits returns to be made at less frequent intervals;

- the HKMA may order a licensed bank, any of its subsidiaries, its holding company or any subsidiaries of its holding company to provide such further information (either specifically or periodically) as it may reasonably require for the exercise of its functions under the Banking Ordinance or as it may consider necessary in the interests of the depositors or potential depositors of the licensed bank concerned. Such information shall be submitted within such period and in such manner as the HKMA may require. The HKMA may also require a report by a licensed bank's auditors (approved by the HKMA for the purpose of preparing the report) confirming whether or not such information or return is correctly compiled in all material respects;
- licensed banks may be required to provide information to the HKMA regarding companies in which they have an aggregate of 20 per cent. or more direct or indirect shareholding or with which they have common directors or managers (as defined in the Banking Ordinance), the same controller (as defined in the Banking Ordinance), with common features in their names or a concert party arrangement to promote the licensed bank's business;
- licensed banks are obliged to report to the HKMA immediately of their likelihood of becoming unable to meet their obligations;
- the HKMA may direct a licensed bank to appoint an auditor to report to the HKMA on the state of affairs and/or profit and loss of the licensed bank or the adequacy of the systems of control of the licensed bank or other matters as the HKMA may reasonably require; and
- the HKMA may, at any time, with or without prior notice, examine the books, accounts and transactions of any licensed bank, and in the case of a licensed bank incorporated in Hong Kong, any local branch, overseas branch, overseas representative office or subsidiary, whether local or overseas, of such licensed bank. Such inspections are carried out by the HKMA on a regular basis.

In addition, the Hong Kong Branch is also subject to The Financial Institutions (Resolution) Ordinance (No. 23 of 2016). Please refer to risk factor "*The Financial Institutions (Resolution) Ordinance (No. 23 of 2016) may override the contractual terms of the Notes*" on page 40 for further information.

DESCRIPTION OF THE BANK

The section “Description of the Bank” on pages 93 to 116 of the Offering Circular shall be deleted in its entirety and replaced with the following:

OVERVIEW

The Bank is a leading commercial bank in China providing a comprehensive range of banking products and financial services. The Bank was incorporated as a joint stock company in the PRC on 17 September 2004 and its business licence number is 100000000039122. The registered address of the Bank is No. 25, Finance Street, Xicheng District, Beijing 100033, China and its telephone number is +86 10 6621 5533. Headquartered in Beijing, the Bank provides convenient and quality banking services to its customers through an extensive network comprised of nationwide branches, self-service facilities and an electronic banking service platform. The Bank operates principally in mainland China with branches in all provinces, autonomous regions and municipalities directly under the central government, and several subsidiaries located in mainland China. The Bank’s principal business activities include corporate banking, personal banking, treasury, investment banking and overseas business. Within the Bank’s corporate banking business, the Bank offers a broad range of products and services to corporations, government agencies and financial institutions, including infrastructure loans, working capital loans, syndicated loans, supply-chain financing, loans to medium-sized enterprises (“SMEs”), trade financing, loans through the Bank’s e-banking platform and merger and acquisition financing. The Bank also offers corporate deposits under various terms and commission/fee based services, including agency services, cost and advisory services, institutional business, asset custodial business, and treasury management and settlement business. The Bank provides a broad range of personal banking products and services under well recognised brands, including residential mortgage loans, entrusted housing provident fund mortgage loan services and bank card services. The Bank’s treasury operations primarily consist of money market trading activities, investment portfolio management and agency treasury transactions. The Bank conducts its treasury services mainly through its trading centres in Beijing and Hong Kong. The Bank conducts its investment banking business through the investment banking department at the head office and branch levels as well as through CCB International Capital Limited (“**CCB International**”). The Bank offers a comprehensive and diversified suite of financial services to its customers which includes, among others, financial advisory services, equity capital financing, debt financing, asset securitisation and wealth management services. Leveraging its vast resources and geographic advantages in the Chinese domestic market, the Bank is committed to providing a world-wide banking and financial services platform to service the overseas banking needs of its domestic corporate and personal banking customers and the domestic banking needs of its overseas corporate and personal banking customers seeking to trade with or invest in China. The Group adheres to a positive and steady international operation and overseas development strategy, leading to a steady expansion of its overseas network. On 29 August 2014, the Bank completed its purchase of its 72 per cent. interest in Banco Industrial e Comercial S.A. (“**BIC**”) in Brazil. In accordance with local laws and regulations, the Bank initiated the offer to purchase the remaining tradable shares of BIC in August 2015, and completed the transaction in December 2015 with its shareholding increased to 99.05 per cent., which was followed by the delisting of BIC from the exchange and its renaming as China Construction Bank (Brasil) Banco Múltiplo S/A (“**CCB Brasil**”). In May 2015, the Chile Branch became the first RMB clearing bank in South America, and the branch officially opened in 2016. In June 2015, Paris Branch, Amsterdam Branch, Barcelona Branch and Milan Branch under China Construction Bank (Europe) S.A. (“**CCB Europe**”) were successively opened. Cape Town Branch (part of the Johannesburg Branch) commenced business in September 2015. London Branch commenced business in October 2015. Zurich Branch was established and designated as an RMB clearing bank in November 2015 and it officially opened in 2016, Dubai International Financial Centre Branch received its official banking licence and commenced business in November 2015 and Warsaw Branch received its official banking licence in December 2016. CCB Malaysia obtained a commercial banking licence in October 2016. The Bank completed its acquisition of PT Bank Windu Kentjana International Tbk in September 2016, and renamed the entity to PT Bank China Construction Bank Indonesia Tbk. As at 31 December 2016, the Group had 28 tier-one overseas branches, covering 29 countries and regions including Hong Kong, Singapore, Germany, South Africa, Japan, South Korea, the U.S., the U.K., Vietnam, Australia, Russia, Dubai, Taiwan, Luxembourg, Macau, New Zealand, Canada, France, Netherlands, Spain, Italy, Switzerland, Brazil, Cayman Islands, Ireland, Chile, Indonesia and Poland, and wholly-owned

operating subsidiaries including China Construction Bank (Asia) Corporation Limited (CCB Asia), China Construction Bank (London) Limited (CCB London), China Construction Bank (Russia) Limited Liability Company (CCB Russia), China Construction Bank (Dubai) Limited (CCB Dubai), CCB Europe and China Construction Bank (New Zealand) Limited (CCB New Zealand).

As at 31 December 2016, the Group's total assets, total liabilities and total equity were RMB20,963.705 million (including gross loans and advances to customers of RMB11,757,032 million), RMB19,374,051 million (including total deposits from customers of RMB15,402,915 million) and RMB1,589,654 million, respectively. For the year ended 31 December 2016, the Group's net interest income was RMB417,799 million, representing a decrease of 8.73 per cent. over the same period in 2015 and the profit before tax was RMB295,210 million, representing a decrease of 1.10 per cent. over the same period in 2015. For the year ended 31 December 2015, the Group's net interest income was RMB457,752 million, representing an increase of 4.65 per cent. over the same period in 2014 and the profit before tax was RMB298,497 million, representing a decrease of 0.20 per cent. over the same period in 2014. The NPL ratio of the Group as at 31 December 2016 was 1.52 per cent., representing a decrease of 0.06 per cent. as compared to the corresponding ratio as at 31 December 2015. As at 31 December 2016, the NPL ratio for domestic corporate loans was 2.60 per cent., an increase of 0.10 percentage points from 31 December 2015, and the NPL ratio for personal loans and advances was 0.50 per cent., a decrease of 0.02 percentage points over 2015. As at 31 December 2016, the NPL ratio for overseas entities and subsidiaries was 0.46 per cent., representing an increase by 0.01 percentage points from 31 December 2015. As at 31 December 2016, the Group's total capital ratio was 14.94 per cent. and common equity tier one ratio was 12.98 per cent., representing a decrease of 0.45 per cent. and 0.15 per cent., respectively, as compared to the corresponding ratio as at 31 December 2015. In 2016, the Bank proactively optimised the structure of on and off-balance sheet businesses and accelerated the development of businesses with less capital occupation and higher return. The decline in the Bank's total capital ratio was mainly due to the slower growth rate of total capital after deductions than that of risk-weighted assets, as a result of the distribution of dividends in 2015 and the decrease of unqualified subordinated debt securities that could be included in capital.

In 2015, faced with a complex business environment, the Group continued to serve the real economy, focused on deepening reform, accelerated business transformation and development and strengthened risk management in accordance with its strategic vision of "integration, multifunction and intensiveness", resulting in the balanced development of the Group's business scope, quality and profitability. The Group maintained a stable market position and its core indicators and market capitalisation continued to be in the leading position among peers. The Group formulated its Transformation and Development Plan of China Construction Bank in 2014, which proposed to accelerate its transformation into a comprehensive banking group and a multi-functional service, intensive growth, innovative and intelligent bank. In accordance with the need to enhance the Group's capacity to serve the PRC's national development, to prevent financial risks and to compete internationally, the Group specified seven key points of transformation, including promoting the management assets and liabilities, strengthening and developing its wholesale business, accelerating the development of its retail business, improving the quality of electronic banking business, enhancing its asset management business in a comprehensive way for its customers, strengthening the competitiveness of subsidiaries and accelerating the expansion of international business and overseas operations.

In 2016, the Group received over 100 awards from various domestic and international institutions including the "Best Bank in China" from Euromoney, the "Best Consumer Bank" and the "Best Bank for Liquidity Management in Asia- Pacific Region" in 2016 from Global Finance, the "Diamond Award for RMB Internationalization Service" from Institutional Investor, the "Best Large-Scale Retail Bank in China" from The Asian Banker, and the "Most Social Responsible Financial Institution Award" from China Banking Association. The Group ranked second in terms of tier-one capital in the UK magazine The Banker's "World's Top 1000 Banks" in 2016 and ranked 22nd in the "World's Top 500" of the US magazine Fortune in 2016. In addition, the Group won numerous awards from major domestic and foreign media organisations for its achievements in fields including corporate governance, corporate social responsibility, risk management, corporate credit, retail business, investment custodial business, underwriting of debt securities, credit card business, housing finance and information technology.

OVERVIEW OF CHINA'S BANKING INDUSTRY

China's banking industry has grown rapidly in the past decade, primarily driven by the rapid development of China's economy. From 2010 to 2015, total RMB-denominated loans and deposits of China's financial institutions grew at a CAGR of 14.4 per cent. and 13.6 per cent., respectively, and total RMB-denominated loans grew from RMB47.9 trillion as of 31 December 2010 to RMB94.0 trillion as of 31 December 2015, while total RMB-denominated deposits grew from RMB71.8 trillion as of 31 December 2010 to RMB135.7 trillion as of 31 December 2015. The following table sets forth total RMB and foreign currency-denominated loans and deposits of China's financial institutions as of the dates indicated.

	As of 31 December						CAGR
	2010	2011	2012	2013	2014	2015	(2010 — 2015)
Total RMB-denominated loans (in billions of RMB)	47,920	54,795	62,991	71,896	81,677	93,954	14.4%
Total RMB-denominated deposits (in billions of RMB)	71,824	80,937	91,755	104,385	113,864	135,702	13.6%
Total foreign currency-denominated loans (in billions of U.S.\$)	453	539	684	777	835	830	12.9%
Total foreign currency-denominated deposits (in billions of U.S.\$)	229	275	406	439	573	627	22.3%

Source: PBOC

In line with rising national income levels, personal deposits have achieved rapid growth and have been the most important source of funding for China's banking industry. From 2010 to 2015, the CAGRs of domestic personal RMB-denominated time deposits and demand deposits were 13.3 per cent. and 10.3 per cent., respectively. The following table sets forth data of domestic personal RMB-denominated time deposits and demand deposits as of the dates indicated.

	As of 31 December						CAGR
	2010	2011	2012	2013	2014	2015	(2010 — 2015)
Personal RMB-denominated time deposits (in billions of RMB)	18,404	21,047	24,792	28,332	31,980	34,321	13.3%
Personal RMB-denominated demand deposits (in billions of RMB)	12,434	13,758	15,827	17,805	18,271	20,287	10.3%

Source: PBOC

In addition to the traditional corporate loan business, personal loan business and fee- and commission-based products and services of China's banking industry have achieved significant growth in recent years. On one hand, RMB-denominated personal loans grew at a CAGR of 19.1 per cent. from 2010 to 2015, according to the CBRC. On the other hand, the proportion of non-interest income of PRC commercial banks grew from 17.5 per cent. in 2010 to 23.7 per cent. in 2015, according to the CBRC. China's sustained economic growth and rising national income levels are expected to further increase the demand for personal banking products and services, demonstrating the growth potential of China's banking industry.

As of 31 December 2015, total assets of China's banking institutions amounted to RMB199.3 trillion, representing a year-on-year growth of 15.7 per cent.. In 2015, PRC commercial banks realised an aggregate net profit of RMB1.6 trillion, representing a year-on-year growth of 2.4 per cent.. In 2015, PRC commercial banks had an average return on assets of 1.10 per cent., representing a year-on-year

decrease of 2.61 percentage points, and an average return on equity of 14.98 per cent., representing a year-on-year decrease of 2.61 percentage points. As of 31 December 2015, the balance of NPLs for PRC commercial banks amounted to RMB1.3 trillion, the NPL ratio was 1.67 per cent. and the allowance coverage ratio was 181.18 per cent..

COMPETITIVE LANDSCAPE IN CHINA'S BANKING INDUSTRY

Overall Competitive Landscape

Currently, China's banking industry consists of large commercial banks such as Agricultural Bank of China, Bank of China, Bank of Communications, Industrial and Commercial Bank of China and the Bank (collectively, the "Large Commercial Banks"), nationwide joint-stock commercial banks, city commercial banks, rural financial institutions, foreign banking institutions and other banking institutions. Large Commercial Banks continue to play a dominant role in China's banking system and have advantages in market share and number of outlets. Nationwide joint-stock commercial banks are also becoming increasingly important with a continued increase in their market share. In addition, city commercial banks operate a variety of commercial banking businesses within the permitted scope and have demonstrated regional advantages. Private capital has started investing heavily in the banking industry. Meanwhile, the scope of foreign banks' Renminbi businesses has been further opened up.

The following table sets forth certain information on China's banking industry by the type of banking institutions as of and for the year ended 31 December 2015.

	As of or for the year ended 31 December 2015						
	Number of legal entity institutions	Total assets		Total shareholders' equity		Net profit	
		Total amount	Market share (%)	Total amount	Market share (%)	Total amount	Market share (%)
	(in billions of RMB, except the number of institutions and percentages)						
Large Commercial Banks ⁽¹⁾ .	5	78,163.0	39.2%	6,122.8	40.3%	892.5	45.2%
Nationwide joint-stock commercial banks	12	36,988.0	18.6	2,321.2	15.3	337.3	17.1
City commercial banks	133	22,680.2	11.4	1,548.1	10.2	199.4	10.1
Rural financial institutions ⁽²⁾ .	2,303	24,650.8	12.4	1,783.2	11.7	223.4	11.3
Foreign banking institutions .	40	2,680.8	1.3	351.1	2.3	15.3	0.8
Other banking institutions ⁽³⁾ .	1,768	34,272.6	17.2	2,808.2	20.2	270.9	15.5
Total	4,261	199,345.4	100.0%	15,205.3	100.0%	1,973.8	100.0%

Source: CBRC Annual Report 2015.

Note(s):

- (1) Consisting of Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, Bank of Communications and the Bank.
- (2) Consisting of rural credit cooperatives, rural commercial banks and rural cooperative banks.
- (3) Consisting of policy banks, emerging rural financial institutions (including village and township banks, loan companies and rural mutual cooperatives), privately owned banks and other non-banking financial institutions (including financial asset management companies, Sino-German Bausparkasse, trust companies, finance companies of corporate groups, financial leasing companies, money brokerage firms, auto financing companies and consumer finance companies).

Large Commercial Banks

The Bank, together with Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China and Bank of Communications, hold an important position in China's banking system, and have established significant competitive advantages in terms of total assets, funding source and the number of establishments. As of and for the year ended 31 December 2015, Large Commercial Banks together accounted for 39.2 per cent. of the total assets, 40.3 per cent. of the total shareholders' equity and 45.2 per cent. of the total net profit of all banking institutions in China.

The following table sets forth the number of establishments of the Large Commercial Banks as of 31 December 2016.

	<u>As of 31 December 2016</u>
Agricultural Bank of China	23,695
Industrial and Commercial Bank of China	17,200
China Construction Bank	14,985
Bank of China	11,556
Bank of Communications	<u>3,537</u>
Total	<u><u>70,973</u></u>

Source: 2016 annual reports of the Large Commercial Banks

The following table sets forth the total assets, total loans and total deposits of the Large Commercial Banks as of 31 December 2016.

	<u>As of 31 December 2016</u>		
	<u>Total assets</u>	<u>Total loans⁽¹⁾</u>	<u>Total deposits</u>
	(in billions of RMB)		
Industrial and Commercial Bank of China	24,137.3	12,767.3	17,825.3
China Construction Bank	20,963.7	11,757.0	15,402.9
Agricultural Bank of China	19,570.1	9,719.6	15,038.0
Bank of China	18,148.9	9,973.4	12,939.7
Bank of Communications	<u>8,403.2</u>	<u>4,103.0</u>	<u>4,728.6</u>
Total	<u><u>91,223.2</u></u>	<u><u>48,320.3</u></u>	<u><u>65,934.5</u></u>

Source: 2016 annual reports of the Large Commercial Banks

Note:

(1) As of 31 December 2016, China Merchants Bank had total loans of RMB3,261,681 billion, ranking sixth among PRC commercial banks.

Nationwide Joint-stock Commercial Banks

Nationwide joint-stock commercial banks play an important role in China's banking industry. As of 31 December 2016, there were 12 nationwide joint-stock commercial banks with licences to engage in nationwide commercial banking activities in China: China Merchants Bank, China CITIC Bank, Hua Xia Bank, China Everbright Bank, Shanghai Pudong Development Bank, China Minsheng Bank, Industrial Bank, China Guangfa Bank, Ping An Bank, China Zheshang Bank, China Bohai Bank and Hengfeng Bank. As of and for the year ended 31 December 2015, nationwide joint-stock commercial banks together accounted for 18.6 per cent. of the total assets, 15.3 per cent. of the total shareholders' equity and 17.1 per cent. of the total net profit of all banking institutions in China.

City Commercial Banks

City commercial banks are generally permitted to engage in commercial banking activities within their respective designated geographical areas. Some of the city commercial banks have established branches in other cities. As regional financial institutions, city commercial banks are also important components of China's banking industry. As of 31 December 2015, there were 133 city commercial banks in China. As of and for the year ended 31 December 2015, city commercial banks together accounted for 11.4 per cent. of the total assets, 10.2 per cent. of the total shareholders' equity and 10.1 per cent. of the total net profit of all banking institutions in China.

Rural Financial Institutions

Rural financial institutions include rural credit cooperatives, rural commercial banks and rural cooperative banks. Compared with Large Commercial Banks and nationwide joint-stock commercial banks, they mainly provide limited banking products and services to enterprises and residents in the County Areas, including personal deposits, loans and settlement services. As of 31 December 2015, there were 2,303 rural financial institutions in China. As of and for the year ended 31 December 2015, rural financial institutions together accounted for 12.4 per cent. of the total assets, 11.7 per cent. of the total shareholders' equity and 11.3 per cent. of the total net profit of all banking institutions in China.

Foreign Banking Institutions

Foreign banking institutions include representative offices and branches and sub-branches of foreign-owned and joint-venture banks and locally-incorporated subsidiaries of foreign banks. As of 31 December 2015, there were 40 legal entities of foreign banks incorporated in China. As of and for the year ended 31 December 2015, foreign banking institutions together accounted for 1.3 per cent. of the total assets, 2.3 per cent. of the total shareholders' equity and 0.8 per cent. of the total net profit of all banking institutions in China.

Other Banking Institutions

Other banking institutions include policy banks, emerging rural financial institutions (including village and township banks, loan companies and rural mutual cooperatives), privately owned banks and other non-banking financial institutions (including financial asset management companies, Sino-German Bausparkasse, trust companies, finance companies of corporate groups, financial leasing companies, money brokerage firms, auto financing companies and consumer finance companies). As of and for the year ended 31 December 2015, these banking institutions together accounted for 17.2 per cent. of the total assets, 20.2 per cent. of the total shareholders' equity and 15.5 per cent. of the total net profit of all banking institutions in China.

The Bank's Competitive Strengths

The Bank believes its strengths, as set out below, provide a stable and effective platform through which it will be able to maintain its competitive advantage in China's banking industry:

Large customer base and established relationships

The Bank has a quality corporate customer base and large personal banking customer base. The Group continued to expand its customer base. As at 31 December 2016, the Bank had provided banking services to over 4 million corporate customers and over 340 million personal banking customers. As at 31 December 2016, the number of private banking customers with financial assets above RMB10 million had increased by 16.62 per cent. over the previous year, and the amount of such private

banking customers' financial assets under management with the Bank increased by 26.24% per cent. as compared to 31 December 2015. As at 31 December 2016, the number of personal online banking customers and corporate online banking customers increased by 13.40 per cent. and 20.95 per cent., respectively as compared to 31 December 2015.

Extensive distribution network and a diversified service channel

The Bank has an extensive distribution network. Through branches, customer self-service equipment, specialised service entities across the country and an electronic banking service platform, the Bank provides customers with convenient and high-quality banking services. As at 31 December 2016, the Bank had a total of 14,985 operating outlets in the PRC, including its head office, 37 tier-one branches, 337 tier-two branches, 12,761 sub-branches, 1,819 entities under sub-branches and a specialised credit card centre at the head office. As at 31 December 2016, the number of operating outlets increased by 68 from 31 December 2015. As at 31 December 2016, the Bank had 306 specialised private banking entities. As at 31 December 2016, there were 97,534 ATMs with cash services in operation, an increase of 6,034 ATMs, or 6.59 per cent. as compared to 31 December 2015. There were 27,872 self-service banks in operation, an increase of 3,178 self-service banks, or 12.87 per cent.. The Bank's extensive distribution network and diversified service channels provide it with the competitive measures and resources for sustainable development.

Leading positions in key products and services, pioneering new product and service development

In 2016, to be in line with the Bank's objective of establishing an "innovative bank", the Bank continuously improved its product innovation capability, vigorously supporting transformation and development. The Bank carried out innovation of merger and acquisition ("M&A") loans, supported the economic transformation and upgrading as well as the resolution of overcapacity, and improved its capability to support enterprise M&A. The Bank integrated its resources to push forward comprehensive financial service schemes for strategic group clients, offering comprehensive financial service solutions tailored for them. The Bank initiated service mode innovation of bank medical cards, establishing a more mature mode that was able to meet customers' needs with existing technical conditions. Based upon big data technology, the Bank launched "Xinyidai" for small and micro enterprises, refining the small and micro enterprises big data credit product system. The Bank offered cross-bank smart money collection and integrated cross-bank money collection channels, smoothing the process as well as presenting various choices of signing and authorising. By introducing the "Suixinyong" application, the Bank realised functions such as over-the-air issuing, off-line card transaction, inquiring, electronic cash recharging and industry application recharging, featuring convenient card activation and secure transaction. The Bank formulated comprehensive service solutions to housing reform finance and initiated new operations for provident housing fund loans, providing one-stop services for individual housing loan of housing provident fund (combined) customers. The Bank launched Long Card Cloud QuickPass to migrate the security management function of mobile payment from mobile hardware to Cloud platform, realising quick and secure mobile payment of simulated IC cards. The Bank launched market member bond lending, carrying forward bond lending transactions with market members. The Bank presented three brands comprising "Jiandantong, Jianpiaotong and Jianxintong", to provide financing services for companies contracted with foreign projects as well as those exporting whole set equipment. The Bank introduced WeChat-based "E Shenche" and "E Jiesuan" to adapt to the fast-growing Internet financial needs, and strengthened the Group's internal cooperation by collaborating with CCB Pension to provide an all-round solution for pension insurance fund business.

Partially due to the Bank's innovations in products and services, the Group's net income from fees and commissions for 2016 increased by 4.39 per cent. to RMB118,509 million as compared to 2015. For the year end ended 31 December 2016, the Group's net income from fees and commissions accounted for 21.17 per cent. of its total operating income.

Prudent risk management and internal control practices

The Bank continues to promote a risk management system reform and has established an overall risk management framework which reflects the Bank's philosophy that value should be created upon a sound risk management system. As one of the first banks in China to centralise the Bank's risk management through the development of a comparatively independent and vertical risk management system, the Bank has implemented a "Parallel Operation" system to separate the roles of risk managers and customer managers. The Bank has also assigned designated credit reviewers and adopted a comparatively independent and vertically managed internal audit system.

Advanced financial management capabilities and financial controls

The Bank is one of the first domestic banks to establish a resource allocation and performance evaluation assessment system on the basis of an economic value-added approach. The Bank has further centralised its financial management and promoted an overall cost control system, while increasing the Bank's research efforts on strategic cost management. In addition, the Bank followed the successful experience of leading global banks and developed an internal fund transfer pricing ("FTP") system, an enterprise resource planning ("ERP") system and a management accounting system.

The Bank believes that its advanced financial management capabilities and sound financial controls have allowed the Bank to implement development strategies effectively, optimise resource allocation and improve overall operating efficiency.

Effective strategic co-operation

The Bank's strategic investor, Temasek Holdings (Private) Limited, has shared its experience with the Bank in relation to SMEs' business operation, human resource management, money market trading and other areas. The Bank has cooperated with Bank of America Corporation, in a number of areas including personal banking business, risk management, corporate governance, information technology and human resources.

Experienced management team

The Bank's Chairman, Mr. Wang Hongzhang, and the Bank's vice chairman and president, Mr. Wang Zuji and other senior management team members, have extensive management experience in the banking and financial sector in China. Under their leadership, the Bank's operations have further strengthened in recent years. For the years ended 31 December 2014, 2015 and 2016, the Group's return on average assets were 1.42 per cent., 1.30 per cent. and 1.18 per cent., respectively, and its return on average equity was 19.74 per cent., 17.27 per cent. and 15.44 per cent., respectively, one of the highest among domestic and international peers. For these purposes, return on average assets is calculated based on the net profit divided by the average amount of beginning balance and ending balance of assets, and return on average equity is calculated based on the net profit attributable to equity shareholders of the Bank divided by the weighted average net assets.

The Bank's Principal Business Activities

The Bank's principal businesses activities include corporate banking, personal banking, treasury business, investment banking and overseas operations.

The following tables set forth, for the periods indicated, the profit before tax of each of the Bank's major business segments:

(In millions of RMB, except percentages)	Year ended 31 December 2014		Year ended 31 December 2015		Year ended 31 December 2016	
	Amount	% of total	Amount	% of total	Amount	% of total
Corporate banking	151,886	50.79	108,184	36.24	98,329	33.31
Personal banking	80,553	26.93	115,184	38.59	129,269	43.79
Treasury business	64,696	21.63	70,388	23.58	66,008	22.36
Other businesses	1,951	0.65	4,741	1.59	1,604	0.54
Profit before tax	<u>299,086</u>	<u>100.00</u>	<u>298,497</u>	<u>100.00</u>	<u>295,210</u>	<u>100.00</u>

CORPORATE BANKING

Overview

For the years ended 31 December 2014, 2015 and 2016, the Group's corporate banking operations represented 50.79 per cent., 36.24 per cent. and 33.31 per cent., respectively, of its profit before tax. The Bank offers a broad range of corporate banking products and services for corporations, government agencies and financial institutions. As at 31 December 2016, the Group had RMB5,864,895 million of domestic corporate loans and advances, representing 49.89 per cent. of the Group's gross loans and advances to customers, RMB495,140 million of domestic discounted bills outstanding, representing 4.21 per cent. of the Group's gross loans and advances to customers, and RMB8,131,735 million of domestic corporate deposits, representing 54.45 per cent. of the Group's total deposits from customers.

Key Products and Services

Corporate loans products

Corporate loans have historically been the largest component of the Group's loan portfolio. As at 31 December 2016, the balance of domestic corporate loans and advances amounted to RMB5,864,895 million, representing an increase of 1.51 per cent. compared to 31 December 2015. The Group's corporate loan products mainly comprise medium to long-term loans and short-term loans. As at 31 December 2016, the Group's domestic medium to long-term loans and short-term loans amounted to RMB4,078,453 million and RMB1,786,442 million, representing 34.69 per cent. and 15.20 per cent., respectively, of its total corporate loans and advances.

Infrastructure loans

The Bank provides various infrastructure loan products to meet the funding requirements relating to the construction and expansion of its customers' infrastructure projects. The continuing expansion of the PRC economy has led to an increase in the number of new large-scale infrastructure projects which have resulted in an increased demand for infrastructure loans. As at 31 December 2016, loans to infrastructure sectors amounted to RMB2,896,156 million, representing an increase of RMB188,371 million compared to 31 December 2015.

Working capital loans

The Bank offers working capital loans primarily to provide liquidity for the Bank's customers' regular business production and operational turnover needs and for their temporary funding needs. The Bank's working capital loans are mainly granted to its high quality customers to supplement their infrastructure loans. The Bank also provides working capital loans to SMEs.

Syndicated loans

The Bank has provided to customers various syndicated loan products including, among others, direct external syndicated loans, internal syndicated loans and transferable syndicated loan products. The Bank has maintained strong growth in its syndicated loan businesses.

Other corporate loan products

The Bank offers various other corporate loan products, including trade finance facilities, supply-chain financing and merger and acquisition financing. In March 2009, the Bank became one of the first commercial banks in China approved to undertake merger and acquisition financing business pursuant to the Guidelines to M&A Loan Risk Management of Commercial Banks issued by the CBRC and the Bank was one of the first to launch corporate merger and acquisition financing products aimed to facilitate the financing needs of the Bank's customers' merger and acquisition transactions by providing a comprehensive set of financial resources.

The expansion of loans to SMEs is an important measure of the Bank to realise its strategic transformation of corporate banking business. As at 31 December 2016, the Group had 288 credit factories for small enterprises. As at 31 December 2016, according to the policy on SMEs jointly issued in 2011 by four PRC ministries and commissions including the Ministry of Industry and Information Technology, as well as the latest regulatory requirements issued by the CBRC, loans to small- and micro-sized enterprises amounted to RMB1,441,892 million, an increase of RMB164,013 million or 12.83 per cent. as compared to 31 December 2015, and the number of credit customers for small- and micro-sized enterprises reached 308,923, an increase of 56,979 as compared to 31 December 2015.

Discounted bills

Discounted bills are bank acceptance bills and commercial acceptance bills with a remaining maturity of less than six months purchased by the Bank from its customers at a discount. The Bank provides discounted bills as part of its comprehensive financing solution for its corporate customers. As at 31 December 2016, the Group had outstanding domestic discounted bills of RMB495,140 million.

Corporate deposit products

In accordance with interest rate policies issued by the PBOC, the Bank offers a variety of time and demand deposit products to its corporate and institutional customers. In addition, the Bank also accepts negotiated deposits from customers including insurance companies, the National Social Security Fund and the Postal Savings Bank of China, whereby interest rates and other conditions are separately negotiated between them and the Bank. As at 31 December 2016, the Group's domestic corporate deposits amounted to RMB8,008,460 million, an increase of 16.21 per cent. compared to 31 December 2015.

Commission/fee based products and services

The Bank provides its corporate customers with a broad range of commission/fee based products and services. The Group's net fee and commission income from corporate banking business for the year ended 31 December 2016 reached RMB33,038 million, which was stable over the same period last year.

Agency services

The Bank acts as an agent at the request of its clients in providing payment disbursement, collection, settlement, clearance and other agency services to corporations and government agencies. The key products and services the Bank provides include agency treasury settlement, agency premium collection and payment and entrusted loans. The Bank also acts as payroll agent as well as the agent

to collect utilities, telecommunication and taxes payment and surcharges. In addition, in terms of the number of budget units it served, the volume of agency disbursement and related fee income, the Bank continued to be the market leader. The Bank is a major correspondent bank for China Development Bank. The Bank also distributes products and services on behalf of insurance companies and securities firms and provides payment and fee collection services to public utility and telecommunications companies. In addition, the Bank provides entrusted lending services to its corporate customers. The Bank charges a fee for providing entrusted lending services and does not take the credit risk with respect to these loans. In addition to generating fee income, the Bank's agency services also help the Bank develop and enhance its relationships with its customers.

Cost and advisory services

Cost advisory services include project consultancy services, cost evaluation and control services and project funding monitoring services for infrastructure projects. In 2008, the Bank launched the "Project Funding Monitoring Business", which is an extension of its project cost consulting services and integrates its project cost consulting platform with its credit risk management platform. The Bank provides funding monitoring services for projects through its professional project cost consultant team, along with its investment management team. The Bank has 36 tier-one branches with a grade-A qualification for engineering cost advisory service, as issued by the Ministry of Housing and Urban-Rural Development, one branch with a grade-B qualification and 223 tier-two branches which have set up specialised units for cost advisory service. In 2016, the Bank continued to improve its market position and brand image by reinforcing fundamental management, pushing forward business transformation, improving specialised institutions and innovating businesses and products. For the year ended 31 December 2016, income from cost advisory service amounted to RMB5,328 million.

Institutional business

The Bank has promoted its updated "Minben Tongda" comprehensive financial services brand, which focuses on providing service to customers in the education, health, culture and environmental protection sectors. The Bank and Jilin University jointly sponsored the first edition of "CCB Cup" of "Internet Plus" Innovation and Entrepreneurship Competition for Chinese University Students, signed strategic cooperation agreements with Huazhong University of Science and Technology, explored "Internet Plus" applications and innovations in financial services for schools and hospitals, which culminated in the Bank-Hospital and Bank-School Mobile Internet Financial Cooperation Plan. It also became the first bank among its peers to study and launch the Comprehensive Financial Service Plan Regarding Pension System Reform of Public Institutions. It ranked first among peer banks in terms of the number of customers of the central finance authorised payment and non-tax revenue collection agency service. The issuance of civil service bank cards in central fiscal budget units continued to be first in the market.

International business

The Bank offers international settlement products and services including import letters of credit, export letters of credit, import collection, export collection, outward remittance, inward remittance and guarantees. The Bank has been approved by the PBOC as the Hong Kong dollar settlement bank and approved by the China Foreign Exchange Trade System as the U.S. dollar agency settlement bank in the interbank foreign currency markets. The Bank was one of the first PRC banks to provide cross-border trade RMB settlement services and this pioneer status has allowed it to be one of the market leaders of this service.

In 2016, the Bank further expanded its RMB clearing network, as the Bank became the RMB clearing bank in Switzerland and Chile after becoming the RMB clearing bank in London. RMB Qualified Foreign Institutional Investors ("RQFII"), RMB Qualified Domestic Institutional Investors and Mainland-Hong Kong mutual recognition of funds operations continued to grow. The Bank successfully issued RMB1 billion two-year offshore RMB bonds in London, which was the first RMB bond product listed on the London Stock Exchange. It also launched "comprehensive financial

services for cross-border e-commerce”, built a “cross-border e-remittance” platform, and provided end-to-end online auto receipt and payment, settlement and sales of foreign exchange and income/expense declaration services for cross-border e-commerce customers through the direct contact with the local “single window” of international trade. It also innovated “cross-border e-payment”, an online payment tool and met e-commerce customers’ needs for cross-border payment through virtual bank cards. The Bank took the lead in providing services to special economic areas, with its Shanghai Free Trade Zone Branch proactively offering businesses relating to free trade accounts and holding the largest deposit and loan portfolios among competitors. The Xinjiang Khorgos Border Cooperation Centre Sub-branch became the first to launch innovative offshore RMB business, delivering the best performance in all major indicators.

Asset custodial business

The Bank’s offering of asset custodial services is among the most comprehensive in China, including securities investment funds, Qualified Domestic Institutional Investors, Qualified Foreign Institutional Investors, RQFII, social security funds, corporate annuity funds, trust properties, insurance assets, entrusted investment assets of securities companies, basic pension insurance personal account funds, industrial investment funds and banking wealth management products. In 2013, the Bank obtained the qualification to provide custodial service to the first bond index exchange-traded funds (“ETF”) and cross-border ETF for U.S. stocks in the PRC. The Bank also became one of the first Chinese-funded custodial banks of RQFII from Singapore. The Bank became one of the first batch of banks to conduct agency business for Mainland-Hong Kong mutual recognition of funds operations and was the first to offer “bond transaction plus custodian” services to overseas institutions for direct entry into the interbank bond market. As at 31 December 2016, the Bank’s assets under custody amounted to RMB9.25 trillion, representing an increase of 29.05 per cent. from 31 December 2015. As at 31 December 2016, insurance assets under custody totalled RMB2.58 trillion, an increase of 68.97 per cent. from 31 December 2015.

Pension Business

In 2007, the Bank was approved to be the trustee and custodian for corporate annuity funds and was authorised to offer related services including annuity planning, consulting, corporate annuity custodian and personal account management. The Bank innovatively launched an occupational annuity service plan for public institutions, enterprise annuity tax planning and consultancy, and insurance security mode supplementary pension products. The Bank’s “Yangyi” series covered all types of pension markets in general.

Treasury management and settlement business

The Bank was one of the first domestic commercial banks to provide cash management services for its corporate clients. In recent years, the Bank’s cash management services expanded rapidly as the Bank introduced various new cash management products, such as “Yudao (禹道)-Smart Win Cash Management”, which covers major service lines including account settlement services, fees receipt and payment services, liquidity management services, investment and financing management services, information and reporting services, industry-focused solutions and on-line banking services. The Bank has a range of cash management products and tailor-made industry specific cash management solutions for multinational corporations, large and medium sized enterprises, government agencies and financial institutions. In addition, through its internet and other electronic channels, as well as its customer-oriented branch network, the Bank has been able to provide comprehensive cash management services to its customers.

Customer Base

As a leading provider of capital for some of the key industries in China such as infrastructure, energy, transportation and telecommunication, the Bank has maintained close relationships with leading corporations in industries that are strategically important to China’s economy and with major government agencies and financial institutions.

The Bank has focused and will continue to focus on customers in industries strategically important to China's economy. Most of these large companies in China's strategic industries are state-owned enterprises or state-controlled joint stock companies. Private enterprises have become important customers to the Bank, as in recent years, they have experienced significant growth in China and have become a major sector in China's economy. The Bank also focuses on expanding its range of high-quality SME customers.

Marketing

Based on its customer-focused philosophy, the Bank employs both industry-wide and localised marketing strategies tailored to specific regions, customers and products. The Bank's head office formulates its overall corporate business development based on industry, geographical region, customer and product considerations. The Bank's tier-one branches then develop detailed marketing plans according to these guidelines tailored to local market needs.

The Bank's corporate banking marketing channel primarily involves corporate and institutional customer managers, branch outlets and electronic banking channels which include on-line banking and phone-banking. The Bank's corporate and institutional customer managers are its key marketing channel for its corporate banking business. They are responsible for exploring new market opportunities, promoting the Bank's banking products, coordinating and accessing the Bank's bank-wide resources to provide a package of personalised and comprehensive financial services to the Bank's corporate and institutional customers.

The Bank's branch outlets offer the physical venue for the Bank to provide services to corporate and institutional customers. Through the Bank's branch outlets, the Bank promotes and sells its products, mainly providing payment and settlement services and SME corporate customer services, and developing the Bank's corporate liabilities business and commission/fee based business.

With the aim to improve customer experience, the Bank also provides its customers with e-banking channels such as the Bank's cash management service system, corporate online banking, customer hotline service centre and mobile phone banking platform, thereby providing greater access for the Bank's customers. The Bank's e-commerce finance platform — "e.ccb.com" which provides corporate clients with financing products such as order financing, guaranteed joint loans and collateralised loans, continued to deepen its involvement in causes relating to "agriculture, farmers and rural areas", promoted the use of credit card bonus points for direct shopping and air ticket booking for business travel, partnered with Microsoft to set up a flagship store, and carried out joint marketing, thus realising a rapid development. As at 31 December 2016, the Group's corporate online banking customers reached 4.86 million, representing an increase of 20.95 per cent. compared to 31 December 2015 and mobile phone banking customers reached 223.21 million.

The Bank seeks to provide differentiated products and services to the Bank's important customers to meet their specific banking needs. The Bank's head office generally coordinates client coverage and marketing efforts for the Bank's largest corporate customers to ensure consistency and quality of service. The Bank's senior management at the headquarters and branch level are often directly involved in and lead in these marketing efforts. The Bank's branches in key cities provide differentiated, high quality, professional and integrated products and services to meet the Bank's customers' specific banking needs. By providing integrated financial solutions to the Bank's customers and improving the Bank's cross-selling synergies among the Bank's products and services, the Bank aims to further increase overall customer satisfaction and optimise value for the Bank's customers.

For SMEs, the Bank has established a specialised and standard marketing system that allows the Bank to further integrate the Bank's resources of products, distribution channels and brands to provide more efficient services with controlled risks.

PERSONAL BANKING

Overview

As at 31 December 2016, the Group's domestic personal deposits rose to RMB6,712,026 million. The Group's profit before tax derived from personal banking for the years ended 31 December 2014, 2015 and 2016 amounted to RMB80,553 million, RMB115,184 million and RMB129,269 million, respectively, representing 26.93 per cent., 38.59 per cent. and 43.79 per cent. of the Group's total profit before tax for the same periods.

Key Products and Services

The Bank provides a broad range of products and services including personal deposits, personal loans and other related financial services for its personal banking customers based on their needs. The Bank also provides bank card services and private banking for its personal banking customers. The Bank is committed to providing comprehensive banking services to its personal banking customers and is focused on creating and improving its personal banking product chain and value chain. The Bank sets out below its key personal banking products and services.

Personal deposits

The Bank provides its personal banking customers with a broad range of demand and time deposit services denominated in Renminbi and other foreign currencies. Personal demand deposit products include demand savings deposits and demand pledged deposits.

Personal time deposit products include time savings deposits, education savings deposits and personal notification deposits. Personal deposits provide the Bank with a stable funding source. As at 31 December 2016, domestic personal deposits of the Bank was RMB6,927,182 million, an increase of 8.79 per cent. from 31 December 2015.

Personal loans

The Bank's personal loans are designed to meet the credit requirements of its personal customers. The Bank's personal loan products include residential mortgage loans, personal consumer loans, personal business loans and personal agriculture-related loans. As at 31 December 2016, the total domestic personal loans of the Bank amounted to RMB4,338,349 million, representing an increase of 25.14 per cent. from 31 December 2015. As at 31 December 2016, the NPL ratio for domestic personal loans and advances was 0.50 per cent., a decrease of 0.02 percentage points from 31 December 2015.

Residential mortgage loans

The Bank provides residential mortgage loans to individuals to finance the purchase and construction of their residential properties. Residential mortgage loans include new home residential mortgage loans, residential refinancing mortgages, home equity loans to refinance residential property and fixed-rate residential mortgage loans. As at 31 December 2016, the Group's domestic personal residential mortgage loans rose by 29.26 per cent. from 31 December 2015 to RMB3,585,647 million.

The Bank appraises the value of the residential property regularly and clearly stipulates that the loan cannot be used for securities trading purpose.

Home savings services

In February 2004, the Bank formed Sino-German Bausparkasse Corporation Limited (“**Sino-German Bausparkasse**”) with Bausparkasse Schwaebisch Hall, a German home savings bank. As at 31 December 2016, the Bank held a 75.10 per cent. equity interest in Sino-German Bausparkasse. The Bank’s home savings bank products allow the Bank’s customers to make scheduled deposits for the purpose of obtaining residential mortgage loans in the future. Sino-German Bausparkasse has improved the Bank’s ability to develop more personal housing financing products.

Personal consumer loans

The Bank’s personal consumer loans primarily consist of personal credit lines and automobile loans which usually have a maturity of up to five years. Personal credit lines are granted for general purposes based on the borrowers’ credit history and the value of collateral provided. The Bank’s automobile loans are primarily secured by the purchased automobile and residential properties. As at 31 December 2016, the Bank had domestic personal consumer loans of RMB75,039 million, representing 0.64 per cent. of the Group’s gross loans and advances to customers.

Other personal loans

The Bank’s other personal loan products primarily consist of personal business loans, personal agriculture-related loans and other personal loans. In 2009, the Bank introduced personal business loans for private business owners involved in various specialised markets. The Bank also introduced personal agriculture-related loans to farmers on a trial basis in line with the PRC government’s policy of supporting economic development of rural areas. The Bank also introduced a series of personal loan products, including the “Easy Education Loan” for personal education, the “Fortune Loan” for personal banking customers, the “Refurbishment Loan” for home renovations and the “ShanRong e-loans” personal micro-credit revolving loans for consumption financing needs.

Bank card business

The Bank offers a variety of bank card products comprising credit card and debit card to its customers under the registered “Long Card” (“龍卡”) brand. As at 31 December 2016, the Bank had issued 94.07 million credit cards and 831 million debit cards. For the year ended 31 December 2016, the Group’s fee and commission income from bank card fees increased to RMB37,649 million from RMB34,960 million for the same period in 2015, representing an increase of 7.69 per cent.. For the year ended 31 December 2015, the Group’s fee and commission income from bank card fees increased to RMB34,960 million from RMB30,569 million for the same period in 2014, representing an increase of 14.36 per cent..

Since the Bank is a member of China Unionpay, its customers can complete transactions through ATMs and point-of-sale terminals connected to the China Unionpay network. China Unionpay is responsible for establishing and operating a nationwide, interbank bank card information exchange and transaction network for its members. The Bank is one of the founding members of China Unionpay. The Bank joined the MasterCard network in 1990 and the Visa network in 1991. The Bank’s dual-currency debit cards and dual-currency credit cards are also accepted outside of China through its association with the MasterCard and Visa networks. In August 2009, the Bank further joined the JCB international credit card network.

Credit cards

Through the credit card centre in Shanghai established in December 2002, which centrally manages the Bank's credit card business, the Bank seeks to enhance its operational efficiency, improve its risk management and maintain a consistent level of customer service quality. The Bank has also established credit card departments in most of its tier-one branches to manage its operations locally. As approved by the CBRC and accepted by the Shanghai Banking Regulatory Bureau in 2008, the Bank's credit card centre was upgraded to a branch-level sales institution and obtained its business license in 2009. As at 31 December 2016, the Bank had issued 94.07 million credit cards. The total spending amount from the Bank's credit cards was RMB2,399,868 million in the year ended 31 December 2016. As at 31 December 2016, the Bank's credit card loan balance reached RMB443,733 million. As such, the Bank is ranked as one of the top banks in respect of total number of credit card customers, transaction volume and asset quality.

The Bank's credit cards are accepted through its own network and through the China Unionpay network which are located in the PRC and various other countries and are also accepted overseas through the Bank's association with the Visa and MasterCard networks. The Bank has established five product lines including standard cards (標準卡), co-branded cards (三名卡) (being cards co-branded with primary cities (名城), well-known enterprises (名企) and top-tier universities (名校), specialty cards (特色卡), public welfare cards (公益卡) and corporate cards (商務卡), which primarily target mid- to high-end customers and cover various marketing channels. The Bank also issues diamond cards, which target high-end customers and issued specialised car-owner credit cards to car owners. The Bank has also launched consumer products including e-Pay Long Card, Tencent e-Pay Long Card, and Family Love Card, credit products such as "Fenqitong", and mobile payment services based on the Internet including Apple Pay, HCE Cloud Pay, and Samsung Pay. The Bank has increased its use of new electronic channels such as mobile phone, WeChat and QR codes to promote the use of its credit card products. The Bank has introduced the Long Card electronic payment wallet and "one-click payment" for cross-border internet purchases. The Bank has also introduced the "Mobile Long Card" mobile app allowing payments to be made with authorised merchants.

The Bank accelerated the construction of its "Smart Customer Service" platform as a comprehensive customer service platform and upgraded its SMS and online banking system to improve customer experience.

Debit cards

In 2016, the Bank strengthened its cooperation with key industries such as social security, medical and health care, public transport, community finance and culture and education. It also promoted the application of financial IC debit cards and e-cash Quick Pass. As at 31 December 2016, the Bank issued 831 million debit cards in aggregate, representing an increase of 106 million cards from 31 December 2015. Total spending through the Bank's debit cards amounted to RMB10.74 trillion in the year ended 31 December 2016, representing an increase of 61.02 per cent. over the same period in 2015. Total spending through the Bank's debit cards amounted to RMB6.67 trillion in the year ended 31 December 2015, representing an increase of 30.97 per cent. over the same period in 2014.

Private Banking

The Bank provides a broad range private banking products and services and integrated solutions and to its high value customers, including family trust financial advisory services, asset allocation consultancy services, investment immigration, marital property preservation and family wealth inheritance. As at 31 December 2016, the number of private banking customers with financial assets above RMB10 million grew by 16.62 per cent. and the total amount of customers' assets increased by 26.24 per cent. as compared to 31 December 2015.

Entrusted housing financing services

The Bank acts as an agent to national housing fund management departments to collect housing provident funds and housing maintenance funds and provide individual housing provident funds mortgages. The Bank is one of the earliest banks and the largest in China approved to engage in the housing provident fund management business. The Bank maintains sound business cooperation with local administrative centres of housing provident funds across China from which it takes deposits as a steady funding source. By implementing national policies on supporting the construction of homes and providing financing to mid- and low-income households, the Bank is able to capture such specialised market opportunities. As at 31 December 2016, the Bank's personal provident housing fund loans amounted to RMB1,853,489 million, and its housing fund deposits amounted to RMB633,377 million. Through innovative financial services, the Bank has launched new products and services including small amount cross-bank payments for housing provident funds, housing provident fund e-channel, housing provident fund co-named card and entrusted housing provident fund withdrawal for repayment of loans.

Customer Base

As at 31 December 2016, the Bank had over 4 million corporate customers and over 340 million personal customers. The number of private banking customers with financial assets above RMB10 million increased by 16.62 per cent. and the total amount of customers' financial assets increased by 26.24 per cent., compared with 2015.

As at 31 December 2016, the Bank had 306 specialised private banking entities. The Bank has successfully established dedicated telephone banking services for its high-end customers, creating a high-end customer service network with a focus on wealth management and private banking services.

Marketing

The Bank's head office generally formulates marketing initiatives and sets marketing guidelines for the Bank's bank-wide personal banking products. The Bank's tier-one branches develop detailed marketing plans to implement these initiatives based on the economic and market conditions of their respective geographical regions. The Bank conducts its marketing activities mainly through its branch network, which the Bank supplements with specialised sales centres for specific products such as personal wealth management centres and residential mortgage loan centres. As at 31 December 2016, the Bank had 306 specialised private banking entities. It also conducts personal banking product marketing through e-banking channels, such as online banking, telephone banking and mobile phone banking.

The Bank offers different products and services and adopts different marketing strategies to cater for different customer groups' needs. For high value customers, the Bank focuses on building a one-to-one customer manager marketing relationship to develop a more focused marketing strategy for promoting its products. For mass market customers, the Bank adopts a mass marketing strategy focusing on its outlets, taking initiatives in product and service marketing through introduction by its lobby managers, on-site promotion of its products and media advertising campaigns. The Bank also adopts an interactive marketing strategy for its personal banking business, whereby its personal loan department and corporate banking department cooperate to take a proactive approach in exploring business opportunities in residential mortgage loans while granting real estate development loans. In addition, the Bank focuses on cross-selling its personal banking products such as promoting its credit cards and wealth management cards to its residential mortgage loan customers. The Bank also sells various loan products to the holders of its wealth management cards and credit cards.

Personal electronic banking

The Bank generates income from personal electronic banking business primarily through facilitating transactions for the Bank's personal banking customers through electronic means. As at 31 December 2016, the Bank's personal online banking service had 236.76 million individual customers, representing an increase of 13.40 per cent. compared to 31 December 2015. For the year ended 31 December 2016, the electronic banking service fees earned by the Bank was RMB7,584 million compared to RMB6,684 million from the same period in 2015.

Treasury Business

The Bank's treasury operations primarily consist of its money market activities, the management of its investment portfolio, treasury transactions on behalf of its customers, bond underwriting and development of treasury products. The Group's treasury business recorded a profit before tax of RMB66,008 million in the year ended 31 December 2016, representing 22.36 per cent. of its total profit before tax.

Key products and services

Money market activities

The Bank's money market activities primarily consist of (i) repurchase and reverse repurchase with the PBOC; (ii) borrowings from and loans to other domestic and foreign banks and non-bank financial institutions, often referred to as the interbank money market activities; (iii) purchase of securities under resale agreements, often referred to as repurchase and reverse repurchase transactions via the interbank market, bond repurchase pledge or buy-out, sell-out of RMB-denominated treasury bonds, policy bank bonds and central bank bonds; and (iv) money market transactions with major international banks such as foreign currency fund lending, foreign currency denominated bond repurchase and foreign exchange swap on the international financial markets.

The Bank is an active participant in the interbank money market, one of the first market-makers in the interbank market and one of the sixteen Shanghai Interbank Offered Rate quotation banks approved by the PBOC. As at 31 December 2016, the Group's deposits and placements with banks and non-bank financial institutions amounted to RMB755,288 million, representing 3.60 per cent. of the Group's total assets. As at the same date, the deposits and placements from banks and non-bank financial institutions with the Group amounted to RMB1,935,541 million, representing 9.99 per cent. of the Group's total liabilities.

Investment portfolio management

The Bank's investment portfolio mainly targets bond investment. The Bank classifies its portfolio as: (i) trading financial assets; (ii) debt securities classified as receivables; (iii) available-for-sale financial assets; and (iv) held-to-maturity investments. Trading financial assets are primarily used in proprietary trading, while debt securities are classified as receivables, available-for-sale financial assets and held-to-maturity investments are used in proprietary investment.

As at 31 December 2016, debt securities classified as receivables, financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity investments represented 10.02 per cent., 9.64 per cent., 32.23 per cent. and 48.11 per cent. of the Group's investment portfolio, respectively.

Proprietary trading

The Bank conducts short-term proprietary trading in order to gain short-term spread income and avoid market risk. Proprietary trading mainly includes treasury bonds, central bank notes, policy bank bonds, short-term debentures issued by large-scale prime enterprises, mid-term notes, foreign exchange trading and precious metal trading. Additionally, the Bank hedges its investment risk through financial derivative trading, which mainly includes interest rate swap contracts and foreign exchange spot, forward, swap and option contracts. Apart from hedging of its risks, the Bank generally does not hold financial derivatives for short-term gain.

Proprietary investment

The Bank manages its investment portfolio to maximise its investment return. The Bank determines the average investment term of its investment portfolio, duration and investment return objective based on its judgment on risk factors such as interest rates, exchange rates and credit risks. The Bank's RMB- denominated securities investments primarily include government bonds, central bank notes, policy financial bonds, commercial bank bonds, short-term debentures, corporate bonds and asset-backed securities. The Bank's foreign currency denominated securities investments are primarily in sovereign bonds, financial institution bonds, corporate bonds and investment grade asset-backed securities.

Treasury transactions on behalf of customers

The Bank's treasury transactions on behalf of its customers mainly include agency foreign exchange derivatives trading, agency precious metal business, bond settlement agency business, agency sale and purchase of foreign exchange and foreign exchange trading. Foreign exchange purchases and sales and foreign exchange trading grew steadily. The Bank improved its service capability of foreign exchange settlement and sales through electronic banking channel, and launched its foreign exchange purchasing project. The Bank also optimised its corporate online banking foreign exchange settlement module for the convenience of its corporate customers.

Innovation and development of treasury products

The Bank focused on the innovation of precious metal products with diversified product lines and introduced new products including gold accumulation plans and silver leasing. For the year ended 31 December 2016, the Bank's precious metal trading volume reached a total of 79,109.24 tonnes, an increase of 45.79% over the previous year, and the number of personal precious metal trading customers and commodity trading customers totalled 24.38 million, an increase of 3.23 million over 2015. Net income from the precious metals and commodities businesses amounted to RMB5,827 million, an increase of RMB1,986 million, or 51.71% over 2015.

Investment Banking Business

The Bank conducts investment banking business through the investment banking department at its head office and branch levels as well as its subsidiary, CCB International, providing customers with financial service packages such as short-term debentures, international bonds, trust benefit vouchers, asset securitisation, project financing, outbound initial public offerings (“**IPOs**”) and refinancing, equity investment, financial advisory and wealth management services. The Bank's substantial customer base, extensive marketing network, strong funding capability and research and development strength lay a foundation for the development of its investment banking business. Income from the investment banking business was RMB5,717 million in 2016.

Key products and services

Financial advisory service

The Bank's financial advisory business refers to its provision of consultation, analysis and solution design services to customers in respect of investment and financing, capital operation, asset management, debt management and corporate diagnosis based on the customers' requirements with an aim to assist them in reducing financing cost, increasing funding utilisation efficiency and optimising financial management. Furthermore, the Bank focused on providing its customers with product portfolios consisting of both investment banking and commercial banking products. In 2009, the Bank took the industry lead in launching FITS (Financial Total Solution), a comprehensive financial solution also known as "Feichi". Depending on different situations and financial needs, FITS combines products and vehicles such as traditional commercial banking, new investment banking, various funds and bank wealth management programmes in order to provide comprehensive and diversified financial services plans.

Equity financing service

Through CCB International and the Bank's overseas branches and subsidiaries, the Bank provides enterprises with equity financing services such as listing sponsorship and underwriting services for their overseas capital markets IPOs and refinancing services and strategic investor introduction services in Hong Kong and Singapore. Separately the Bank also cooperates with the Bank's business partners, including domestic and overseas securities companies to provide equity financing related services, such as domestic and overseas listing guidance, sponsorship, underwriting and financial advisory services.

Bond financing service

The Bank provides composite bond financing services for clients including short-term debentures, and mid-term notes. The Bank is an active underwriter in the domestic bond market and it is also a Class A underwriter in the MOF treasury bond underwriting syndicate. The Bank is a primary dealer in the PBOC open market. The Bank is also a financial bond underwriter for financial institutions.

Asset securitisation

The Bank was among the first commercial banks approved to undertake asset securitisation business. In 2005, the Bank issued the first residential mortgage-backed securities in China with a size of RMB3.0 billion. The Bank has developed a specialised information system for its securitisation products and the Bank has extensive experience in the development of securitisation products and the execution of such transactions.

Wealth management business

The Bank has designed and launched various wealth management products according to customer needs to provide wealth management services to customers. The Bank has widened its wealth management product distribution channels and increased its distribution of high yield debt and equity wealth management products. These wealth management products play an important role in securing the Bank's customers, particularly high-end customers. The Bank's outstanding balance of wealth management products was RMB2.13 trillion, up by RMB507,466 million or 31.36% over 2015.

Customer base

The Bank's prime corporate and personal customers from its commercial banking business have formed a solid customer base for developing its investment banking business through the years. Most domestic PRC conglomerates and top quality corporates have established extensive and close business relationships with the Bank. The Bank believes that there remains potential for its investment banking business in the areas of bond financing, equity financing, asset securitisation, financial advisory, wealth management and trust services. The Bank also proactively strives to provide equity financing and equity investment services to SMEs that present promising growth. The Bank's personal banking customers, especially its high net worth and high-end clients, will also help the Bank expand its wealth management business and ensure the successful offering of its wealth management products.

Marketing

The Bank's major marketing model for the investment banking business involves cooperation between the head office, domestic and overseas offices and different business lines. A key strategy of the Bank's bank-wide marketing efforts is to combine the marketing efforts of the investment banking business and commercial banking business.

Overseas Business

As at 31 December 2016, the Group had 28 tier-one overseas branches, covering 29 countries and regions including Hong Kong, Singapore, Germany, South Africa, Japan, South Korea, the U.S., the U.K., Vietnam, Australia, Russia, Dubai, Taiwan, Luxembourg, Macau, New Zealand, Canada, France, Netherlands, Spain, Italy, Switzerland, Brazil, Cayman Islands, Ireland, Chile, Indonesia and Poland, and wholly-owned operating subsidiaries including CCB Asia, CCB London, CCB Russia, CCB Dubai, CCB Europe and CCB New Zealand.

As at 31 December 2016, the total assets of the Group's overseas entities were RMB1,380,037 million, representing an increase of 16.19 per cent. from 31 December 2015. For the year ended 31 December 2016, the Group's net profit of the Group's overseas entities was RMB4,247 million, representing an increase of 3.24 per cent. over the same period in 2015. For the year ended 31 December 2015, the Group's profit before tax of the Group's overseas entities was RMB5,310 million, representing a decrease of 16.26 per cent. over the same period in 2014.

In May 2015, Chile Branch became the first RMB clearing bank in South America, and the branch officially opened in 2016. In June 2015, Paris Branch, Amsterdam Branch, Barcelona Branch and Milan Branch under CCB Europe were successively opened. Cape Town Branch (under Johannesburg Branch) commenced business in September 2015. London Branch commenced business in October 2015. Zurich Branch was established and designated as the RMB clearing bank in November 2015, and it officially opened in 2016 and Dubai International Financial Centre Branch received its official banking licence and commenced business in November 2015 and Warsaw Branch received its official banking licence in December 2016. CCB Malaysia obtained a commercial banking licence in October 2016. The Bank completed its acquisition of PT Bank Windu Kentjana International Tbk in September 2016, and renamed the entity to PT Bank China Construction Bank Indonesia Tbk.

Major Subsidiaries

In 2009, the Bank established the equity investment and strategy cooperation department to coordinate and manage its subsidiaries. According to the 2016 Financial Statements, major subsidiaries of the Bank as at 31 December 2016 are set out below:

<u>Name of subsidiary</u>	<u>Principal activities</u>
CCB Financial Leasing Corporation Limited	Financial leasing
CCB Life Insurance Company Limited	Insurance
Jianxin Trust Corporation Limited	Trust business
China Construction Bank (London) Limited	Commercial banking
China Construction Bank (Europe) SA	Commercial banking
Sino-German Bausparkasse Corporation Limited	House savings bank
China Construction Bank (Russia) Limited	Commercial banking
Golden Fountain Finance Limited	Investment
CCB Principal Asset Management Corporation Limited	Fund management services
China Construction (New Zealand) Commercial Banking Limited	Commercial banking
CCB International Group Holdings Limited	Investment
CCB Pension Management Corporation Limited	Pension Management
CCB Brazil Financial Holding — Investimentos e Participacoes Ltda	Investment
PT Bank China Construction Bank Indonesia, Tbk	Commercial Banking
China Construction Bank (Malaysia) Berhad	Commercial Banking
CCB International (Holdings) Limited	Investment
China Construction Bank (Asia) Corporation Limited	Commercial banking
China Construction Bank (Brasil) Banco Múltiplo S/A	Commercial Banking

Integrated Operation Subsidiaries

The Group's integrated operation strategy is to accelerate the development of insurance, trust, investment banking, mutual funds, leasing, securities and other non-banking businesses, while developing banking as its core business. The Group endeavours to build an operating framework that covers interconnected markets and complementary businesses, with diversified income and decentralised and controllable risk, and realise customer-oriented functions selection, to provide customers with integrated and diversified financial services.

As at 31 December 2016, the Group owned several domestic subsidiaries in the non-banking financial sector, including CCB Principal Asset Management Corporation Limited (“**CCB Principal Asset Management**”), CCB Financial Leasing Corporation Limited (“**CCB Financial Leasing**”), CCB Trust Co., Ltd. (“**CCB Trust**”), CCB Life Insurance Company Limited (“**CCB Life**”), CCB Futures Co., Ltd. (“**CCB Futures**”), CCB International, CCB Pension Management Co., Ltd. (“**CCB Pension**”) and CCB Property & Casualty Insurance Co., Ltd (“**CCB Property & Casualty**”).

The Group set up several banking entities providing professional and differentiated services in specific industries and regions, including Sino-German Bausparkasse and 27 rural banks. In 2013, Sino-German Bausparkasse developed its housing credit business and achieved significant results in selling housing savings products. As at 31 December 2016, total assets of Sino-German Bausparkasse were RMB28,486 million. As at 31 December 2016, the 27 rural banks established to provide efficient financial services for “agriculture, farmers and rural areas” had total assets in operation of RMB16,664 million.

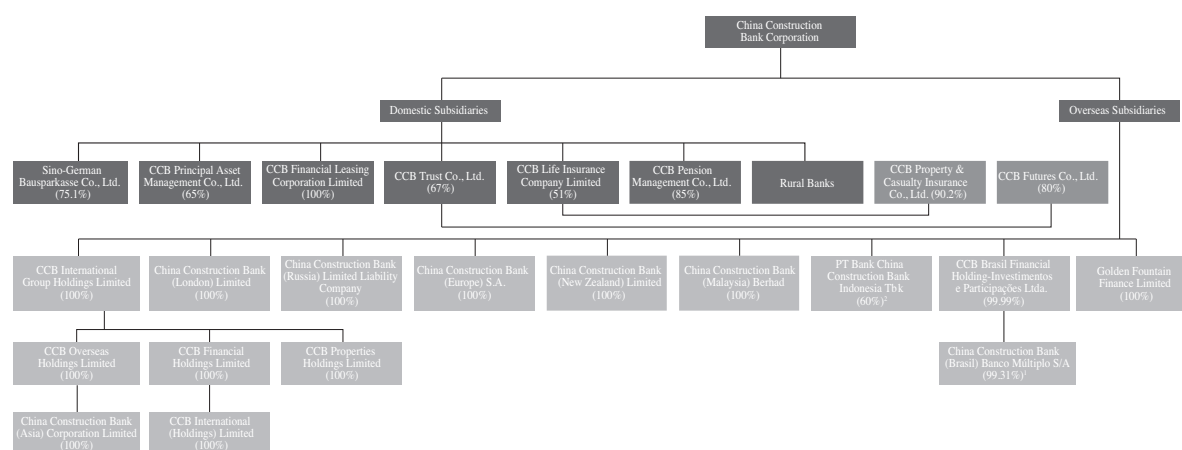
CCB Pension has a registered capital of RMB2.3 billion, of which the Bank and National Council for Social Security Fund hold 85 per cent. and 15 per cent. of its shares respectively. CCB Pension is mainly engaged in businesses including investment management of national social security fund, businesses related to management of enterprise annuity fund, trusted management of capital for old age security, pension advisory for above businesses and other businesses as approved by banking regulators under the State Council. As at 31 December 2016, total assets of CCB Pension were RMB2,314 million.

As at 31 December 2016, the total assets of the integrated operation subsidiaries were RMB370,946 million, up 39.14 per cent. from 31 December 2015. For these purposes, integrated operation subsidiaries refers to the following subsidiaries as set out in 2016 Financial Statements: CCB Principal Asset Management, CCB Financial Leasing, CCB Trust, CCB Life, CCB Futures, CCB International, CCB Pension, Sino-German Bausparkasse and 27 rural banks. Net profit of the integrated operation subsidiaries for the year ended 31 December 2016 was RMB5,290 million, an increase of 35.81 per cent. over the same period in 2015.

On 20 December 2016, the Bank announced that the Bank is proposing to establish a wholly-owned subsidiary, CCB Asset Management Co., Ltd. (“**CCB AMC**”) in Beijing with a proposed capital contribution of RMB12 billion funded by the Bank’s own capital. It is intended that CCB AMC will specialise in market-driven debt-to-equity swap business and will mainly operate and conduct financial business as approved by the financial regulatory authorities, such as acquisition of relevant debt rights, equity investment, converting debt into equity and holding, managing and disposing equity in debt-to-equity swap enterprises. The investment is subject to approvals to be obtained from the relevant regulatory authorities.

Organisational Structure

The following chart shows the Bank’s group structure as at 31 December 2016:



1. As at 31 December 2016, the Bank held 99.31% of the total share capital of China Construction Bank (Brasil) Banco Múltiplo S/A, and held 99.75% of its total issued voting shares.
2. As at 31 December 2016, the Bank held 60% of the total share capital of PT Bank China Construction Bank Indonesia Tbk.

Recent Developments

On 27 April 2017, the Bank published its unaudited and unreviewed consolidated results of the Group as at and for the three months ended 31 March 2016 and 2017, which are included in this Supplemental Offering Circular. As at 31 March 2017, the Group's total assets, total liabilities and total equity were RMB21,695,204 million, RMB20,044,597 million and RMB1,650,607 million, respectively. For the three months ended 31 March 2017, the Group's net interest income was RMB106,923 million, representing a decrease of 0.89% over the same period in 2016, and net profit was RMB70,231 million, representing an increase of 3.42% over the same period in 2016. The NPL ratio of the Group as at 31 March 2017 was 1.52%, representing no change as compared to the corresponding ratio as at 31 December 2016. As at 31 March 2017, the Group's total capital ratio was 14.82%, representing a decrease of 0.12% as compared to the corresponding ratio as at 31 December 2016.

RISK MANAGEMENT AND INTERNAL CONTROL

The section “Risk Management and Internal Control” on pages 117 to 125 of the Offering Circular shall be deleted in its entirety and replaced with the following:

Overview

In the year ended 31 December 2016, the Bank continued to improve its comprehensive risk management quality and strengthened risk management and control at the Group level. By taking the opportunity of advancing the implementation of the advanced measurement approach of capital management, the Bank improved its overall business development, product innovation and risk management capability.

Risk Management Framework

The Bank’s board of directors carries out their responsibilities according to the articles of association and other related regulatory requirements. The Bank’s board of directors established the risk management committee to be responsible for formulating risk management strategies and policies, monitoring the implementation, and evaluating the overall risk profile on a regular basis. As the core component of the risk management structure, the Board deliberates and approves the statements of risk appetite regularly, and delivers and communicates its risk appetite through corresponding capital management policies, risk management policies and business policies, to ensure that the business operation of the Bank adheres to its risk appetite. The board of supervisors oversees the establishment of the overall risk management system and the carrying out of risk management responsibilities by the board of directors and senior management. Senior management is responsible for carrying out the risk management strategies established by the board of directors and the implementation of the overall risk management of the Group.

Senior management appoints the chief risk officer who assists the president with the corresponding risk management work. The Risk Management Department is responsible for the overall business risk management, and its subordinate department, the Market Risk Management Department, is responsible for the management of market risk. The Credit Management Department is responsible for the overall credit risk management. Credit Approval Department is the comprehensive management department responsible for the credit granting and approval of the overall credit business. The Asset and Liability Management Department is responsible for the management of liquidity risk and interest rate risk of banking book. The Internal Control and Compliance Department is responsible for internal control management, compliance risk and operational risk management. Other specialised departments are responsible for other respective risks.

Subsidiaries implement the risk management requirements of the Group through corporate governance mechanism, establish and improve internal risk appetite, risk management system and risk policies.

Credit Risk Management

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its obligation or commitment to the Group.

In 2016, the Bank made more efforts to dispose of non-performing assets, and continued to optimise the risk quantification models, improve and optimise system and process, and improve the effectiveness of credit risk management.

Refine the management of approval lines. The Bank endeavoured to improve its risk management and control capability and level, by establishing the differentiated mechanism for comprehensive credit facility assessment and credit approval, improving the differentiated credit facility approval and authorisation system, refining the client credit rating work, and effectively carrying out the

comprehensive credit facility re-verification and annual review. The Bank established the credit approval review system, and provided assistance and support for key branches. The Bank also reinforced the offsite monitoring work, and made endeavours to improve the management and control of credit approval in relation to key risk areas.

Prompt implementation of multi-dimensional stress tests. The Bank continued to assess the adverse impact that may be caused by the economic recession on quality of assets, and improve the forward-looking management and control of systemic risks, by conducting multi-dimensional stress tests such as the stress test under the financial sector assessment programme. The Bank actively carried out the stress tests under the enhanced prudential standards for foreign banking organisations, by adopting the U.S. regulatory standards and internationally advanced banking stress testing technologies. The Bank comprehensively assessed the adverse impact on the business development of the Group caused by the macro-economy and external environment, and improved the Group's capability of predicting, preventing and early controlling risks.

Re-examination and optimisation of measurement models. The Bank optimised the credit rating models applicable to clients in the manufacture, wholesale, retail and construction industries, and the models to rate the risk caps for local governments and small businesses. The automatic approval and decision-making system based on application rating cards has been applied to individual housing loans, individual consumer loans, individual auto loans and credit card business. By developing and applying the retail risk measurement tools centred on retail rating cards and retail score pools, the Bank improved its market responding speed, and maintained its leading position in respect of the overall quality of assets of retail business. The Bank has adopted the third generation model for measurement of exposure at default and loss given default, and rated all debts under non-retail facilities of the entire bank through relevant systems, in accordance with the advanced internal ratings-based approach as required by the advanced capital management method.

Making the best efforts to dispose of non-performing assets. By taking various measures such as expert diagnosis, list-based management and parent-subsidiary rating linkage, the Bank made more efforts to recover and revive non-performing assets and increase the percentage of recovered or revived non-performing assets in the total non-performing assets to be disposed of. The Bank also made more efforts to recover written-off assets and entrusted assets. The Bank developed innovative measures for disposal of non-performing assets to expand the channel of such disposal. The Bank made full use of audit results in the relevant steps of transfers by batch and writing-off of non-performing debts, and ensured that non-performing assets were effectively managed on a daily basis and properly disposed of in accordance of applicable laws and regulations.

Concentration of Credit Risks. In line with regulatory requirements, the Group proactively adopted a series of measures to prevent large exposure concentration risk, including further tightening lending criteria, adjusting business structure, controlling the credit granting pace, revitalising existing credit assets and innovating products, etc. As at 31 December 2016, the total outstanding loans provided by the Group to its largest single borrower represented 4.03 per cent. of its net capital, and the total outstanding loans to its 10 largest clients represented 13.37 per cent. of its net capital.

Concentration of loans

	As at 31 December		
	2016	2015	2014
Proportion of loans to the single largest customer (%)	4.03	5.67	5.05
Proportion of loans to the ten largest customers (%)	13.37	14.46	13.42

Concentration of Borrowers

As at 31 December 2016, the Bank's ten largest single borrowers as at the date indicated are as follows:

		As at 31 December 2016	
		Amount	% of total loans
		(In millions of RMB, except percentages)	
	Industry		
Customer A	Transportation, storage and postal services	71,850	0.61
Customer B	Transportation, storage and postal services	27,884	0.24
Customer C	Transportation, storage and postal services	20,700	0.18
Customer D	Public management, social security and social organisation	20,000	0.17
Customer E	Transportation, storage and postal services	19,580	0.17
Customer F	Transportation, storage and postal services	19,067	0.16
Customer G	Transportation, storage and postal services	17,654	0.15
Customer H	Transportation, storage and postal services	14,468	0.12
Customer I	Transportation, storage and postal services	13,978	0.12
Customer J	Transportation, storage and postal services	13,392	0.11
Total		238,573	2.03

Liquidity Risk Management

Liquidity risk is the risk that a commercial bank is unable to promptly obtain sufficient funds at a reasonable cost to pay off debts when due, perform other payment obligations and otherwise finance its normal business.

In 2016, the entire banking system generally had plenty of liquidity, as the PBOC lowered the statutory deposit reserve ratio, enhanced financing support for “three-agricultural” sectors and micro and small businesses, and regulated liquidity by using a combination of tools including open market operations, short-term liquidity operations and mid-term lending facilities. The Group successfully kept its liquidity within a reasonable range and maintained normal payments and settlements, by taking active countermeasures based on its level of liquidity, implementing coordinated management of liquidity for the entire Group, adjusting the use of products having material impact on liquidity such as bond investments, assets sold under agreements to repurchase, interbank deposits and interbank investments, and improving forecasts of major cash flows.

The Group conducted quarterly liquidity risk stress tests, and ad hoc special stress tests when necessary, taking into account the change of external operation environment and regulatory requirements, in order to test the risk bearing capacity of the Bank in low-probability extreme events. The results of such stress tests showed that in stressed conditions, though the liquidity risk would be at an elevated level, it would still be controllable.

The table below shows the liquidity ratio in RMB and foreign currencies and the loan-to-deposit ratio as at the indicated dates:

	Regulatory standard	As at 31 December		
		2016	2015	2014
		(%)		
Liquidity ratio ⁽¹⁾ RMB	>25	44.21	44.17	48.88
Foreign currency	>25	40.81	59.84	57.03
Loan-to-deposit ratio ⁽²⁾ RMB		68.17	69.80	67.53

Notes:

- (1) The liquidity ratio is equal to liquidity assets divided by liquidity liabilities, as calculated in accordance with requirements of the CBRC.
- (2) According to the requirements of the CBRC, the calculation of loan-to-deposit ratio for 2016 and subsequent years shall be based on the loans and deposits in relation to domestic legal persons, and the calculation of loan-to-deposit ratio in respect of years prior to 2016 shall be based on the loans and deposits in relation to legal persons.

The table below shows the liquidity coverage ratio of the Group in the fourth quarter of 2016:

	Amount before conversion	Amount after conversion
	(RMB million, except for percentage)	
No.		
	Qualified high-quality liquid assets	
1		3,713,100
	Cash outflow	
2	7,696,066	749,671
3	398,066	19,871
4	7,298,000	729,800
5	8,736,091	2,842,340
6	5,709,736	1,415,071
7	2,951,313	1,352,227
8	75,042	75,042
9		—
10	1,576,729	194,379
11	58,448	58,447
12	2,193	2,193
13	1,516,088	133,739
14	—	—
15	1,946,893	315,563
16		4,101,953
	Cash inflow	
17	73,688	73,688
18	1,324,063	876,883
19	62,725	61,642
20	1,460,476	1,012,213
	Adjusted value	
21		3,713,100
22		3,089,740
23		120.27%

Note:

- (1) The monthly average of a quarter is calculated in accordance with the regulatory requirements, definitions and accounting principles applicable in such period.

The Group regularly monitors the maturity gap of various asset and liability items, and assesses the liquidity risk in different periods. As at 31 December 2016, the aggregate maturity gaps of the Group was RMB1,589,654 million, up RMB144,571 million as compared to the end of the last year. Although the Group had a negative gap for repayment on demand of RMB8,539,761 million, the Group still had a wide and solid client base with high demand deposit rate and steady growth of deposit amount. It is expected that the Group will have stable sources of capital and maintain a stable liquidity level in the future.

Market Risk Management

Market risk is the risk of loss in respect of the Bank's on- and off-balance sheet activities, arising from adverse movement in market rates, including interest rates, foreign exchange rates, commodity prices, and stock prices.

In 2016, the Group continued to improve its market risk management and control system, and developed innovative management methods to improve its policies for management and control of market risk. The Group improved its risk management monitoring on directly-operated centres, strengthened the risk management foundations of multi-functional banking business, and made further efforts to promote risk management and control for wealth management services and financial institutional business. The Group enhanced market risk monitoring and early-warning, and actively developed on-site inspections and walk-through testing to relieve risks in advance. The Group closely tracked changes in the financial market, and formulated contingency plans to effectively cope with major market risk events. The Group promoted proactive risk management which was characterised by managing the whole business process, strengthened management of trading business at the Group level, and continued to carry out risk assessment and post-assessment work in relation to new products. The Group enhanced the development of information technology management tools and optimised the counterparty risk management system for derivative transactions to improve the effectiveness of monitoring and early detection of counterparty credit risk. The Group enhanced the use, optimisation, and inspection of the trading management system of the financial market business to solidly boost capacity of the system to support its business.

Value at Risk Analysis

The Bank has separated on and off-balance sheet activities into two major categories, trading book and banking book. The Bank performs Value-at-Risk ("VaR") analysis on its trading portfolio to measure and monitor the potential losses that could occur on risk positions taken, due to movements in market interest rates, foreign exchange rates and other market prices. The Bank calculates the VaR of RMB and foreign currency trading portfolio on a daily basis (at a confidence level of 99 per cent. and with a holding period of one-day).

The VaR analysis on the Bank's trading portfolio as at 31 December 2016 and 2015 is as follows:

	2016				2015			
	As at 31 December	Average	Maximum	Minimum	As at 31 December	Average	Maximum	Minimum
	(In millions of RMB)							
Risk valuation of trading portfolio	106	157	265	91	149	83	200	48
— Interest rate risk	61	52	144	20	46	38	172	17
— Foreign exchange risk	97	156	253	64	142	71	206	13
— Commodity risk	6	13	60	—	1	3	12	—

Interest Rate Risk Management

Interest rate risk is the risk of loss in the overall income and economic value of the banking book as a result of adverse movements in interest rates, term structure and other interest-related factors. Re-pricing risk and basis risk arising from mismatch of term structure and pricing basis of assets and liabilities are the primary sources of interest rate risk for the Bank while yield curve risk and option risk have relatively less impact on interest rate risk. The overall objective of the Bank's interest rate risk management is to minimise the decrease of net interest income caused by interest rate changes while keeping interest rate risk within a tolerable level in accordance with the Bank's risk appetite and risk management capabilities.

In 2016, the Bank actively pursued the strategy in response to the interest rate liberalization reform and effectively improved the market and differentiated pricing capability of the Bank by enhancing the pricing incentive constraining mechanism, managing the pricing in relation to key products and clients, and paying attention to the balance of volume and price. The Bank measured interest rate risk using various methods including interest rate sensitivity gap, net interest income sensitivity analysis and stress tests. The Bank also conducted regular analysis and prediction of net interest income and made reasonable arrangements in respect of maturity structure and product structure of asset and liability portfolio to ensure that the overall interest rate risk was within the designated boundary.

Net interest income sensitivity analysis

Net interest income sensitivity analysis is based on two scenarios. The first is to assume that the interest rate for deposits with the PBOC stays constant, and all yield curves rise or fall by 100 basis points in a parallel way; the second is to assume that the interest rates for deposits with the PBOC and demand deposits stay constant, while the other yield curves rise or fall by 100 basis points in a parallel way.

The interest rate sensitivity of the Group's net interest income as at 31 December 2016 and 31 December 2015 is set out below:

	Change in net interest income			
	Rise by 100 basis points	Fall by 100 basis points	Rise by 100 basis points (demand deposit rates being constant)	Fall by 100 basis points (demand deposit rates being constant)
			(In millions of RMB)	
As at 31 December 2016	(48,500)	48,500	43,566	(43,566)
As at 31 December 2015	(40,586)	40,586	40,443	(40,443)

Foreign Exchange Risk Management

Foreign exchange rate risk is the risk of impact of adverse movement in foreign exchange rates on a bank's financial position. The Bank is exposed to foreign exchange rate risk primarily because of the currency mismatch of assets and liabilities held by the Bank that are denominated in currencies other than RMB and the position held by the Bank as a market maker in the financial markets. The Bank avoided exchange rate risk by matching its assets and liabilities, controlled exchange rate risk by setting limits, hedged exchange rate risk by using derivative financial instruments and transferred exchange rate risk by reasonable product pricing.

In 2016, the Group continued to optimise the method of measuring risk exposure of capital debts, and improve the systemic coverage and measurement accuracy in respect of new organisations. The Group promptly followed up on the impact caused by the British EU Referendum, and conducted exchange rate risk analysis in this respect. The result of such analysis showed that the Group had small exposure in euro and Sterling, and the exchange rate risk caused by the EU Referendum was controllable.

Currency concentrations

The Group's currency concentrations as at 31 December 2015 and 31 December 2016 are set out below:

	As at 31 December 2016				As at 31 December 2015			
	US\$ (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total	US\$ (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
(In millions of RMB)								
Spot assets	1,306,232	327,955	264,686	1,898,873	963,701	242,240	182,060	1,388,001
Spot liabilities	(1,087,356)	(351,161)	(227,688)	(1,666,205)	(770,728)	(270,351)	(158,982)	(1,200,061)
Forward purchases	2,621,532	98,488	230,706	2,950,726	1,481,023	108,489	190,402	1,779,914
Forward sales	(2,824,058)	(39,253)	(261,184)	(3,124,495)	(1,659,618)	(52,594)	(201,843)	(1,914,055)
Net options position	(4,012)	—	—	(4,012)	478	—	—	478
Net long position	12,338	36,029	6,520	54,887	14,856	27,784	11,637	54,277

As at 31 December 2016, the net exposure of exchange rate risk of the Group was RMB54,887 million, an increase of RMB610 million as compared to 31 December 2015.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or flawed internal processes, people and systems, or from external events.

In 2016, the Group continued to enhance the management of operation risk. By taking advantage of the new generation of core system, the Group continued to improve the percentage and capability of machine control of incompatible functions in order to reinforce the check and balance among different functions. The Group made full use of key risk indicators to provide monitoring, early warning and risk notice functions in respect of operation risk associated with key steps, continued to conduct overall self-assessment of business continuity management, and supervised and urged organisations at all levels to further enhance management of business continuity.

Anti-Money Laundering

The Group strictly executed anti-money laundering (“AML”) laws and regulations to continuously promote the AML ability and effectiveness by applying the risk-based approach.

In 2016, the Group fully complied with applicable laws, regulations and regulatory rules in relation to anti-money laundering and anti-terrorist financing. It further enhanced its anti-money laundering compliance system and internal control system by reinforcing the client admission and “know-your-client” requirements, improving the risk assessment indicator system, and optimising the rules to identify suspicious transactions. The Group also actively carried out anti-money laundering trainings and awareness-raising programs, and continued to improve the effectiveness and capability of anti-money laundering and anti-terrorist financing work.

Reputation Risk Management

Reputation risk is the potential or existing risk of a negative impact on, or damage to, the banks' overall image, reputation and brand value, which arises when commercial banks' operational, managerial and other behaviours or contingencies are noticed or reported by the media.

In 2016, the Group continued to improve the reputation risk management system and mechanism, and improve the group-wide capability of managing reputation risk. The Group carried out reputation risk self-examination work within the Group, emphasised on identification and early warning of reputation risk and making of emergency plans in respect of reputation risk, and enhanced the management of sources of such risk. The Group established the joint meeting for treatment of reputation risk, in order to properly respond to events with reputation risks in a coordinated manner and effectively protect the reputation of its brand. The Group created innovative press and publicity approaches and developed new channels and platforms to broadcast the CCB "good stories" to the general public and create a good publicity environment.

Consolidated Management

Consolidated management is the comprehensive and continuous management and control over the Group's and its subsidiaries' corporate governance, capital and finance, in order to identify, measure, monitor and assess the overall risks of the Group as a whole.

In 2016, the Bank continued to improve the group consolidation management capability and prevent cross-border and cross-industry operation risk in accordance with the Guidelines for Management and Supervision of Consolidation of Financial Statements of Commercial Banks issued by CBRC. The Group conducted self-assessment in respect of consolidation management, and continued to improve the comprehensive risk management system and optimise the coordinated business work mechanism. The Group enhanced the management of group assets, and continued to monitor and analyse the capital adequacy of the Group. The Group enhanced the monitoring of the liquidity risk limitation indicators for the entire Group, and comprehensively coordinated the capital operation of the Group. The Group optimised the plan for management of annual industry quota and continued to prepare the concentration risk monitoring reports. The Group also enhanced the management of internal transactions and organised the internal control assessment in relation to overseas entities and subsidiaries.

Internal Audit

The Bank maintains a relatively independent internal audit system subject to vertical management. The internal audit is designed to facilitate the construction of a robust risk management system, internal control system and corporate governance procedure, to assess the effectiveness of the internal control system, risk management system and corporate governance procedure, the profitability of operating activities, and the economic accountability of relevant personnel, and to provide relevant improvement proposals.

In 2016, the Bank organised and implemented a series of systemic audits in light of the business transformation and change of economic and financial conditions, including the dynamic audit and investigation on basic management of credit and lending business, the dynamic audit and investigation on key businesses for strategic transformation, the audit and investigation on expansion of profitability space, the audit and investigation on characteristics of financial activities of client base, the audit on management of main business of overseas entities, and the economic accountability audit. Each auditing organisation also promptly conducted discretionary audits in light of the actual local conditions, which complemented and further expanded audit coverage. Internal audit not only deepened its own transformation and development, but also focused on the integration with the operation and management of the Bank. The Bank enhanced early identification and forward-looking

disclosure of risk, and continued to improve the quality of auditing proposals and facilitate process optimisation, mechanism perfection and solution of problems. The Bank made more efforts to carry out follow-up rectification and accountability identification work following audits, so that the auditing work can effectively serve the transformation and development of the Bank.

Internal Control

According to the requirements regarding the standard system of enterprises internal control, the Board is responsible for establishing, improving and effectively implementing internal control, evaluating the effectiveness of internal control and faithfully disclosing the report of internal control evaluation. The board of supervisors supervises the establishment and implementation of internal control of the Board. The senior management is responsible for organising and leading the daily operation of internal control.

The objectives of the internal control of the Bank are to reasonably ensure its operation and management in compliance with laws and regulations, assets safety, the accuracy and integrity of financial reports and relevant information, to improve operation efficiency and effects, and to facilitate the Bank to achieve its development strategies. Due to its inherent limitations, internal control only provides reasonable assurance regarding the achievement of above objectives. In addition, as the changes of situation may lead to improper internal control or lower compliance with the internal control policy and procedure, there exists certain risk in the estimation of the effectiveness of future internal control based on the evaluation results of internal control.

Pursuant to the identification standards of material deficiencies in the internal control of financial report of the Bank, at the base date of the internal control assessment report, there was no material deficiency in the internal control of financial report. The Board held that the Bank conducted an effective internal control of financial report covering all the major aspects, in compliance with the requirements regarding the standard system of enterprises internal control and other relevant regulations.

Pursuant to the identification standards of material deficiencies in the internal control of non-financial report of the Bank, at the base date of the internal control assessment report, no material deficiency was detected in the internal control of non-financial report.

The audit opinion of internal control was in line with the Bank's assessment conclusion on the effectiveness of internal control of the financial report.

PricewaterhouseCoopers Zhong Tian LLP audited the effectiveness of internal control over the financial reporting of the Bank, and presented an internal control audit report with unqualified opinion, stating that the Bank conducted effective internal control over the financial reporting covering all the major aspects in accordance with the Basic Standard for Enterprises Internal Control and relevant regulatory requirements.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The section “Directors, Supervisors and Senior Management” on pages 126 to 137 of the Offering Circular shall be deleted in its entirety and replaced with the following:

General

As of the date of this Supplemental Offering Circular, the Bank’s board of directors is comprised of 12 members. There are five independent non-executive directors, three non-executive directors and four executive directors. The Bank’s directors are elected at shareholder general meetings for a term of three years, which is renewable upon re-election. The chairman and the vice chairman of the board of directors are elected by simple majority of the board of directors. Mr. Wang Hongzhang is the Bank’s chairman, and responsible for the business strategy and overall development. Mr. Wang Zuji is the Bank’s president, and is responsible for overseeing the day-to-day management of the Bank’s business and operations. The president is appointed by the board of directors, is responsible for the board of directors, and performs duties pursuant to the Bank’s articles of association and the board of directors’ authorisation.

Each the Bank’s directors, supervisors and senior management has disclosed to the Bank at the time of appointment, and in a timely manner for any change in, the number and nature of offices held in public companies or organisations and other significant commitments, the identity of the public companies or organisations and an indication of the time involved. As at 31 December 2016, Mr. Zhang Gengsheng, director of the Bank, indirectly held 19,304 H-shares of the Bank by participating in the employee stock incentive plan of the Bank before he was appointed to his current position. Mr. Li Xiukun, Mr. Jin Yanmin and Mr. Li Zhenyu, the supervisors of the Bank, indirectly held 12,366 H-shares, 15,739 H-shares and 3,971 H-shares of the Bank respectively, by participating in the employee stock incentive plan before they were appointed as supervisors. Save as disclosed above, as at 31 December 2016, none of the directors and supervisors of the Bank had any interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Bank and Hong Kong Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Listing Rules of Hong Kong Stock Exchange.

The following table sets forth information regarding the Bank’s directors, supervisors and senior management. The Bank’s directors, supervisors and members of senior management all meet the qualification requirements for their respective positions. Their qualifications have been reviewed and approved by the PRC banking regulatory authorities. Non-executive directors holding positions in the corporate shareholders do not receive compensation directly from the Bank.

Directors

The following table sets forth certain information concerning the Bank’s directors as at the date of this Supplemental Offering Circular.

Name	Position
Wang Hongzhang	Chairman, executive director
Wang Zuji	Vice chairman, executive director, president
Pang Xiusheng	Executive director, executive vice president
Zhang Gengsheng	Executive director, executive vice president
Li Jun	Non-executive director
Hao Aiqun	Non-executive director
Dong Shi	Non-executive director
Anita Fung Yuen Mei	Independent non-executive director
Carl Walter	Independent non-executive director
Chung Shui Ming Timpson	Independent non-executive director
Wim Kok	Independent non-executive director
Murray Horn	Independent non-executive director

Notwithstanding the disclosures mentioned in “*Directors, Supervisors and Senior Management — General*” section, no potential conflicts of interest exist between the obligations of the directors named above towards the Bank and their own interests or other obligations. The business address of each of the directors named above is No. 25, Financial Street, Xicheng District, Beijing, China 100033.

Wang Hongzhang

Chairman, executive director

Mr. Wang has served as chairman and executive director since January 2012, and has served concurrently as chairman of Sino-German Bausparkasse since July 2012 and chairman of CCB Asia since July 2013. Mr. Wang currently also serves as member of APEC Business Advisory Council (“ABAC”), executive vice chairman of APEC China Business Council, chairman of Chinese Committee of China-CEEC Business Council, vice chairman of China Chamber of International Commerce. From November 2003 to November 2011, Mr. Wang was chief disciplinary officer of the PBOC. From June 2000 to November 2003, Mr. Wang was the president of Chengdu Branch of the PBOC and administrator of Sichuan Branch of the SAFE. From April 1996 to June 2000, Mr. Wang was deputy director-general of the Supervision Bureau and director-general of the internal auditing department of the PBOC. From November 1989 to April 1996, Mr. Wang served in various positions including assistant president of Qingdao Branch, deputy director of the General Administration Office, deputy director of the treasury and planning department and general manager of the banking business department of Industrial and Commercial Bank of China. From January 1984 to November 1989, Mr. Wang worked in the Industrial and Commercial Credit Department and the General Administration Office of Industrial and Commercial Bank of China. From September 1978 to January 1984, Mr. Wang worked in the Credit Bureau, Savings Bureau and Industrial and Commercial Credit Department of the PBOC. Mr. Wang is a senior economist and a certified public accountant. Mr. Wang graduated from Liaoning Finance and Economics College with a bachelor’s degree in finance in 1978, and obtained his master’s degree in economics from Dongbei University of Finance and Economics in 1997.

Wang Zuji

Vice chairman, executive director, president

Mr. Wang has served as vice chairman, executive director and president since July 2015. Mr. Wang currently also serves as vice chairman of China’s National Association of Financial Market Institutional Investors. From September 2012 to May 2015, Mr. Wang was vice chairman of China Insurance Regulatory Commission. From January 2008 to September 2012, Mr. Wang was vice governor of People’s Government of Jilin Province. From April 2006 to January 2008, Mr. Wang was assistant of the governor of People’s Government of Jilin Province, director of Development and Reform Commission of People’s Government of Jilin Province and concurrently director of the office to the Leading Team of Revitalising Jilin Old Industrial Base. From May 2005 to April 2006, Mr. Wang was assistant of the governor of People’s Government of Jilin Province and director-general of State-owned Assets Supervision & Administration Commission of the People’s Government of Jilin Province. From February 2005 to May 2005, Mr. Wang was assistant of the governor of People’s Government of Jilin Province. From January 2004 to February 2005, Mr. Wang was director of Comprehensive Planning Department of China Development Bank. From March 2003 to January 2004, Mr. Wang was director of Business Development Department of China Development Bank. From January 2000 to March 2003, Mr. Wang was president of Changchun Branch of China Development Bank. From January 1997 to January 2000, Mr. Wang was the deputy director of Loan Department II (North-east Loan Department) of China Development Bank. Mr. Wang obtained an economic doctorate degree from Jilin University.

Pang Xiusheng

Executive director, executive vice president

Mr. Pang has served as executive director since August 2015 and executive vice president of the Bank since February 2010. Mr. Pang served as a member of the senior management of the Bank from December 2009 to February 2010 and chief financial officer of the Bank from April 2006 to December 2009, and served concurrently as chief financial officer of the Bank from December 2009 to March 2011 and from September 2013 to June 2014. He served as executive vice chairman of the Bank's asset and liability committee from March 2006 to April 2006, general manager of the Bank's restructuring office from May 2005 to March 2006, general manager of Zhejiang Branch of the Bank from June 2003 to May 2005, and acted as the head of Zhejiang Branch of the Bank from April 2003 to June 2003. Mr. Pang served consecutively as deputy general manager of treasury and planning department, deputy general manager of planning and finance department, and general manager of planning and finance department of the Bank from September 1995 to April 2003. Mr. Pang is a senior economist, and a recipient of a special grant by PRC government. He graduated from a postgraduate programme in technological economics from Harbin Industrial University in 1995.

Zhang Gengsheng

Executive director, executive vice president

Mr. Zhang has served as executive director since August 2015 and concurrently as chairman of CCB Life since May 2013. Mr. Zhang has served as executive vice president of the Bank since April 2013. Mr. Zhang served as a member of senior management of the Bank from December 2010 to April 2013. Mr. Zhang was general manager of the group clients department (banking business department) and deputy general manager of the Beijing Branch of the Bank from October 2006 to December 2010, general manager of the banking business department at the head office and the group clients department (banking business department) of the Bank from March 2004 to October 2006, deputy general manager of the banking business department at the head office of the Bank from June 2000 to March 2004 (in charge of overall management from March 2003), general manager of the Three Gorges Branch of the Bank from September 1998 to June 2000, and deputy general manager of the Three Gorges Branch of the Bank from December 1996 to September 1998. Mr. Zhang is a senior economist. He obtained his bachelor's degree in infrastructure finance and credit from Liaoning Finance and Economics College in 1984 and an Executive MBA degree from Peking University in 2010.

Li Jun

Non-executive director

Mr. Li has served as director since September 2015. Mr. Li had served as nonexecutive director of Industrial and Commercial Bank of China Limited from December 2008 to March 2015. He previously served as assistant of the representative of Beijing Representative Office of the Bank of Credit and Commerce International, deputy representative of BNP Paribas China Representative Office, consultant of the International Banking Department of Banco Bilbao Vizcaya Argentaria, deputy director of the Research Centre of China Technology Trust and Investment Company, general manager of the Research Department of China Sci-Tech Securities, and professor of the Finance Department of the School of Economics and Management of the University of Science and Technology Beijing. At present, Mr. Li serves as non-executive director of Shenwan Hongyuan Group Co. Ltd. and Shenwan Hongyuan Securities Co. Ltd.. He graduated from University of Madrid in Spain in November 1995 and received a Doctorate degree in Economic Management. Mr. Li is currently an employee of Huijin, the Bank's substantial shareholder.

Hao Aiqun

Non-executive director

Ms. Hao has served as director since July 2015. Ms. Hao served as deputy director of the Non-bank Financial Institutions Department of the CBRC from April 2003 to July 2015, and concurrently deputy director and inspector of the Banking Supervision Department I of the CBRC. Ms. Hao was consecutively deputy division-chief and division-chief of the Supervision Bureau, researcher of the Cooperation Bureau, and deputy inspector and deputy director of the Non-bank Financial Institutions Department of the PBOC from April 1983 to March 2003. Ms. Hao obtained a bachelor's degree in Finance from Central University of Finance and Economics in July 1982. Ms. Hao is a certified public accountant and a senior economist. Ms. Hao is currently an employee of Huijin, the Bank's substantial shareholder.

Dong Shi

Non-executive director

Mr. Dong has served as director since September 2011. Mr. Dong served as director of both China Reinsurance (Group) Corporation and China Reinsurance Asset Management Co., Ltd. from October 2008 to August 2011. Mr. Dong served consecutively as assistant special inspector of the State Council, division-chief of the Supervisory Committee of Central Enterprises Working Commission and deputy director-general of the Foreign Affairs Bureau under the State-owned Assets Supervision and Administration Commission from August 1998 to September 2008. Mr. Dong was deputy division-chief at the Supervision Bureau of the PBOC from July 1988 to July 1998. Mr. Dong made a study visit to the Federal Reserve of the United States in 1994 and studied at RMIT University in Australia in 1996. Mr. Dong is a senior economist and an accountant. Mr. Dong graduated from Zhengzhou University with a bachelor's degree in finance in 1988 and obtained his master's degree in economic law from Renmin University of China in 2002. Mr. Dong is currently an employee of Huijin, the Bank's substantial shareholder.

Anita Fung Yuen Mei

Independent non-executive director

Ms. Fung has served as director since October 2016. Ms. Fung served as group general manager of HSBC Holdings plc from May 2008 to February 2015. Ms. Fung served consecutively as head of Hong Kong currency bond market, head of Asian fixed income trading, head of Asian Pacific trading, treasurer and joint head of global capital markets for Asia-Pacific, treasurer and head of global capital markets for Asia-Pacific, head of global banking and capital markets for Asia-Pacific as well as chief executive officer of the Hong Kong region of The Hongkong and Shanghai Banking Corporation Limited from September 1996 to February 2015. Ms. Fung also served as non-executive director of Bank of Communications Co., Ltd. from November 2010 to January 2015. Ms. Fung concurrently served in various positions including chairwoman and director of HSBC Global Asset Management (Hong Kong) Limited, non-executive director of HSBC Bank (China) Company Limited and director of HSBC Markets (Asia) Limited from September 2011 to February 2015. Ms. Fung served as non-executive director of Hang Seng Bank Limited from November 2011 to January 2014. Ms. Fung currently serves as independent non-executive director of Hong Kong Exchanges and Clearing Limited as well as Hang Lung Properties Limited, and serves in several positions in institutions including Airport Authority Hong Kong, Hong Kong Monetary Authority, Hong Kong Housing Authority and The West Kowloon Cultural District Authority. Ms. Fung obtained a master's degree in applied financing from Macquarie University of Australia in 1995. Ms. Fung was appointed as Justice of the Peace by the Government of the Hong Kong Special Administrative Region, and was awarded Bronze Bauhinia Star.

Carl Walter*Independent non-executive director*

Mr. Carl Walter has served as director since October 2016. Mr. Carl Walter is currently an independent consultant, providing strategic consulting advice to various countries and financial institutions. Mr. Carl Walter served as managing director and chief operating officer in China of JPMorgan Chase & Co and chief executive officer of JP Morgan Chase Bank (China) Company Limited from September 2001 to April 2011. He was seconded from Morgan Stanley to serve as managing director and chief executive officer of China International Capital Corporation (Beijing) from January 1999 to July 2001. He served concurrently as vice president and head of Asian Credit Management and Research (Singapore) of Credit Suisse First Boston as well as the director and head of China Investment Bank Corporation (Beijing) from September 1990 to December 1998. Mr. Carl Walter served consecutively in various positions including as vice president and general manager of Taipei Branch of Chemical Bank from January 1981 to August 1990. Mr. Carl Walter was a visiting scholar and an adjunct professor of Freeman Spogli Institute of Stanford University in 2012. He obtained a bachelor degree in politics and Russian language from Princeton University in 1970, an advanced studies certificate in economics from Peking University in 1980, and a doctoral degree in politics from Stanford University in 1981.

Chung Shui Ming Timpson*Independent non-executive director*

Mr. Chung has served as director of the Bank since October 2013. Mr. Chung currently serves as independent non-executive director of China Unicom (Hong Kong) Limited, Miramar Hotel and Investment Company, Limited, Glorious Sun Enterprises Limited, China State Construction Engineering Corporation, China Overseas Grand Oceans Group Limited, China Everbright Limited and Jinmao (China) Investments Holding Limited. Mr. Chung served as independent non-executive director of China Everbright Bank from 2006 to 2012. Formerly, he served in various companies and public institutions, consecutively as chairman of the Council of the City University of Hong Kong, chief executive officer of Shimao International Holdings Limited, chairman of the Hong Kong Housing Society, a member of the Executive Council of the Hong Kong Special Administrative Region, executive director of the Land Fund Advisory Committee of Hong Kong Special Administrative Region Government, and independent non-executive director of Nine Dragons Paper (Holdings) Limited and Henderson Land Development Company Limited. From 1979 to 1983, he was a senior audit director of Coopers & Lybrand Consulting. Mr. Chung is a senior fellow member of the Hong Kong Institute of Certified Public Accountants. He obtained a bachelor's degree in science from University of Hong Kong in 1976 and a master's degree in business administration from Chinese University of Hong Kong in 1987. Mr. Chung received the title of Justice of the Peace from the Hong Kong Special Administrative Region Government in 1998 and was awarded the Gold Bauhinia Star by the Hong Kong Special Administrative Region Government in 2000.

Wim Kok*Independent non-executive director*

Mr. Wim Kok has served as director of the Bank since October 2013. In 2003, Mr. Wim Kok was appointed as Minister of State of the Netherlands. Mr. Wim Kok served two consecutive terms as Prime Minister of the Netherlands from 1994 to 2002. He was leader of the Dutch Labour Party from 1986 to 2002, Minister of Finance and Deputy Prime Minister of the Netherlands from 1989 to 1994, president of the European Trade Union Confederation from 1979 to 1982, and president of the Netherlands Confederation of Trade Unions from 1973 to 1985. From January 2010 to January 2014, he served as president of the Club de Madrid, composing of former Heads of State and Government. In 2004, he headed a High Level Group advising the European Council on revitalising the European economy and improving its competitiveness. After having stepped down as Prime Minister in 2002,

Mr. Wim Kok served as non-executive director of various large international companies, such as Royal Dutch Shell, ING Group, TNT, Post NL and KLM. He also holds positions in various non-profit organisations, including as chairman of the board of trustees of the Anne Frank Foundation, member of the board of trustees of the International Crisis Group (ICG) and member of the International Commission on Missing Persons (ICMP). Mr. Wim Kok graduated from the Nijenrode Business School.

Murray Horn

Independent non-executive director

Mr. Murray Horn has served as director of the Bank since December 2013. Mr. Murray Horn currently consults to multiple government agencies. He has served as director of many listed companies, including Spark New Zealand (formerly Telecom New Zealand). He has also held positions in public organisations in New Zealand and other regions, including as chairman of the National Health Board of New Zealand, chairman of the New Zealand Business Roundtable, member of the New Zealand Tourism Board, member of the Board of the Centre for Independent Studies in Australia and member of the Trilateral Commission. Mr. Murray Horn was previously managing director of ANZ Bank in New Zealand and director of ANZ’s Global Institutional Banking business, based in Sydney, Australia. He was Secretary to the New Zealand Treasury from 1993 to 1997. Mr. Murray Horn holds a Ph.D. degree from Harvard University in Political Economy and Government, a Master’s degree in Commerce and a Bachelor’s degree in Commerce (Agriculture) from Lincoln University. Lincoln University awarded him the Bledisloe Medal in 2000. He also made a Companion of the New Zealand Order of Merit in 2013.

Supervisors

Name	Position
Guo You	Chairman of the board of supervisors
Liu Jin	Shareholder representative supervisor
Li Xiaoling	Shareholder representative supervisor
Li Xiukun	Employee representative supervisor
Jin Yanmin	Employee representative supervisor
Li Zhenyu	Employee representative supervisor
Bai Jianjun	External supervisor

Notwithstanding the disclosures mentioned in “*Directors, Supervisors and Senior Management — General*” section, no potential conflicts of interest exist between the obligations of the supervisors named above towards the Bank and their own interests or other obligations. The business address of each of the supervisors named above is No. 25, Financial Street, Xicheng District, Beijing, China 100033.

Guo You

Chairman of the board of supervisors

Mr. Guo has served as chairman of the board of supervisors of the Bank since June 2014. Mr. Guo served as vice chairman of the board of directors of China Everbright Group, executive director and president of China Everbright Bank Co., Ltd from August 2004 to January 2014. From November 2001 to July 2004, Mr. Guo served as executive director and deputy general manager of China Everbright Group and chief executive officer of China Everbright Limited. From December 1999 to November 2001, Mr. Guo was chief executive officer of China Everbright Limited. From August 1998 to December 1999, Mr. Guo served as executive vice president of China Everbright Bank Co., Ltd. From November 1994 to August 1998, Mr. Guo successively served as director of the Foreign Exchange Transaction Department of the Foreign Exchange Reserves Business Center of the SAFE, general

manager of China Investment Corporation (Singapore) and deputy director-general of Foreign Financial Institutions Department of the PBOC. Mr. Guo is a senior economist. He graduated from Heihe Normal College and the American Institute of Yellow River University, and obtained a Ph.D. degree in finance from the Southwestern University of Finance and Economics.

Liu Jin

Shareholder representative supervisor

Ms. Liu has served as shareholder representative supervisor of the Bank since September 2004. Ms. Liu has served as general manager of the public relations & corporate culture department of the Bank since July 2014. Ms. Liu served as general manager of the board of supervisors office from November 2004 to July 2014. Ms. Liu was a dedicated supervisor of deputy director-general level at the board of supervisors of the Bank from July 2003 to September 2004, dedicated supervisor of deputy director-general level at the board of supervisors of the People's Insurance Company of China and China Reinsurance Company from November 2001 to July 2003. Ms. Liu is a senior economist and graduated from Hunan Finance and Economics College with a bachelor's degree in finance in 1984. She graduated from postgraduate finance programme of Shaanxi Finance and Economics College in 1999 and from the Research Institute for Fiscal Science of the MOF with a doctorate degree in public finance in 2008.

Li Xiaoling

Shareholder representative supervisor

Ms. Li has served as supervisor of the Bank since June 2013. Ms. Li served as shareholder representative director of the Bank from June 2007 to June 2013. Ms. Li was a deputy inspector of Budget Department of the MOF from January 2006 to June 2007, and an assistant inspector of Budget Department of the MOF from May 2001 to January 2006. Ms. Li is a senior economist and graduated from Beijing Normal University in 2003 with a master's degree in political economics.

Li Xiukun

Employee representative supervisor

Mr. Li has served as supervisor since January 2016. Mr. Li has served as general manager of the audit department of the Bank from March 2015. From July 2014 to March 2015, Mr. Li served as the person-in-charge of the audit department of the Bank. From March 2011 to July 2014, Mr. Li served as general manager of Hebei Branch of the Bank. From May 2006 to March 2011, Mr. Li served as general manager of Ningxia Branch of the Bank. From July 2003 to May 2006, Mr. Li served as deputy general manager of Ningxia Branch of the Bank. From January 2000 to July 2003, Mr. Li served as deputy general manager of Inner Mongolia Branch of the Bank. Mr. Li is an associate researcher and is concurrently an adjunct professor at Dongbei University of Finance & Economics, Hebei University and four other universities. Mr. Li graduated from Dongbei University of Finance & Economics and obtained his doctorate degree in finance from Dongbei University of Finance & Economics in July 2013.

Jin Yanmin

Employee representative supervisor

Mr. Jin has served as supervisor since January 2016, general manager of credit approval department of the Bank since December 2014, and shareholder representative supervisor of CCB Financial Leasing since December 2015. From November 2014 to December 2014, Mr. Jin served as the person-in-charge of credit approval department of the Bank; from March 2011 to November 2014, Mr. Jin served as president of Guangdong Branch of the Bank; from February 2011 to March 2011, Mr.

Jin served as the person-in-charge of the Guangdong Branch of the Bank; from March 2009 to February 2011, Mr. Jin served as general manager of the corporate banking department, and also as general manager of the small enterprises financial service department of the Bank; from August 2007 to March 2009, Mr. Jin served as general manager of the corporate banking department of the Bank; from June 2006 to August 2007, Mr. Jin served as risk controller of Guangdong Branch of the Bank; from March 2001 to June 2006, Mr. Jin served as deputy general manager of corporate banking department of the Bank from March 2001 to June 2006. Mr. Jin obtained his bachelor's degree in infrastructure finance and credit from Liaoning Finance and Economics College in July 1983 and obtained his EMBA degree from Tsinghua University in January 2010.

Li Zhenyu

Employee representative supervisor

Mr. Li has served as supervisor since January 2016. Mr. Li has served as general manager of Qinghai Branch of the Bank since January 2014. From November 2012 to January 2014, Mr. Li served as deputy general manager of Qinghai Branch of the Bank; from June 2009 to November 2012, Mr. Li served as deputy general manager of the Tibet Branch of the Bank; from June 1985, Mr. Li worked in Qinghai Branch of the Bank, serving successively as senior manager of the real estate finance department, the credit approval department, the planning and finance department, the finance & accounting department and in other positions; from July 1982 to June 1985, Mr. Li worked in the infrastructure construction division of Qinghai Machine Tool Foundry. Mr. Li is a senior engineer, and graduated from the Industrial and Civil Architect Institute of Lanzhou University of Technology (formerly "Gansu University of Technology") in July 1982 with a fulltime bachelor degree in engineering. Mr. Li has been a member of the 11th Qinghai Committee of Chinese People's Political Consultative Conference from January 2013 and vice director of the economy committee of the 11th Qinghai Committee of Chinese People's Political Consultative Conference from August 2013.

Bai Jianjun

External supervisor

Mr. Bai has served as supervisor of the Bank since June 2013. Mr. Bai is currently a professor and doctoral supervisor at the Law School of Peking University, director of the Research Institute of Empirical Legal Affairs and deputy director of the Financial Law Research Center of Peking University. He has been teaching at the Law School of Peking University since July 1987. Mr. Bai is an adjunct professor at Zhengzhou Training Institute of the PBOC and National Judges College, and independent director of CSC Financial Co., Ltd. and Sichuan Xinwang Bank Co., Ltd. He was a visiting professor at Niigata University in Japan from October 1996 to October 1997 and a visiting research fellow at New York University from September 1990 to October 1991. Mr. Bai obtained his master's degree from the Law School of Peking University in July 1987 and his Ph.D. degree in law from the Law School of Peking University in July 2003.

Senior Management

Name	Position
Wang Zuji	President
Pang Xiusheng	Executive vice president
Zhang Gengsheng	Executive vice president
Yang Wensheng	Executive vice president
Huang Yi	Executive vice president
Yu Jingbo	Executive vice president
Zhu Kepeng	Chief disciplinary officer
Liao Lin	Chief risk officer
Xu Yiming	Chief financial officer
Chen Caihong	Secretary to the board

Notwithstanding the disclosures mentioned in “*Directors, Supervisors and Senior Management — General*” section, no potential conflicts of interest exist between the obligations of the senior managers named above towards the Bank and their own interests or other obligations. The business address of each of the senior managers named above is No. 25, Financial Street, Xicheng District, Beijing, China 100033.

Wang Zuji

Vice chairman, executive director, president

See “*Directors*”.

Pang Xiusheng

Executive director, executive vice president

See “*Directors*”.

Zhang Gengsheng

Executive director, executive vice president

See “*Directors*”.

Yang Wensheng

Executive vice president

Mr. Yang has served as executive vice president of the Bank since December 2013 and Chairman of CCB Brasil since April 2015. Mr. Yang served as a member of senior management of the Bank from September 2013 to December 2013 and as general manager of Liaoning Branch of the Bank from December 2010 to September 2013. He was the head of Liaoning Branch of the Bank from November 2010 to December 2010. Mr. Yang was general manager of Dalian Branch of the Bank from October 2006 to November 2010, deputy general manager of Jilin Branch of the Bank from August 2001 to October 2006 and assistant general manager of Jilin Branch of the Bank from January 2000 to August 2001. Mr. Yang is a senior economist. Mr Yang is a senior economist. He majored in technological economics and obtained his master’s degree in technological economics from Tsinghua University in 1993.

Huang Yi

Executive vice president

Mr. Huang has served as executive vice president of the Bank since April 2014. Mr. Huang served as a member of senior management of the Bank from December 2013 to April 2014. Mr. Huang served as director of the Supervisory Rules & Regulations Department of the CBRC from January 2010 to December 2013, and deputy director and director (head of the Research Bureau) of the Supervisory Rules & Regulations Department of the CBRC from July 2003 to January 2010. From April 1999 to July 2003, Mr. Huang served consecutively as a director level cadre and director of the Financial Claim Management Office, assistant inspector of Legal Affairs Department (also working as deputy director of Department of Finance of Sichuan Province during this period) and assistant inspector of Banking Management Department of the PBOC. He was general manager of the Development and Research Department of Hua Xia Bank from August 1997 to April 1999. Mr. Huang is a recipient of a special grant by PRC government. He graduated from Peking University in 1997 and obtained his Ph.D. degree in law.

Yu Jingbo

Executive vice president

Mr. Yu has served as executive vice president of the Bank since December 2014. Mr. Yu served as chief audit officer of the Bank from March 2011 to February 2015, and concurrently as general manager of Beijing Branch of the Bank from August 2013 to May 2015. Mr. Yu served as general manager of the audit department of the Bank from April 2011 to October 2012 and as general manager of Zhejiang Branch of the Bank from March 2005 to March 2011. Mr. Yu was consecutively deputy general manager (in charge) of Zhejiang Branch of the Bank from July 2004 to March 2005, deputy general manager of Zhejiang Branch of the Bank from August 1999 to July 2004, and general manager of Hangzhou Branch of the Bank from April 1997 to August 1999. Mr. Yu is a senior engineer. Mr. Yu obtained his bachelor's degree in industrial and civil architecture from Tongji University in 1985 and his engineering master's degree in industrial psychology from Hangzhou University in 1998.

Zhu Kepeng

Chief disciplinary officer

Mr. Zhu has served as chief disciplinary officer of the Bank since July 2015. Mr. Zhu consecutively served as general manager (at provincial branch level) of the human resources department of the Bank of Communications Co., Ltd. from October 2012 to July 2015, president of Chongqing branch of the Bank of Communications Co., Ltd. from March 2010 to October 2012, head of board of directors office of the Bank of Communications Co., Ltd. from December 2004 to March 2010 and deputy general manager (in charge) of legal compliance department of the Bank of Communications Co., Ltd. from December 2004 to June 2005, and deputy general manager (in charge) of legal compliance (affairs) department of the Bank of Communications Co., Ltd. from December 2002 to December 2004. Mr. Zhu is a senior economist. Mr. Zhu obtained his S.J.D degree majoring in private international law in Wuhan University in 1996.

Liao Lin

Chief risk officer

Mr. Liao has served as chief risk officer of the Bank since March 2017. Mr. Liao served as general manager of Beijing Branch of the Bank from May 2015 to February 2017. From September 2013 to May 2015, he was head and general manager of Hubei Branch of the Bank. From March 2011 to September 2013, he was head and general manager of Ningxia Branch of the Bank. He was deputy general manager of Guangxi Branch of the Bank from November 2003 to March 2011. Mr. Liao is a senior economist. He graduated from Guangxi Agricultural College in 1989 with a bachelor's degree in management of agricultural economy, graduated from postgraduate programme of Guangxi University in 1995 majoring in political economy and obtained a PhD degree in management science and engineering from Southwest Jiaotong University in 2009.

Xu Yiming

Chief financial officer

Mr. Xu has served as chief financial officer of the Bank since June 2014. Mr. Xu served as general manager of asset and liability management department of the Bank from August 2005 to July 2014, deputy general manager of asset and liability management department of the Bank from March 2003 to August 2005, and deputy general manager of the office of Asset and Liability Management Committee of the Bank from March 2001 to March 2003. Mr. Xu is a senior accountant. He graduated from the Research Institute for Fiscal Science of the MOF with a Ph.D. degree in finance in 1994.

Chen Caihong

Secretary to the board

Mr. Chen has served as secretary to the Board since August 2007. Mr. Chen was general manager of the Seoul Branch of the Bank from December 2003 to August 2007. Mr. Chen served consecutively as deputy director, director of administrative office, deputy general manager of Fujian Branch, and head of preparation team for Seoul Branch of China Construction Bank from March 1997 to December 2003. Mr. Chen is a senior economist. He graduated from Hubei Finance and Economics College with a bachelor's degree in infrastructure economics in 1982 and graduated from the Research Institute for Fiscal Science of the MOF with a master's degree in finance in 1986.

Company Secretary and Qualified Accountant

Ma Chan-Chi

Company secretary

Mr. Ma is a Hong Kong resident and was appointed as the company secretary of the Bank on 29 August 2014. He obtained his Master Degree in Business Administration from the University of Strathclyde in 1995 and the qualifications of the Hong Kong Institute of Certified Public Accountants. He joined CCB Asia in 2010 and currently serves as its Deputy Chief Executive & Chief Financial Officer. He has more than 30 years of corporate financial and legal affairs experience. Prior to joining CCB Asia, he was the Chief Financial Officer & Secretary to the Board of Hang Seng Bank (China) Limited and the Chief Financial Officer of Nanyang Commercial Bank (China) Limited.

Yuen Yiu Leung

Qualified Accountant

Mr. Yuen has served as qualified accountant of the Bank since August 2005. Mr. Yuen has been the head of finance division of China Construction Bank (Asia) Corporation Limited since July 2013. He was the head of finance division of Hong Kong Branch of the Bank from September 2004 to June 2013, and served concurrently as the head of finance division of CCB International from January 2006 to May 2011. Prior to that, Mr. Yuen held the same position in Hong Kong Branch of the Bank from October 1995 to September 2004 and he served in several capacities at the internal control, finance and accounting functions of Standard Chartered Bank. Mr. Yuen is a fellow of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, UK and the Chartered Institute of Management Accountants, UK and the Institute of Chartered Accountants in England & Wales. Mr. Yuen graduated from Hong Kong Polytechnic University with a professional diploma in management accountancy in 1988 and received a master's degree in business administration from University of Wales in cooperation with Manchester Business School in 1998.

Board Committees

The board of directors delegates certain responsibilities to various committees. The board of directors has established a strategic development committee, audit committee, risk management committee, nomination and compensation committee, and social responsibilities and related party transactions committee. These committees are constituted by certain directors and report to the board of directors. Each committee meets at least four times a year.

SUBSTANTIAL SHAREHOLDERS

The section “Substantial Shareholders” on page 138 of the Offering Circular shall be deleted in its entirety and replaced with the following:

As at 31 December 2016, the Bank had a total of 426,488 ordinary shareholders, of which 47,926 were holders of H-shares and 378,562 were holders of A-shares.

Huijin

Huijin is the controlling shareholder of the Bank. Huijin is a wholly state-owned investment company established in accordance with the “Company Law of the PRC” on 16 December 2003 with the approval of the State Council. Its registered capital and paid-in capital are both RMB828,209 million. Its legal representative is Mr. Ding Xuedong. Huijin makes equity investments in key state-owned financial institutions as authorised by the State Council, and exercises the contributor’s rights and obligations in the Bank up to its contribution on behalf of the state to achieve preservation and appreciation of state-owned financial assets.

Huijin does not engage in any other commercial activities, nor does it intervene in the daily operations of the key state-owned financial institutions in which it holds controlling shares. Systems and controls are in place to manage any conflict of interest that might arise between the interests of Huijin and the interests of the Bank and to ensure that its control is not abused.

As at 31 December 2016, Huijin held 57.11 per cent. of the shares of the Bank, and indirectly held 0.20% of the shares of the Bank through its subsidiary, Central Huijin Asset Management Co., Ltd.

As at 31 December 2016, there were no other corporate shareholders holding 10 per cent. or more of the shares of the Bank (excluding HKSCC Nominees Limited, which acts as the common nominee for the shares held through the Central Clearing and Settlement System). All transactions and relationships between the Bank and its substantial shareholders are conducted on an arm’s length basis and on normal contractual terms. The Bank can operate its business independently of its substantial shareholders.

GENERAL INFORMATION

The section "General Information" on pages 158 to 160 of the Offering Circular shall be deleted in its entirety and replaced with the following:

Authorisation

- 1 Pursuant to the Notice Concerning the Further Strengthening the Foreign Debt Business Management (Jian Zong Han (2014) No.574) 《關於進一步加強海外負債業務管理的通知》(建總函〔2014〕574號), the Notice Concerning the Further Strengthening the Management on the Issuance of Financial Instruments by the Overseas Branches (Department of Overseas Business (2014) No.222) 《關於進一步規範海外機構負債金融工具發行管理的通知》(國際業務部(2014)222號) and the powers of attorney (中國建設銀行股份有限公司行長授權書) issued by the Bank effective from 1 September 2013 to 31 August 2015 and 1 September 2016 to 31 August 2017, the establishment of, the update of, and the issue of Notes under, the Programme have been duly authorised.

Listing

- 2 Application will be made to the Hong Kong Stock Exchange for the listing of the Notes by way of debt issues to Professional Investors only. The issue price of the Notes listed on the Hong Kong Stock Exchange will be expressed as a percentage of their nominal amount. Transactions will normally be effected for settlement in the relevant specified currency and for delivery by the end of the second trading day after the date of the transaction. It is expected that dealings will, if permission is granted to deal in and for the listing of such Notes, commence on or about the date of listing of the Notes.

Application has also been made to the DFSA for the Notes to be admitted to listing on the DFSA Official List and to NASDAQ Dubai for the Notes to be admitted to trading on NASDAQ Dubai.

Application will be made to the SGX-ST for the listing and quotation of the Notes on the official list of the SGX-ST. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Notes will be traded on the SGX-ST in a minimum board lot size of S\$200,000 (or its equivalent in other currencies).

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that the Global Note representing the Notes is exchanged for definitive Notes. In addition, in the event that the Global Note is exchanged for definitive Notes, an announcement of such exchange will be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

The Issuer may also choose to apply for the Notes to be listed and admitted to trading on other stock exchanges (including, without limitation, the Bursa Malaysia Securities Berhad) in its sole discretion at any time after the Issue Date.

Clearing Systems

- 3 The Notes have been accepted for clearance through Euroclear and Clearstream Luxembourg (ISIN: XS1622512793 and Common Code: 162251279).

NDRC approval

- 4 Pursuant to the NDRC Quota Approval, the Bank is required to file with the NDRC the requisite information on the issuance of the Notes after the issuance of such Notes. The Bank intends to provide the requisite information on the issuance of the Notes to the NDRC within the time period prescribed by the NDRC Regulations and the terms of the NDRC Quota Approval.

No significant change

- 5 Save as disclosed in this Supplemental Offering Circular, there has been no significant change in the financial or trading position of the Bank or of the Group since 31 December 2016 and there has been no material adverse change in the financial position or prospects of the Bank or of the Group since 31 December 2016.

Litigation

- 6 Save as disclosed in this Supplemental Offering Circular, neither the Issuer nor any member of the Group is involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer is aware) which may have or have had in the 12 months preceding the date of this document a significant adverse effect on the financial position of the Issuer or the Group.

Independent Auditors

- 7 The independent auditors of the Bank are PricewaterhouseCoopers. PricewaterhouseCoopers is registered as a firm of certified public accountants (practising) by The Hong Kong Institute of Certified Public Accountants.
- 8 The audited consolidated financial statements of the Bank as at and for the years ended 31 December 2014, 2015 and 2016, which are included elsewhere in this Supplemental Offering Circular (read together with the Offering Circular), have been audited by PricewaterhouseCoopers, independent auditors, as stated in their report appearing or incorporated by reference herein.

Documents

- 9 So long as Notes are outstanding, copies of the following documents will, when published, be available from the registered office of the Issuer and from the specified office of the Fiscal Agent for the time being at Level 30, HSBC Main Building, 1 Queen's Road Central, Hong Kong:
- (a) the constitutional documents of the Bank;
 - (b) the audited consolidated financial statements of the Bank in respect of the financial year ended 31 December 2014, 2015 and 2016 (together with the audit reports in connection therewith). The Bank currently prepares audited consolidated accounts on an annual basis;
 - (c) the most recent annual audited consolidated financial statements of the Bank and the most recently published unaudited consolidated interim financial statements of the Bank (if any);
 - (d) the Pricing Supplement in relation to the Notes;
 - (e) the Dealer Agreement, the Agency Agreement, the Deed of Covenant and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons; and
 - (f) a copy of the Offering Circular together with this Supplemental Offering Circular and any supplement to the Offering Circular and any other documents incorporated herein or therein.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Page

For the year ended 31 December 2016

Independent Auditor's Report ⁽¹⁾	F-2
Consolidated Statement of Comprehensive Income	F-7
Consolidated Statement of Financial Position	F-9
Consolidated Statement of Changes in Equity	F-10
Consolidated Statement of Cash Flows	F-11
Notes to the Financial Statements	F-13

For the three months ended 31 March 2017⁽²⁾

Consolidated Statement of Comprehensive Income	F-129
Consolidated Statement of Financial Position	F-131
Consolidated Statement of Cash Flows	F-132

Notes:

- (1) The independent auditor's reports on the Group's consolidated financial statements for the year ended 31 December 2016 set out herein is reproduced from the Group's annual reports for the year ended 31 December 2016. Page references referred to in the abovenamed reports refer to pages set out in such annual reports.
- (2) The Group's financial information for the three months ended 31 March 2017 set out herein is extracted from the Group's unaudited and unreviewed consolidated quarterly financial statements for the three months ended 31 March 2017. Page references referred to in the abovementioned report refer to pages set out in such quarterly report.

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

To the Shareholders of China Construction Bank Corporation

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

OPINION

What we have audited

The consolidated financial statements of China Construction Bank Corporation (the "Bank") and its subsidiaries (the "Group") set out on pages 126 to 247, which comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

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

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

- Allowances for Impairment Losses on Loans and Advances to customers
- Packaged Sales of Non-Performing Loans (NPLs)
- Consolidation assessment of, and disclosures about, structured entities
- Business application system migration to the Group's accounting system

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Allowances for Impairment Losses on Loans and Advances to customers</p> <p><i>Refer to notes 4(3)(f), 4(24)(a), 13, 25, 65(1) to the consolidated financial statements.</i></p> <p>As at 31 December 2016, the gross balance of loans and advances to customers and allowances for impairment losses amounted to RMB11,757,032 million and RMB268,677 million, respectively.</p> <p>Allowances for impairment losses are estimated using individual and collective assessments.</p> <p>Individually significant loans and advances to customers are initially assessed for impairment. Homogeneous groups of loans and advances to customers not considered individually significant, and those which were individually assessed but were found not to have objective evidence of impairment, are assessed for impairment on a collective basis.</p> <p>Identification of impairment indicators and estimation of future cash flows for individual assessment, parameters and assumptions applied to the calculation methodology for collective assessment require significant management's judgements. In addition, because of the size of the allowances for impairment losses on loans and advances to customers, we focused on this in our audit.</p>	<p>Our procedures include the following:</p> <p>We evaluated and tested the design and operating effectiveness of internal controls related to allowances for impairment losses on loans and advances to customers, including the identification of impairment indicators and the impairment assessment process.</p> <p>Individual assessment</p> <p>Based on criteria that may indicate evidence of impairment (including whether the borrowers were experiencing financial difficulties or breached loan covenants), we performed independent credit reviews on a sample of individually significant loans and advances to customers to assess whether these balances were impaired and whether the impairment was identified by management on a timely basis.</p> <p>For the impaired loans and advances from our sample, we tested the estimated future cash flows (including realisable value of mortgages and pledges, and support from guarantors) and discount rates against underlying supporting information including external evidence where available. We also independently tested the calculations through re-performance.</p> <p>Collective assessment</p> <p>We tested the underlying loan information used in the impairment models by agreeing the relevant data to the Group's loan systems and the general ledger.</p> <p>We evaluated the parameters and assumptions (including historical trends of probability of default and historical loss experience) used by reference to market practices and challenged the assumptions as to whether they reflect the current economic environment and are in line with recent loss experience and representative of current credit risks. We also independently tested the calculation through re-performance.</p> <p>We found management's judgement exercised in identifying the impaired loans for individual assessment and in estimating the individual and collective allowances for impairment losses on loans and advances to customers to be reasonable.</p>
<p>Packaged Sales of Non-Performing Loans (NPLs)</p> <p><i>Refer to note 25 to the consolidated financial statements.</i></p> <p>During the year ended 31 December 2016, the Bank sold RMB57,058 million of NPLs through packaged sales to external asset management companies.</p> <p>The packaged sales of NPLs were significant, and involved significant management judgement in the de-recognition assessment.</p> <p>We focused on whether the NPLs sold have been appropriately approved by the Bank, and whether the disposals met the de-recognition criteria.</p>	<p>Our procedures included the following:</p> <ol style="list-style-type: none"> 1. Evaluated and tested the internal controls relating to the sales of NPLs, focusing on the authorisation, asset selection, and approval processes. 2. Reviewed the contracts on a sample basis and evaluated whether the NPLs sold met the de-recognition criteria. <p>We found no significant differences between management's judgement and our assessment.</p>

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Consolidation assessment of, and disclosures about, structured entities</p> <p><i>Refer to notes 4(1), 4(24)(g), 21(2)(c), 31 to the consolidated financial statements.</i></p> <p>As at 31 December 2016, structured entities mainly included wealth management products, asset management plans and trust plans. The amounts of structured entities which are either consolidated or not consolidated are disclosed in notes 21(2)(c) and 31 respectively.</p> <p>The amount of structured entities in which the Group had invested was significant and the assessment of consolidation or not involved management's judgement.</p> <p>We focused on the following key aspects:</p> <ol style="list-style-type: none"> 1. The reasonableness of the consolidation assessment made by management based on the three elements of control and the appropriateness of disclosures in the consolidated financial statements. 2. Whether the structured entities that were not consolidated were appropriately disclosed in the consolidated financial statements. 	<p>Our procedures included:</p> <ol style="list-style-type: none"> 1. Evaluated and tested the related internal controls that management adopted on the consolidation assessment and disclosure of structured entities. 2. Tested structured entities on a sample basis to assess management's judgement to consolidate or not by checking against supporting documents including contracts and evaluated them against the following elements of control: <ul style="list-style-type: none"> • The Group's power over the structured entities; • The Group's exposure, or rights, to variable returns from involvement with the structured entities; and • The Group's ability to use power over the structured entities to affect the amount of the Group's returns. 3. Evaluated and checked the appropriateness of disclosures in the consolidated financial statements relating to structured entities. <p>Based on the available evidence we found that management's consolidation assessment in relation to structured entities was reasonable and the disclosures were appropriate.</p>
<p>Business application system migration to the Group's accounting system</p> <p>The Group's financial reporting process is heavily reliant on the design and operating effectiveness of its IT systems. During the year, the Group underwent system migration of the accounting modules of certain critical business application systems to the accounting system. These systems included the Retail, Valet Foreign Exchange and Derivatives Treasury businesses relating to the Group's domestic operations.</p> <p>The system migration involved significant program changes and development. Its implementation, particularly the related automated and IT dependent manual controls, system interface functionality and data conversion have a significant impact on the financial reporting process in ensuring all transactions from various business application systems are captured in the general ledger. Therefore, the system migration of the Retail, Valet Foreign Exchange and Derivatives Treasury businesses to the Group's accounting system was our audit focus.</p>	<p>We evaluated the management oversight of the system migration that was critical to financial reporting and performed testing on the following:</p> <ol style="list-style-type: none"> 1. Controls over the IT program changes and development, and access to program and data including proper authorisation and testing of newly developed and/or modified software and programs which primarily cover system configurations, logistics, functionalities and data conversion rules. 2. Automated controls and certain critical aspects of the accounting system upon which manual controls are dependent, including key system generated reports for financial reporting purposes, calculations within the automated applications, user access security, automated interfaces among applications and controls over the chart of account maintenance. <p>In addition, we reconciled a sample of the journal entries arising from the relevant application systems to the accounting system using computer assisted audit techniques.</p> <p>The results of the testing performed supported our ability to place reliance on the IT dependencies of the accounting system.</p>

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Yip Siu Foon, Linda.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 29 March 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

(Expressed in millions of RMB, unless otherwise stated)

	Note	2016	2015
Interest income		696,637	770,559
Interest expense		(278,838)	(312,807)
Net interest income	6	417,799	457,752
Fee and commission income		127,863	121,404
Fee and commission expense		(9,354)	(7,874)
Net fee and commission income	7	118,509	113,530
Net trading gain	8	3,975	3,913
Dividend income	9	2,558	733
Net gain arising from investment securities	10	11,098	5,075
Other operating income, net:			
– Other operating income		55,340	27,844
– Other operating expense		(49,419)	(22,160)
Other operating income, net	11	5,921	5,684
Operating income		559,860	586,687
Operating expenses	12	(171,515)	(194,826)
		388,345	391,861
Impairment losses on:			
– Loans and advances to customers		(89,588)	(92,610)
– Others		(3,616)	(1,029)
Impairment losses	13	(93,204)	(93,639)
Share of profit of associates and joint ventures		69	275
Profit before tax		295,210	298,497
Income tax expense	16	(62,821)	(69,611)
Net profit		232,389	228,886

The notes on pages 132 to 247 form part of these financial statements.

	Note	2016	2015
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations		(839)	51
Others		68	4
Subtotal		(771)	55
Items that may be reclassified subsequently to profit or loss			
(Losses)/Gains of available-for-sale financial assets arising during the period		(27,841)	27,721
Income tax impact relating to available-for-sale financial assets		7,055	(6,956)
Reclassification adjustments included in profit or loss		(3,930)	(1,429)
Net (loss)/gain on cash flow hedges		(150)	10
Exchange difference on translating foreign operations		5,885	1,436
Subtotal		(18,981)	20,782
Other comprehensive income for the year, net of tax		(19,752)	20,837
Total comprehensive income for the year		212,637	249,723
Net profit attributable to:			
Equity shareholders of the Bank		231,460	228,145
Non-controlling interests		929	741
		232,389	228,886
Total comprehensive income attributable to:			
Equity shareholders of the Bank		212,418	248,311
Non-controlling interests		219	1,412
		212,637	249,723
Basic and diluted earnings per share (in RMB Yuan)	17	0.92	0.91

The notes on pages 132 to 247 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

(Expressed in millions of RMB, unless otherwise stated)

	Note	2016	2015
Assets:			
Cash and deposits with central banks	18	2,849,261	2,401,544
Deposits with banks and non-bank financial institutions	19	494,618	352,966
Precious metals		202,851	86,549
Placements with banks and non-bank financial institutions	20	260,670	310,779
Financial assets at fair value through profit or loss	21	488,370	271,173
Positive fair value of derivatives	22	89,786	31,499
Financial assets held under resale agreements	23	103,174	310,727
Interest receivable	24	101,645	96,612
Loans and advances to customers	25	11,488,355	10,234,523
Available-for-sale financial assets	26	1,633,834	1,066,752
Held-to-maturity investments	27	2,438,417	2,563,980
Investment classified as receivables	28	507,963	369,501
Interests in associates and joint ventures	30	7,318	4,986
Fixed assets	32	170,095	159,531
Land use rights	33	14,742	15,231
Intangible assets	34	2,599	2,103
Goodwill	35	2,947	2,140
Deferred tax assets	36	31,062	25,379
Other assets	37	75,998	43,514
Total assets		20,963,705	18,349,489
Liabilities:			
Borrowings from central banks	40	439,339	42,048
Deposits from banks and non-bank financial institutions	41	1,612,995	1,439,395
Placements from banks and non-bank financial institutions	42	322,546	321,712
Financial liabilities at fair value through profit or loss	43	396,591	302,649
Negative fair value of derivatives	22	90,333	27,942
Financial assets sold under repurchase agreements	44	190,580	268,012
Deposits from customers	45	15,402,915	13,668,533
Accrued staff costs	46	33,870	33,190
Taxes payable	47	44,900	49,411
Interest payable	48	211,330	205,684
Provisions	49	9,276	7,108
Debt securities issued	50	451,554	415,544
Deferred tax liabilities	36	570	624
Other liabilities	51	167,252	122,554
Total liabilities		19,374,051	16,904,406
Equity:			
Share capital	52(1)	250,011	250,011
Other equity instruments			
Preference Shares	52(2)	19,659	19,659
Capital reserve	53	133,960	135,249
Investment revaluation reserve	54	(976)	23,058
Surplus reserve	55	175,445	153,032
General reserve	56	211,193	186,422
Retained earnings	57	786,860	672,154
Exchange reserve		348	(5,565)
Total equity attributable to equity shareholders of the Bank		1,576,500	1,434,020
Non-controlling interests		13,154	11,063
Total equity		1,589,654	1,445,083
Total liabilities and equity		20,963,705	18,349,489

Approved and authorised for issue by the Board of Directors on 29 March 2017.

Wang Zuji*Vice chairman, executive director and president***Chung Shui Ming Timpson***Independent non-executive director***Murray Horn***Independent non-executive director*

The notes on pages 132 to 247 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

(Expressed in millions of RMB, unless otherwise stated)

	Attributable to equity shareholders of the Bank									
	Share capital	Other equity instruments – preference shares	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Exchange reserve	Non-controlling interests	Total equity
As at 31 December 2015	250,011	19,659	135,249	23,058	153,032	186,422	672,154	(5,565)	11,063	1,445,083
Movements during the year	-	-	(1,289)	(24,034)	22,413	24,771	114,706	5,913	2,091	144,571
(1) Total comprehensive income for the year	-	-	(921)	(24,034)	-	-	231,460	5,913	219	212,637
(2) Changes in share capital										
i Acquisition of subsidiaries	-	-	(269)	-	-	-	-	-	590	321
ii Capital injection by non-controlling interests	-	-	-	-	-	-	-	-	13	13
iii Establishment of subsidiaries	-	-	-	-	-	-	-	-	1,343	1,343
iv Change in shareholdings in subsidiaries	-	-	(99)	-	-	-	-	-	(45)	(144)
(3) Profit distribution										
i Appropriation to surplus reserve	-	-	-	-	22,413	-	(22,413)	-	-	-
ii Appropriation to general reserve	-	-	-	-	-	24,771	(24,771)	-	-	-
iii Appropriation to ordinary shareholders	-	-	-	-	-	-	(68,503)	-	-	(68,503)
iv Dividends paid to preference shareholders	-	-	-	-	-	-	(1,067)	-	-	(1,067)
v Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(29)	(29)
As at 31 December 2016	250,011	19,659	133,960	(976)	175,445	211,193	786,860	348	13,154	1,589,654

	Attributable to equity shareholders of the Bank									
	Share capital	Other equity instruments – preference shares	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Exchange reserve	Non-controlling interests	Total equity
As at 31 December 2014	250,011	-	135,391	4,066	130,515	169,496	558,705	(6,674)	10,338	1,251,848
Movements during the year	-	19,659	(142)	18,992	22,517	16,926	113,449	1,109	725	193,235
(1) Total comprehensive income for the year	-	-	65	18,992	-	-	228,145	1,109	1,412	249,723
(2) Changes in share capital										
i Capital injection by other equity holder	-	19,659	-	-	-	-	-	-	-	19,659
ii Establishment of subsidiaries	-	-	-	-	-	-	-	-	9	9
iii Change in shareholdings in subsidiaries	-	-	(207)	-	-	-	-	-	(687)	(894)
(3) Profit distribution										
i Appropriation to surplus reserve	-	-	-	-	22,517	-	(22,517)	-	-	-
ii Appropriation to general reserve	-	-	-	-	-	16,926	(16,926)	-	-	-
iii Appropriation to ordinary shareholders	-	-	-	-	-	-	(75,253)	-	(9)	(75,262)
As at 31 December 2015	250,011	19,659	135,249	23,058	153,032	186,422	672,154	(5,565)	11,063	1,445,083

The notes on pages 132 to 247 form part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

(Expressed in millions of RMB, unless otherwise stated)

	Note	2016	2015
Cash flows from operating activities			
Profit before tax		295,210	298,497
<i>Adjustments for:</i>			
– Impairment losses	13	93,204	93,639
– Depreciation and amortisation	12	16,017	19,736
– Interest income from impaired financial assets		(3,704)	(3,161)
– Revaluation loss/(gain) on financial instruments at fair value through profit or loss		1,412	(3,344)
– (Share of profit of associates and joint ventures		(69)	(275)
– Dividend income	9	(2,558)	(733)
– Unrealised foreign exchange (gain)/loss		(479)	8,628
– Interest expense on bonds issued		11,362	9,851
– Net gain on disposal of investment securities	10	(11,098)	(5,075)
– Net gain on disposal of fixed assets and other long-term assets		(159)	(78)
		399,138	417,685
<i>Changes in operating assets:</i>			
Net (increase)/decrease in deposits with central banks and with banks and non-bank financial institutions		(328,481)	130,948
Net decrease/(increase) in placements with banks and non-bank financial institutions		10,762	(27,495)
Net increase in loans and advances to customers		(1,258,420)	(1,059,060)
Net decrease/(increase) in financial assets held under resale agreements		208,433	(36,975)
Net (increase)/decrease in financial assets at fair value through profit or loss		(211,099)	62,142
Net increase in other operating assets		(166,173)	(54,505)
		(1,744,978)	(984,945)
<i>Changes in operating liabilities:</i>			
Net increase/(decrease) in borrowings from central banks		395,118	(50,300)
Net (decrease)/increase in placements from banks and non-bank financial institutions		(16,216)	110,038
Net increase in deposits from customers and from banks and non-bank financial institutions		1,829,273	1,163,129
Net (decrease)/increase in financial assets sold under repurchase agreements		(78,104)	86,340
Net increase/(decrease) in certificates of deposit issued		12,653	(69,604)
Income tax paid		(65,264)	(73,476)
Net increase in financial liabilities at fair value through profit or loss		92,919	6,639
Net increase in other operating liabilities		57,993	27,988
		2,228,372	1,200,754
Net cash from operating activities		882,532	633,494

The notes on pages 132 to 247 form part of these financial statements.

	Note	2016	2015
Cash flows from investing activities			
Proceeds from sale and redemption of investments		777,941	525,257
Dividends received		2,566	747
Proceeds from disposal of fixed assets and other long-term assets		1,187	2,064
Purchase of investment securities		(1,363,040)	(1,091,451)
Purchase of fixed assets and other long-term assets		(27,742)	(28,589)
Acquisition of subsidiaries, associates and joint ventures		(1,393)	(1,657)
Net cash used in investing activities		(610,481)	(593,629)
Cash flows from financing activities			
Issue of bonds		16,522	55,053
Capital contribution by non-controlling interests		13	142
Contribution by preference shareholders		–	19,659
Consideration paid for acquisition of non-controlling interests		(144)	(1,027)
Dividends paid		(69,574)	(75,262)
Repayment of borrowings		(11,711)	(2,815)
Interest paid on bonds issued		(10,474)	(9,573)
Net cash used in financing activities		(75,368)	(13,823)
Effect of exchange rate changes on cash and cash equivalents		14,520	8,161
Net increase in cash and cash equivalents		211,203	34,203
Cash and cash equivalents as at 1 January	58	387,921	353,718
Cash and cash equivalents as at 31 December	58	599,124	387,921
Cash flows from operating activities include:			
Interest received		687,994	762,542
Interest paid, excluding interest expense on bonds issued		(262,259)	(282,166)

The notes on pages 132 to 247 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

1 COMPANY INFORMATION

The history of China Construction Bank Corporation (the “Bank”) dates back to 1954, which was previously known as the People’s Construction Bank of China when it was established. It administered and disbursed government funds for construction and infrastructure related projects under the state economic plan. The People’s Construction Bank of China gradually became a full service commercial bank following the establishment of China Development Bank in 1994 to assume its policy lending functions. In 1996, the People’s Construction Bank of China changed its name to China Construction Bank (“CCB”). On 17 September 2004, China Construction Bank Corporation was formed as a joint-stock commercial bank in the People’s Republic of China (the “PRC”) as a result of a separation procedure undertaken by its predecessor, China Construction Bank. In October 2005 and September 2007, the Bank’s H-shares and A-shares were listed on Hong Kong Stock Exchange (Stock Code: 939) and Shanghai Stock Exchange (Stock Code: 601939) respectively. As at 31 December 2016, the Bank issued the total ordinary share capital of RMB250,011 million, a par value of RMB1.00 per share.

The Bank obtained its finance permit No.B0004H111000001 from the China Banking Regulatory Commission (the “CBRC”) of the PRC. The Bank obtained its unified social credit code No.911100001000044477 from the Beijing Administration for Industry and Commerce. The registered office of the Bank is located at No.25, Finance Street, Xicheng District, Beijing, the PRC.

The principal activities of the Bank and its subsidiaries (collectively the “Group”) are the provision of corporate and personal banking services, conducting treasury business, the provision of asset management, trustee, finance leasing, investment banking, insurance and other financial services. The Group operates in Mainland China and also has a number of overseas branches and subsidiaries. For the purpose of these financial statements, Mainland China refers to the PRC excluding Hong Kong Special Administrative Region of the PRC (“Hong Kong”), Macau Special Administrative Region of the PRC (“Macau”) and Taiwan. Overseas refers to countries and regions other than Mainland China.

The Bank is under the supervision of the banking regulatory bodies empowered by the State Council of the PRC (the “State Council”). The overseas financial operations of the Bank are under the supervision of their respective local jurisdictions. Central Huijin Investment Ltd. (“Huijin”), a wholly owned subsidiary of China Investment Corporation (“CIC”), exercises its rights and obligations as an investor on behalf of the PRC government.

These financial statements were authorised for issue by the board of directors of the Bank on 29 March 2017.

2 BASIS OF PREPARATION

The Group uses the calendar year as the accounting year, which is from 1 January to 31 December.

These financial statements comprise the Bank and its subsidiaries and the Group’s interests in associates and joint ventures.

(1) Basis of measurement

These financial statements have been prepared on the historical cost basis except that: (i) financial instruments at fair value through profit or loss are measured at fair value; (ii) derivative financial instruments are measured at fair value; (iii) available-for-sale financial assets are measured at fair value; and (iv) certain non-financial assets are measured at designated cost. The measurement basis of major assets and liabilities are further explained in Note 4.

(2) Functional and presentation currency

These financial statements are presented in RMB, unless otherwise stated, rounded to the nearest million, which is the functional currency of the domestic operations of the Group. The functional currencies of overseas branches and subsidiaries are determined in accordance with the primary economic environment in which they operate, and are translated into RMB for the preparation of these financial statements according to Note 4(2)(b).

2 BASIS OF PREPARATION (CONTINUED)

(3) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustments in the subsequent period are discussed in Note 4(24).

3 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”). These financial statements also comply with the disclosure requirements of the new Hong Kong Companies Ordinance (Cap. 622), and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Group has adopted the following new or revised IFRSs and Interpretations effective for the current year. There is no early adoption of any new IFRSs and Interpretations not yet effective for the year ended 31 December 2016.

Amendment to IAS 11, “Accounting for Acquisitions of Interests in Joint Operations”.

This amendment requires an investor to apply the principles of business combination accounting treatments when it acquires an interest in a joint venture that constitutes a ‘business’. Specifically, an investor will need to measure identifiable assets and liabilities at fair value, expense acquisition-related costs, recognise deferred tax and recognise the residual as goodwill. The adoption of the amendment has no significant impact on the Group’s financial position or operations results.

Amendments to IAS 16 and IAS 38, “Clarification of Acceptable Methods of Depreciation and Amortisation”.

The amendments clarify when a method of depreciation or amortisation based on revenue may be appropriate. The amendment to IAS 16 clarifies that depreciation of an item of property, plant and equipment based on revenue generated by using the asset is not appropriate. The amendment to IAS 38 establishes a rebuttable presumption that amortisation of an intangible asset based on revenue generated by using the asset is inappropriate. The presumption may only be rebutted in certain limited circumstances. The adoption of these amendments have no significant impact on the Group’s financial position or operations results.

Amendment to IAS 27, “Equity Method in Separate Financial Statements”.

This amendment allows the Group to use equity method to account for investments in subsidiaries, joint ventures and associates in its separate financial statements. The adoption of the amendment has no significant impact on the Bank’s financial position or operations results.

Amendments to IAS 1, “Disclosure Initiative”.

The amendments clarify guidance in IAS 1 on the materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

Although the amendments do not require specific changes, they clarify a number of presentation issues and highlight that preparers are permitted to tailor the format and presentation of the financial statements to their circumstances and the needs of users. The Group has applied the amendments and there has been no significant impact on the Group’s financial statements as a result.

Annual Improvements 2014.

These amendments include changes from the 2012-2014 cycle of the annual improvements project, that affect IFRS 5, ‘Non-current assets held for sale and discontinued operations’, IFRS 7, ‘Financial instruments: disclosures’, IAS 19, ‘Employee benefits’ and IAS 34, ‘Interim financial reporting’. The adoption of these amendments have no significant impact on the Group’s financial position or operations results.

The accounting policies set out below have been applied consistently by the Group to all periods presented in these financial statements.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Consolidated financial statements

(a) *Business combinations*

The consideration transferred by the acquirer for the acquisition and the identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Where the cost of a business combination exceeds the Group's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill in accordance with the accounting policies set out in Note 4(9); where the cost of a business combination is less than the Group's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss.

Acquisition date mentioned above is the date that the Group effectively obtains control of the acquiree.

(b) *Subsidiaries and non-controlling interests*

Subsidiaries are all entities (including structured entities) over which the Bank has control. The Bank controls an entity when the Bank has the power over the entity, and is exposed to, or has the rights to the variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are deconsolidated from the date that control ceases.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

For the separate financial statements of the Bank, investments in subsidiaries are accounted for at cost. At initial recognition, investment in subsidiaries is measured at the cost of acquisition determined at the acquisition date when the subsidiaries are acquired through business combination or the capital injected into the subsidiaries set up by the Group. Impairment losses on investments in subsidiaries are accounted for in accordance with the accounting policies as set out in Note 4(11).

The financial results and performance of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. When preparing the consolidated financial statements, the Bank makes necessary adjustments on the accounting period and accounting policies of subsidiaries to comply with those of the Bank.

Significant intragroup balances and transactions, and any significant profits or losses arising from intragroup transactions are eliminated in full in preparing the consolidated financial statements.

The portion of a subsidiary's net assets that is attributable to equity interests that are not owned by the Bank, whether directly or indirectly through subsidiaries, is treated as non-controlling interests and presented as "non-controlling interests" in the consolidated statement of financial position within total equity. The portion of net profit or loss and other comprehensive income of subsidiaries for the year attributable to non-controlling interests is separately presented in the consolidated statement of comprehensive income as a component of the Group's net profit.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(1) Consolidated financial statements (continued)

(c) *Associates and joint arrangements*

An associate is an enterprise in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policy decisions.

Joint arrangement is an arrangement of which two or more parties have joint control. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures.

Investments in associates or joint ventures are accounted for using the equity method in the consolidated financial statements and are initially recorded at acquisition cost, and adjusted thereafter for the post acquisition change in the Group's share of net assets of the associates or joint ventures. The Group's share of the post-acquisition, post-tax results of the associates or joint ventures for the year is recognised in the consolidated statement of comprehensive income. The Group's interest in associates or joint ventures is included from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

Profits and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associates or joint ventures.

The Group discontinues recognising its share of net losses of the associates or joint ventures after the carrying amount of investments in associates and joint ventures together with any long-term interests that in substance form part of the Group's net investment in the associates or joint ventures are reduced to zero, except to the extent that the Group has incurred legal or constructive obligations to assume additional losses. Where the associates or joint ventures make net profits subsequently, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

(2) Translation of foreign currencies

(a) *Translation of foreign currency transactions*

Foreign currency transactions are, on initial recognition, translated into the functional currency at the spot exchange rates at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated into the functional currency at the spot exchange rates at that date. The resulting exchange differences are recognised in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into functional currency using the spot exchange rates at the transaction dates. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the spot exchange rates at the dates the fair values are determined; exchange differences are recognised in profit or loss, except for the differences arising from the translation of available-for-sale equity instruments, which are recognised in other comprehensive income.

(b) *Translation of financial statements denominated in foreign currencies*

Foreign currency financial statements of overseas branches and subsidiaries are translated into RMB for the preparation of consolidated financial statements. At the end of each reporting period, the assets and liabilities in the financial statements denominated in foreign currencies are translated into RMB at the spot exchange rates ruling at that date. The income and expenses of foreign operations are translated into RMB at the spot exchange rates or the rates that approximate the spot exchange rates on the transaction dates. Foreign exchange differences arising from foreign operations are recognised as "exchange reserve" in the shareholders' equity in the statement of financial position. The effect of exchange rate changes on cash is presented separately in the statement of cash flows.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments

(a) *Categorisation*

The Group classifies financial instruments into different categories at inception, depending on the purposes for which the assets were acquired or the liabilities were incurred. The categories are: financial assets and financial liabilities at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss include those classified as held for trading, and those designated as at fair value through profit or loss.

A financial asset or financial liability is classified as held for trading if it is: (i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) a derivative (except for a derivative that is a designated and effective hedging instrument or a financial guarantee contract).

Financial assets or financial liabilities are designated at fair value through profit or loss upon initial recognition when: (i) the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis; (ii) the designation eliminates or significantly reduces an accounting mismatch in the gain and loss recognition arising from the difference in the measurement basis of the financial assets or financial liabilities; or (iii) if a contract contains one or more embedded derivatives, an entity may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss unless the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than: (i) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (ii) those that meet the definition of loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (i) those that the Group intends to sell immediately or in the near future, which will be classified as held for trading; (ii) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (iii) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables mainly comprise deposits with central banks, deposits and placements with banks and non-bank financial institutions, financial assets held under resale agreements, loans and advances to customers, and investment classified as receivables.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as: (i) financial assets at fair value through profit or loss; (ii) held-to-maturity investments; or (iii) loans and receivables.

Other financial liabilities

Other financial liabilities are financial liabilities other than those designated as at fair value through profit or loss and mainly comprise borrowings from central banks, deposits and placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements, deposits from customers and debt securities issued.

Investment securities in the financial statements comprise the securities classified as held-to-maturity investments, available-for-sale financial assets and investment classified as receivables.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(b) Derivatives and hedge accounting

The Group uses derivatives to hedge its exposure to foreign exchange and interest rate risks. Derivatives are recognised at fair value at the trade date upon initial recognition, and subsequently measured at fair value. The positive fair value is recognised as an asset while the negative fair value is recognised as a liability.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualified as a hedging instrument, and if so, the nature of the item being hedged. For derivatives not designated or qualified as hedging instruments, including those that are intended to provide effective economic hedges of specific interest rate and foreign exchange risks, but not qualified for hedge accounting, changes in the fair value of these derivatives are recognised in “net trading gain” of the consolidated statement of comprehensive income.

The Group documents, at inception, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. These criteria should be met before a hedge can be qualified to be accounted for under hedge accounting.

(i) Fair value hedge

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

The changes in fair value of hedging instruments that are designated and qualify as fair value hedges are recorded in profit or loss, together with the changes in fair value of the hedged item attributable to the hedged risk. The net difference is recognised as ineffectiveness in the profit or loss.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity. If the hedged item is de-recognised, the unamortised carrying value adjustment is recognised immediately in the profit or loss.

(ii) Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction that could ultimately affect the profit or loss.

The effective portion of changes in the fair value of hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in equity in the “capital reserve”. The ineffective portion is recognised immediately in the profit or loss.

Amounts accumulated in equity are reclassified to the profit or loss in the same periods when the hedged item affects the profit or loss.

When a hedging instrument expires or is sold, or the hedge designation is revoked or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss on the hedging instrument existing in equity at that time remains in equity and is reclassified to the profit or loss when the forecast transaction ultimately occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss existing in equity is immediately transferred to the profit or loss.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(c) *Embedded derivatives*

Certain derivatives are embedded into non-derivative hybrid instruments (the host contracts). The embedded derivatives are separated from the host contract and accounted for as a separate derivative when (i) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; (ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (iii) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss. When the embedded derivative is separated, the host contract is accounted for as a financial instrument in accordance with the accounting policies as set out in Note 4(3).

(d) *Recognition and derecognition*

All financial assets and financial liabilities are recognised in the statement of financial position, when and only when, the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; (ii) the contractual rights to receive the cash flows of the financial asset have been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of transfer of cash flows and transfers substantially all the risks and rewards of ownership of the financial asset.

The difference between the carrying amount of the financial asset derecognised and the consideration received and the cumulative changes in fair value previously recognised in equity are recognised in profit or loss.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. If the Group has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.

The financial liability is derecognised only when: (i) the underlying present obligation specified in the contracts is discharged, cancelled or expired, or (ii) an agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability.

The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(e) *Measurement*

Financial instruments are measured initially at fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the instrument. Transaction costs for financial instruments at fair value through profit or loss are expensed immediately.

Subsequent to initial recognition, held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortised cost, while other categories of financial instruments are measured at fair value, without any deduction for transaction costs that may occur on sale or other disposal. Investments in available-for-sale equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment losses, if any.

Gains and losses from changes in the fair value of financial instruments at fair value through profit or loss are recognised in profit or loss.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(e) *Measurement (continued)*

Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated separately in equity, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities which are recognised in profit or loss.

When the available-for-sale financial assets are sold, gains or losses on disposal are recognised in profit or loss. Gains or losses on disposal include those previously recognised in other comprehensive income being transferred to the profit or loss.

For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

(f) *Impairment*

At the end of each reporting period, the Group assesses the carrying amount of financial assets (except for those at fair value through profit or loss). If there is any objective evidence that a financial asset is impaired, the Group will recognise the impairment loss in profit or loss. Losses expected as a result of future events, no matter how likely, are not recognised as impairment losses.

Objective evidence that a financial asset is impaired includes one or more events that occurred after the initial recognition of the asset where the event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence includes the following evidence:

- significant financial difficulty of the borrower or issuer;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- disappearance of an active market for financial assets because of significant financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in the group;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the issuer of an equity instrument;
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost; and
- other objective evidence indicating there is an impairment of the financial asset.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(f) *Impairment (continued)*

Loans and receivables and held-to-maturity investments

Individual assessment

Loans and receivables and held-to-maturity investments, which are considered individually significant, are assessed individually for impairment. If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred on an individual basis, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate, and recognised in profit or loss.

Cash flows relating to short-term loans and receivables and held-to-maturity investments are not discounted if the effect of discounting is immaterial. The calculation of the present value of the estimated future cash flows of a collateralised loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Collective assessment

Homogeneous groups of loans and advances to customers not considered individually significant and individually assessed and loans and receivables and held-to-maturity investments with no objective evidence of impairment on an individual basis are assessed for impairment losses on a collective basis. If there is observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those financial assets, the impairment is recognised and recorded in profit or loss.

For homogeneous groups of loans and advances that are not considered individually significant, the Group adopts a roll rate methodology to assess impairment losses on a collective basis. This methodology utilises a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an adjustment of observable data that reflects the current economic conditions.

Loans and receivables and held-to-maturity investments which are individually significant and therefore have been individually assessed but for which no impairment can be identified, are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. The collective impairment loss is assessed after taking into account: (i) historical loss experience in portfolios of similar risk characteristics; (ii) the emergence period between a loss occurring and that loss being identified; and (iii) the current economic and credit environments and whether in management's experience these indicate that the actual losses level is likely to be greater or less than that suggested by historical experience.

The emergence period between a loss occurring and its identification is determined by management based on the historical experience.

Impairment losses recognised on a collective basis represent a transitional step which identifies the impairment losses on individual assets (which are subject to individual assessment) in the pool of financial assets that are collectively assessed for impairment.

At the end of each reporting period, collective assessment covers those loans and receivables and held-to-maturity investments that were impaired but were not individually identified as such until some time in the future. As soon as information is available to specifically identify objective evidence of impairment on individual assets in a pool, those assets are removed from the pool of collectively assessed financial assets.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(f) Impairment (continued)

Loans and receivables and held-to-maturity investments (continued)

Impairment reversal and loan write-offs

If, in a subsequent period, the amount of the impairment loss on loans and receivables and held-to-maturity investments decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

When the Group determines that a loan has no reasonable prospect of recovery after the Group has completed all the necessary legal or other proceedings, the loan is written off against its allowance for impairment losses. If in a subsequent period the loan written off is recovered, the amount recovered will be recognised in profit or loss through impairment losses.

Rescheduled loans

Rescheduled loans are loans that have been restructured due to deterioration in the borrower's financial position to the extent that the borrower is unable to repay according to the original terms as appropriate. Rescheduled loans are assessed individually and classified as impaired loans and advances upon restructuring. Rescheduled loans are subject to ongoing monitoring. Once a rescheduled loan has met specific conditions by the end of the observation period of normally 6 months, with the approval from management, they would no longer be considered as impaired.

Available-for-sale financial assets

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognised in other comprehensive income is reclassified to the profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from equity is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. For available-for-sale investments in equity instruments measured at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognised in profit or loss.

If, in a subsequent period, the fair value of available-for-sale financial assets increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss shall be treated in accordance with the following principles: (i) the impairment loss on debt instruments classified as available-for-sale shall be reversed, with the amount of the reversal recognised in profit or loss; (ii) the impairment loss on equity instruments classified as available-for-sale shall not be reversed through the profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income; or (iii) the impairment loss in respect of available-for-sale equity investments carried at cost shall not be reversed.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(g) *Fair value measurement*

If there is an active market for financial instruments, the fair value of financial instruments is based on the prices within the bid-ask spread that is most representative of fair value in the circumstances, and without any deduction for transaction costs that may occur on sales or disposals. A quoted price is from an active market where price information is readily and regularly available from an exchange, dealer, industry group or pricing service agency and that price information represents actual and regularly occurring orderly transactions.

If a quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include the price used by market participants in an orderly transaction, reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The Group selects valuation techniques that are commonly accepted by market participants for pricing the instruments and these techniques have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. Periodically, the Group reviews the valuation techniques and tests them for validity.

(h) *Offsetting*

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when the Group has a legally enforceable right to offset the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

(i) *Securitisations*

The Group securitises certain loans, which generally involves the sale of these assets to structured entities, which in turn issue securities to investors. Interests in the securitised financial assets may be retained in the form of credit enhancement or subordinated tranches, or other residual interests ("retained interests"). Retained interests are carried at fair value on inception date on the Group's statement of financial position. Gains or losses on securitisation are the difference between the carrying amount of the transferred financial assets and the consideration received (including retained interest) which is recognised in profit or loss.

(j) *Financial assets held under resale agreements and financial assets sold under repurchase agreements*

Financial assets held under resale agreements are transactions where the Group acquires financial assets which will be resold at a predetermined price at a future date under resale agreements. Financial assets sold under repurchase agreements are transactions where the Group sells financial assets which will be repurchased at a predetermined price at a future date under repurchase agreements.

The cash advanced or received is recognised as amounts held under resale or sold under repurchase agreements in the statement of financial position. Assets held under resale agreements are not recognised. Assets sold under repurchase agreements continue to be recognised in the statement of financial position.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortised over the period of the respective transaction using the effective interest method and is included in interest income and interest expenses respectively.

(4) Precious metals

Precious metals comprise gold and other precious metals. Precious metals that are acquired by the Group principally for trading purpose are initially recognised at fair value and re-measured at fair value less cost to sell. The changes in fair value less cost to sell are recognised in profit or loss. Precious metals that are not acquired by the Group principally for trading purpose are carried at lower of cost and net realisable value.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(5) Fixed assets

Fixed assets are assets held by the Group for the conduct of business and are expected to be used for more than one year. Construction in progress is the property and equipment under construction, which is transferred to fixed assets when ready for its intended use.

(a) Cost

Fixed assets are initially recognised at cost, except for the fixed assets and construction in progress obtained from CCB by the Bank which were recognised at the revalued amount as cost on the date of restructuring. The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of a self-constructed fixed asset comprises those expenditures necessarily incurred for bringing the asset to working condition for its intended use.

Where the individual components of an item of fixed asset have different useful lives or provide benefits to the Group in different patterns thus necessitating use of different depreciation rates or methods, they are recognised as separate fixed assets.

Subsequent costs, including the cost of replacing part of an item of fixed assets, are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. Expenditures relating to ordinary maintenance of fixed assets are recognised in profit or loss.

(b) Depreciation and impairment

Depreciation is calculated to write off to the profit or loss the cost of items of fixed assets, less their estimated residual value, if any, using the straight line method over their estimated useful lives. Impaired fixed assets are depreciated net of accumulated impairment losses. No depreciation is provided on construction in progress.

The estimated useful lives, residual values and annual depreciation rates of respective fixed assets are as follows:

Types of assets	Estimated useful lives	Estimated net residual values	Annual depreciation rates
Bank premises	30 – 35 years	3%	2.8% – 3.2%
Equipment	3 – 8 years	3%	12.1% – 32.3%
Others	4 – 11 years	3%	8.8% – 24.3%

The Group reviews the estimated useful life and estimated residual value of a fixed asset and the depreciation method applied at least once a financial year.

Impairment losses on fixed assets are accounted for in accordance with the accounting policies as set out in Note 4(11).

(c) Disposal

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the fixed asset and are recognised in profit or loss on the date of retirement or disposal.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(6) Lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred or not. An operating lease is a lease other than a finance lease.

(a) Finance lease

Where the Group is a lessor under finance leases, an amount representing the sum of the minimum lease receivables and initial direct costs at the commencement of the lease term, is included in “loans and advances to customers” on statement of financial position as a lease receivable. Unrecognised finance income under finance leases is amortised using the effective interest rate method over the lease term. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases.

Impairment losses on lease receivables are accounted for in accordance with the accounting policies as set out in Note 4(3)(f).

(b) Operating lease

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the profit or loss, using the straight-line method, over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(7) Land use rights

Land use rights are initially recognised at cost. The land use rights obtained from CCB by the Bank on the date of restructuring were recorded at the revalued amount. The cost of the land use rights is amortised on a straight-line basis over their authorised useful lives, and charged to the profit or loss. Impaired land use rights are amortised net of accumulated impairment losses.

Impairment losses on land use rights are accounted for in accordance with the accounting policies as set out in Note 4(11).

(8) Intangible assets

Software and other intangible assets are initially recognised at cost. The cost less estimated residual values, if any, of the intangible assets is amortised on a straight-line basis over their useful lives, and charged to the profit or loss. Impaired intangible assets are amortised net of accumulated impairment losses.

Impairment losses on intangible assets are accounted for in accordance with the accounting policies as set out in Note 4(11).

(9) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group’s interest in the fair value of the acquiree’s identifiable net assets. Goodwill is not amortised. Goodwill arising from a business combination is allocated to each cash-generating unit (“CGU”) or group of CGUs, that is expected to benefit from the synergies of the combination. The Group performs an impairment test on goodwill semi-annually.

Any excess of the Group’s interest in the net fair value of the acquiree’s identifiable net assets over the cost of a business combination is recognised immediately in profit or loss.

On disposal of the related CGU or group of CGUs, any attributable amount of goodwill net of allowances for impairment losses, if any, is included in the calculation of the profit or loss on disposal.

Impairment loss on goodwill is accounted for in accordance with the accounting policies as set out in Note 4(11).

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(10) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Repossessed assets are recognised and reported in “other assets” in the statement of financial position when the Group intends to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrower.

When the Group seizes assets to compensate for the losses of loans and advances and interest receivable, the repossessed assets are initially recognised at fair value, plus any taxes paid for the seizure of the assets, litigation fees and other expenses incurred for collecting the repossessed assets. Repossessed assets are recognised at the carrying value, net of allowances for impairment losses (Note 4(11)).

(11) Allowances for impairment losses on non-financial assets

At the end of each reporting period, the Group assesses whether there is any indication that a non-financial asset may be impaired. If any indication exists that an asset may be impaired, the Group estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired and it is not possible to estimate the recoverable amount of an individual asset, the Group determines the recoverable amount of the CGU to which the asset belongs.

CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or groups of assets.

The recoverable amount of an asset (or CGU, group of CGUs) is the higher of its fair value less costs to sell and the present value of the expected future cash flows. The Group considers all relevant factors in estimating the present value of future cash flows, such as the expected future cash flows, the useful life and the discount rate.

(a) *Testing CGU with goodwill for impairment*

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the CGU or group of CGUs that is expected to benefit from the synergies of the combination.

A CGU or group of CGUs to which goodwill has been allocated is tested for impairment by the Group semi-annually, or whenever there is an indication that the CGU or group of CGUs are impaired, by comparing the carrying amount of the CGU or group of CGUs, including the goodwill, with the recoverable amount of the CGU or group of CGUs. The recoverable amount of the CGU or group of CGUs are the estimated future cash flows, which are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU or group of CGUs with allocated goodwill.

At the time of impairment testing of a CGU or group of CGUs to which goodwill has been allocated, there may be an indication of an impairment of an asset within the CGU containing the goodwill. In such circumstances, the Group tests the asset for impairment first, and recognises any impairment loss for that asset before testing for impairment on the CGU or group of CGUs containing the goodwill. Similarly, there may be an indication of an impairment of a CGU within a group of CGUs containing the goodwill. In such circumstances, the entity tests the CGU for impairment first, and recognises any impairment loss for that CGU, before testing for impairment the group of CGUs to which the goodwill is allocated.

(b) *Impairment loss*

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss and charged to the profit or loss.

For a CGU or a group of CGUs, the amount of impairment loss firstly reduces the carrying amount of any goodwill allocated to the CGU or group of CGUs, and then reduces the carrying amount of other assets (other than goodwill) within the CGU or group of CGUs, pro rata on the basis of the carrying amount of each asset.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(11) Allowances for impairment losses on non-financial assets (continued)

(c) *Reversing an impairment loss*

If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

An impairment loss in respect of goodwill is not reversed.

(12) Employee benefits

Employee benefits are all forms of consideration given and compensations incurred by the Group in exchange for services rendered by employees or the termination of the employment relationship. Except for termination benefits, employee benefits are recognised as a liability in the period in which the associated services are rendered by its employees, with a corresponding increase in cost of relevant assets or the expenses in profit or loss. Where payment or settlement is deferred and the effect of discount would be material, these amounts are stated at their present values in the statement of financial position.

(a) *Post-employment benefits*

The Group divides post-employment benefit plans into defined contribution plans and defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions. Defined benefit plans are post-employment benefit plans other than defined contribution plans. For defined contribution plans, the Group pays contributions to basic retirement insurance, annuity scheme and unemployment insurance for the employees during the reporting period, while defined benefit plans are mainly supplementary retirement benefits.

Defined contribution retirement schemes

Pursuant to the relevant laws and regulations in the PRC, the Group has joined defined contribution retirement schemes for the employees arranged by local government labor and security authorities. The Group makes contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the local government organizations. The contributions are charged to the profit or loss on an accrual basis. When employees retire, the local government labor and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

Annuity contributions

In addition to the statutory provision contributions, the Bank's employees have joined the annuity scheme set up by the Bank under "CCBC Annuity Scheme" (the "scheme") in accordance with state enterprise annuity regulations. The Bank has made annuity contributions in proportion to its employees' gross wages, which are expensed in profit or loss when the contributions are made.

Supplementary retirement benefits

The Group pays supplementary retirement benefits for its employees in Mainland China who retired on or before 31 December 2003 in addition to the contributions made to statutory insurance schemes. Such supplementary retirement benefits are defined benefit plans.

The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of obligations that the Group is committed to pay to the employees after their retirement using actuarial techniques. At the end of each reporting period, such obligations are discounted with interest yield of government bonds with similar duration. The service cost and net interest from the supplementary retirement benefits are recognised in profit or loss, and the remeasurements are recognised in other comprehensive income.

The liability recognised in the statement of financial position in respect of supplementary retirement benefits is the present value of supplementary retirement benefit obligations at the end of the reporting period less the fair value of plan assets.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(12) Employee benefits (continued)

(b) Termination benefits

Where the Group terminates the employment relationship with employees before the end of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision is recognised for the compensation arising from termination of employment relationship, with a corresponding charge to the profit or loss for the current period. An entity is required to recognise termination benefits at the earlier of when the entity can no longer withdraw an offer of those benefits and when it recognises any related restructuring costs.

(c) Early retirement expenses

The Group recognises the present value of all its liabilities to employees who voluntarily agreed to retire early. The early retirement benefit payments are made by the Group from the date of early retirement to the regulated retirement date. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when incurred.

(d) Staff incentive plan

As approved by the board of directors, for the purposes of providing incentives and rewards to eligible employees for their past services, the Group awards a specified amount of staff compensation to the staff incentive plan independently managed by a designated staff committee for those eligible participating employees. The Group recognises its contribution to the plan when it has a present legal or constructive obligation to make such payment and a reliable estimate of the obligation can be made.

(13) Insurance contracts

Insurance contracts classification

Under the contract the insurer signed with the policyholder, the insurer may undertake insurance risk or other risks, or both insurance risk and other risks.

Where the Group undertakes both the insurance risk and other risks, and the insurance risk and other risks can be separately measured, the insurance risk shall be separately accounted for as insurance contracts while the other risks shall be accounted for as either investment contracts or service contracts. Where the insurance risk and other risks cannot be distinguished from each other, or can be distinguished but cannot be separately measured, significant insurance risk test shall be performed at the contract's initial recognition date. If the insurance risk is significant, the contract is classified as an insurance contract; otherwise, it is classified as an investment contract or service contract.

Insurance income recognition

Insurance premium income is recognised when all of the following criteria are met:

- (i) The insurance contract is issued, and related insurance risk is undertaken by the Group;
- (ii) The related economic benefits are likely to flow to the Group; and
- (iii) Related income can be reliably measured.

Insurance contract liabilities

When measuring insurance contract liabilities, the Group identifies insurance contracts where insurance risks are of similar nature as a measurement unit. Insurance contract liabilities are measured based on a reasonably estimated amount of payments that the Group is obliged to pay in order to fulfil relevant obligations under the insurance contract. Structured product that cannot be sold separately is classified as one measurement unit.

The Group performs liability adequacy test at the end of each reporting period. If the insurance contract liabilities re-calculated with the insurance actuarial method exceed their carrying amounts on the date of the liability adequacy test, an additional provision shall be made for the respective insurance contract liabilities based on the differences. Otherwise, no adjustment is made to the respective insurance contract liabilities.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(14) Provisions and contingent liabilities

A provision is recognised in the statement of financial position if, as the result of a past event, the Group has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows.

A potential obligation arising from a past transaction or event whose existence can only be confirmed by the occurrence or nonoccurrence of future uncertain events; or a present obligation that arises from past transactions or events where it is not probable that an outflow of economic benefits is required to settle the obligation or the amount of the obligation cannot be measured reliably, is disclosed as a contingent liability unless the probability of outflow of economic benefit is remote.

(15) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. A financial instrument issued is an equity instrument if, and only if, both conditions (i) and (ii) below are met: (i) The financial instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; and (ii) If the financial instrument will or may be settled in the Group's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Equity instruments issued by the Group are recorded at the fair value of proceeds received, net of direct issuance expenses.

(16) Financial guarantees

Financial guarantees are contracts that require the Group as the guarantor (the "issuer") to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs when a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income in "other liabilities". The deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. Provisions are recognised in the statement of financial position if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and the amount of that claim on the Group is expected to exceed the carrying amount of the deferred income.

(17) Fiduciary activities

The Group's fiduciary business refers to the management of assets for customers in accordance with custody agreements signed by the Group and securities investment funds, insurance companies, annuity plans and other organisations. The Group fulfils its fiduciary duty and receives relevant fees in accordance with these agreements, and does not take up any risks and rewards related to the assets under custody, which are recorded as off-balance sheet items.

The Group conducts entrusted lending business, whereby it enters into entrusted loan agreements with customers. Under the terms of these agreements, the customers provide funding (the "entrusted funds") to the Group, and the Group grants loans to third parties (the "entrusted loans") according to the instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, entrusted loans and funds are recorded as off-balance sheet items at their principal amounts and no impairment assessments are made for these entrusted loans.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(18) Income recognition

Provided it is probable that economic benefits will flow to the Group and the amount, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(a) *Interest income*

Interest income for interest bearing financial instruments is recognised in profit or loss based on the effective interest method. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest basis.

The effective interest method is a method of calculating the amortised cost of financial assets and liabilities and of allocating the interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial instrument. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest on the impaired financial assets is recognised using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

(b) *Fee and commission income*

Fee and commission income is recognised in profit or loss when the corresponding service is provided. Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Group making a loan, the fee is recognised as commission on expiry.

(c) *Finance income from finance leases and hire purchase contracts*

Finance income implicit in finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

(d) *Dividend income*

Dividend income from unlisted equity investments is recognised in profit or loss on the date when the Group's right to receive payment is established. Dividend income from a listed equity investment is recognised when the share price of the investment goes ex-dividend.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(19) Income tax

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous periods. Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax also arises from unused tax losses and unused tax credits. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Current income tax and movements in deferred tax balances are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

At the end of each reporting period, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled according to the requirements of tax laws. The Group also considers the possibility of realisation and the settlement of deferred tax assets and deferred tax liabilities in the calculation.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity. Otherwise, the balances of deferred tax assets and deferred tax liabilities, and movements therein, are presented separately from each other and are not offset.

(20) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(21) Profit distribution

Proposed dividends which are declared and approved after the end of each reporting period are not recognised as a liability in the statement of financial position and are instead disclosed as a subsequent event after the end of each reporting period in the note to the financial statements. Dividends payable are recognised as liabilities in the period in which they are approved.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(22) Related parties

If the Group has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. The Group's related parties include but are not limited to the following:

- (a) the Bank's parents;
- (b) the Bank's subsidiaries;
- (c) other entities which are controlled by the Bank's parents;
- (d) an investor who has joint control over the Group;
- (e) an investor who can exercise significant influence over the Group;
- (f) an associate of the Group;
- (g) a joint venture entity of the Group;
- (h) principal individual investors of the Group, and close family members of such individuals (principal individual investors are the individual investors who have the power, directly or indirectly, to control, jointly control or exercise significant influence over another party);
- (i) key management personnel of the Group and close family members of such individuals (key management personnel represent those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of that entity);
- (j) key management personnel of the Bank's parents and close family members of such individuals;
- (k) other entities that are controlled or jointly controlled by the Group's principal individual investors, key management personnel, or close family members of such individuals; and
- (l) a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

(23) Operating segments

The identification of operating segments of the Group is on the basis of internal reports that are regularly reviewed by the Group's chief operating decision makers in order to allocate resources to the segment and assess its performance. On the basis of the operating segments, the Group identifies the reportable segments, using a combination of factors including products and services, geographical areas, regulatory environments etc., which the management has chosen for organization. The operating segments that meet the specified criteria have been aggregated, and the operating segments that meet quantitative thresholds have been reported separately.

The amount reported for each operating segment item is the measure reported to the chief operating decision makers for the purposes of allocating resources to the segment and assessing its performance. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Group.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(24) Significant accounting estimates and judgements

(a) *Impairment losses on loans and advances, available-for-sale and held-to-maturity debt investments*

The Group reviews the portfolios of loans and advances, and available-for-sale and held-to-maturity debt investments periodically to assess whether impairment losses exist and if they exist, the amounts of impairment losses. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows identified with an individual loan and advance, an available-for-sale or a held-to-maturity debt investment. It also includes observable data indicating adverse changes in the repayment status of borrowers or issuers in the assets portfolio or national or local economic conditions that correlate with defaults on the assets in the portfolio.

The impairment loss for a loan that is individually assessed for impairment is the decrease in the estimated discounted future cash flows. The same principle is adopted for impairment loss on a held-to-maturity debt investment which is individually assessed, except that as a practical expedient, the Group may measure the impairment loss on the basis of the instrument's fair value using an observable market price at the measurement date. The impairment loss for an available-for-sale debt investment is the difference between the acquisition cost (net off any principal repayments and amortisation) and the fair value, less any impairment loss previously recognised in profit or loss at the measurement date.

When loans and advances and held-to-maturity debt investments are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the loans and advances and held-to-maturity debt investments that are being assessed. Historical loss experience is adjusted on the basis of the relevant observable data that reflects current economic conditions. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual losses.

(b) *Impairment of available-for-sale equity instruments*

For available-for-sale equity instruments, a significant or other-than-temporary decline in fair value below cost is considered to be objective evidence of impairment. In determining whether a decline in fair value has been significant or other-than-temporary, the Group considers if the fair value of an available-for-sale equity instrument as at the end of reporting period is lower than 50% (including 50%) of its initial cost of investment or lower than its initial cost of investment for more than a year (including one year) together with other relevant considerations.

(c) *Fair value of financial instruments*

The fair value of financial instruments that are traded in an active market is based on their quoted market prices in an active market at the valuation date. A quoted market price is a price from an active market where price information is readily and regularly available from an exchange or from a dealer quotation and where this price information represents actual and recurring orderly transactions.

For all other financial instruments, the Group determines fair values using valuation techniques which include discounted cash flow models, as well as other types of valuation model. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, foreign currency exchange rates credit spreads and the liquidity premium. Where discounted cash flow techniques are used, estimated cash flows are based on management's best estimates and the discount rate used is a market rate at the end of each reporting period applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on the maximising observable market data at the end of each reporting period. However, where market data is not available, the Group needs to make the best estimates on such unobservable market inputs.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants in an orderly transaction.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(24) Significant accounting estimates and judgements (continued)

(d) *Reclassification of held-to-maturity investments*

In evaluating whether the requirements to classify a financial asset as held-to-maturity are met, management makes significant judgements. Change of the Group's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

(e) *Income taxes*

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

(f) *Employee retirement benefit obligations*

The Group has established liabilities in connection with benefits payable to certain retired employees. The amounts of employee benefit expense and liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, pension benefit inflation rates, medical benefit inflation rates, and other factors. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect the Group's capital reserve and liability related to its employee retirement benefit obligations.

(g) *Scope of consolidation*

The Group has taken into consideration all facts and circumstances in the assessment of whether the Group, as an investor, controls the investee. The principle of control includes three elements: (i) power over the investee; (ii) exposure, or rights, to variable returns from involvement with the investee; and (iii) the ability to use power over the investee to affect the amount of the investor's returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

5 TAXATION

The Group's main applicable taxes and tax rates are as follows:

Business tax

Business tax was charged at 5% on taxable income.

Value added tax ("VAT")

Pursuant to the 'Circular on the Comprehensive Plan for Levying VAT in place of Business Tax' (CaiShui [2016] No.36) jointly issued by the Ministry of Finance and the State Administration of Taxation, business tax that used to be levied on taxable income of the Bank and its subsidiaries in Mainland China was replaced by VAT from 1 May 2016. Accordingly, the income and expense under VAT were reported on a net basis. The main VAT taxation rate is 6%.

City construction tax

City construction tax is calculated as 1% – 7% of business tax or VAT.

Education surcharge

Education surcharge is calculated as 3% of business tax or VAT.

Local education surcharge

Local education surcharge is calculated as 2% of business tax or VAT.

Income tax

The income tax rate that is applicable to the Bank and its subsidiaries in Mainland China is 25%. Taxation on overseas operations is charged at the relevant local rates. Tax paid on overseas operations is set off to the extent allowed under the relevant income tax laws of the PRC. All tax exemptions are determined upon approval from the relevant tax authorities.

6 NET INTEREST INCOME

	2016	2015
Interest income arising from:		
Deposits with central banks	39,512	39,310
Deposits with banks and non-bank financial institutions	11,595	13,534
Placements with banks and non-bank financial institutions	8,020	16,650
Financial assets at fair value through profit or loss	4,164	761
Financial assets held under resale agreements	4,102	10,238
Investment securities	152,040	144,561
Loans and advances to customers		
– Corporate loans and advances	289,477	358,241
– Personal loans and advances	172,078	176,872
– Discounted bills	15,649	10,392
Total	696,637	770,559
Interest expense arising from:		
Borrowings from central banks	(5,671)	(2,125)
Deposits from banks and non-bank financial institutions	(33,579)	(39,834)
Placements from banks and non-bank financial institutions	(7,014)	(6,496)
Financial assets sold under repurchase agreements	(3,485)	(1,578)
Debt securities issued	(16,615)	(17,173)
Deposits from customers		
– Corporate deposits	(105,232)	(117,649)
– Personal deposits	(107,242)	(127,952)
Total	(278,838)	(312,807)
Net interest income	417,799	457,752

Notes:

- (1) Interest income from impaired financial assets is listed as follows:

	2016	2015
Impaired loans and advances	3,675	3,070
Other impaired financial assets	29	91
Total	3,704	3,161

- (2) Interest expense on financial liabilities with maturity over five years mainly represented the interest expense on debt securities issued.

7 NET FEE AND COMMISSION INCOME

	2016	2015
Fee and commission income		
Bank card fees	37,649	34,960
Wealth management service fees	20,537	14,457
Agency service fees	20,025	19,994
Settlement and clearing fees	12,612	13,166
Consultancy and advisory fees	11,368	13,656
Commission on trust and fiduciary activities	11,174	9,942
Electronic banking service fees	7,584	6,684
Guarantee fees	2,938	2,490
Credit commitment fees	1,830	3,138
Others	2,146	2,917
Total	127,863	121,404
Fee and commission expense		
Bank card transaction fees	(5,378)	(4,013)
Inter-bank transaction fees	(1,132)	(927)
Others	(2,844)	(2,934)
Total	(9,354)	(7,874)
Net fee and commission income	118,509	113,530

8 NET TRADING GAIN

	2016	2015
Debt securities	(1,034)	205
Derivatives	2,421	2,645
Equity investments	185	453
Others	2,403	610
Total	3,975	3,913

For the year ended 31 December 2016, trading gain related to financial assets designated at fair value through profit or loss amounted to RMB9,587 million (2015: gain RMB8,353 million). Trading loss related to financial liabilities designated at fair value through profit or loss amounted to RMB12,161 million (2015: loss RMB7,322 million).

9 DIVIDEND INCOME

	2016	2015
Dividend income from listed trading equity investments	131	39
Dividend income from available-for-sale equity investments		
– Listed	2,097	331
– Unlisted	330	363
Total	2,558	733

10 NET GAIN ARISING FROM INVESTMENT SECURITIES

	2016	2015
Net gain and investment income of available-for-sale financial assets	3,390	3,339
Net revaluation gain reclassified from other comprehensive income on disposal	5,546	1,533
Net gain on sale of held-to-maturity investments	732	321
Net gain on sale of investments classified as receivables	906	–
Others	524	(118)
Total	11,098	5,075

11 OTHER OPERATING INCOME, NET

Other operating income

	2016	2015
Insurance related income	45,684	19,975
Foreign exchange gain	2,817	2,716
Interest subsidy	2,300	2,322
Rental income	1,428	873
Gain on disposal of fixed assets	292	205
Gain on disposal of repossessed assets	31	63
Others	2,788	1,690
Total	55,340	27,844

Foreign exchange gain or loss includes gains and losses in connection with the translation of foreign currency denominated monetary assets and liabilities, and net realised and unrealised gains and losses on foreign exchange derivatives (including those foreign exchange swaps, foreign exchange options and currency swaps entered into in order to economically hedge long positions in foreign currency assets).

Other operating expenses

	2016	2015
Insurance related cost	47,023	20,795
Loss on disposal of fixed assets	133	127
Loss on disposal of repossessed assets	82	248
Others	2,181	990
Total	49,419	22,160

12 OPERATING EXPENSES

	2016	2015
Staff costs		
– Salaries, bonuses, allowances and subsidies	62,093	61,087
– Other social insurance and welfare	8,997	8,561
– Housing funds	6,296	6,501
– Union running costs and employee education costs	2,567	2,540
– Defined contribution plans accrued	12,846	12,717
– Early retirement expenses	45	86
– Compensation to employees for termination of employment relationship	3	7
	92,847	91,499
Premises and equipment expenses		
– Depreciation charges	13,804	17,132
– Rent and property management expenses	9,341	8,905
– Maintenance	2,890	2,951
– Utilities	2,071	2,260
– Others	1,875	1,798
	29,981	33,046
Taxes and surcharges	17,473	36,303
Amortisation expenses	2,213	2,604
Audit fees	142	149
Other general and administrative expenses	28,859	31,225
Total	171,515	194,826

13 IMPAIRMENT LOSSES

	2016	2015
Loans and advances to customers		
– Additions	101,757	159,591
– Releases	(12,169)	(66,981)
Available-for-sale debt securities	217	(402)
Available-for-sale equity investments	89	28
Held-to-maturity investments	970	(1,633)
Investment classified as receivables	(586)	927
Fixed assets	46	–
Others	2,880	2,109
Total	93,204	93,639

14 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The aggregate of the emoluments before individual income tax in respect of the directors and supervisors who held office during the year is as follows:

	2016				
	Allowances RMB'000	Remuneration paid RMB'000	Contributions to defined contribution retirement schemes RMB'000	Other benefits in kind (note (v)) RMB'000	Total (note (i)) RMB'000
Executive directors					
Wang Hongzhang (note (vi))	-	484	47	85	616
Wang Zuji (note (vi))	-	484	47	110	641
Pang Xiusheng (note (vi))	-	436	47	102	585
Zhang Gengsheng (note (vi))	-	436	47	102	585
Non-executive directors					
Li Jun (note (iii))	-	-	-	-	-
Hao Aiqun (note (iii))	-	-	-	-	-
Dong Shi (note (iii))	-	-	-	-	-
Independent non-executive directors					
Anita Fung Yuen Mei (note (ii))	98	-	-	-	98
Carl Walter (note (ii))	98	-	-	-	98
Zhang Long (note (ii))	410	-	-	-	410
Chung Shui Ming Timpson (note (ii))	440	-	-	-	440
Wim Kok (note (ii))	380	-	-	-	380
Murray Horn (note (ii))	470	-	-	-	470
Supervisors					
Guo You (note (vi))	-	484	47	110	641
Liu Jin (note (vi))	-	660	47	115	822
Li Xiaoling (note (vi))	-	660	47	115	822
Li Xiukun (notes (ii) & (iv))	46	-	-	-	46
Jin Yanmin (notes (ii) & (iv))	46	-	-	-	46
Li Zhenyu (notes (ii) & (iv))	46	-	-	-	46
Bai Jianjun	250	-	-	-	250
Former non-executive directors					
Chen Yuanling (notes (ii) & (iii))	-	-	-	-	-
Xu Tie (notes (ii) & (iii))	-	-	-	-	-
Guo Yanpeng (notes (ii) & (iii))	-	-	-	-	-
Former independent non-executive director					
Margaret Leung Ko May Yee (note (ii))	195	-	-	-	195
Former supervisors					
Jin Panshi (notes (ii) & (iv))	4	-	-	-	4
Zhang Huajian (notes (ii) & (iv))	4	-	-	-	4
Wang Lin (notes (ii) & (iv))	4	-	-	-	4
Wang Xinmin (note (ii))	-	-	-	-	-
	2,491	3,644	329	739	7,203

14 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

The aggregate of the emoluments before individual income tax in respect of the directors and supervisors who held office during the year is as follows:

	2015				
	Accrued cost RMB'000	Social insurance, corporate annuity, supplementary medical insurance and housing fund paid by the Bank RMB'000	Other monetary income RMB'000	Total (note (vii)) RMB'000	Allowance RMB'000
Executive directors					
Wang Hongzhang	652	151	—	803	—
Wang Zuji	380	104	—	484	—
Pang Xiusheng	586	162	—	748	—
Zhang Gengsheng	586	162	—	748	—
Non-executive directors					
Li Jun (note (iii))	—	—	—	—	—
Chen Yuanling (notes (ii) & (iii))	—	—	—	—	—
Hao Aiqun (note (iii))	—	—	—	—	—
Xu Tie (notes (ii) & (iii))	—	—	—	—	—
Guo Yanpeng (note (iii))	—	—	—	—	—
Dong Shi (note (iii))	—	—	—	—	—
Independent non-executive directors					
Zhang Long (note (ii))	—	—	—	—	410
Chung Shui Ming Timpson (note (ii))	—	—	—	—	440
Wim Kok (note (ii))	—	—	—	—	372
Murray Horn (note (ii))	—	—	—	—	463
Margaret Leung Ko May Yee (note (ii))	—	—	—	—	390
Supervisors					
Guo You	652	173	—	825	—
Liu Jin	1,520	152	—	1,672	—
Li Xiaoling	1,520	152	—	1,672	—
Li Xiukun (notes (ii) & (iv))	—	—	—	—	—
Jin Yanmin (notes (ii) & (iv))	—	—	—	—	—
Li Zhenyu (notes (ii) & (iv))	—	—	—	—	—
Wang Xinmin (note (ii))	—	—	—	—	—
Bai Jianjun	—	—	—	—	250
Former executive directors					
Zhang Jianguo	464	173	—	637	—
Zhu Hongbo	98	26	—	124	—
Hu Zheyi	49	13	—	62	—
Former independent non-executive director					
Elaine La Roche	—	—	—	—	400
Former supervisors					
Jin Panshi (notes (ii) & (iv))	—	—	—	—	50
Zhang Huajian (notes (ii) & (iv))	—	—	—	—	50
Wang Lin (notes (ii) & (iv))	—	—	—	—	50
	6,507	1,268	—	7,775	2,875

14 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

Notes:

- (i) The amounts of emoluments for the year ended 31 December 2016 in respect of the services rendered by the directors and supervisors are subject to the approval of the Annual General Meeting.
- (ii) Upon election at the 2015 annual general meeting of the Bank, Mr. Guo Yanpeng continued to serve as non-executive director of the Bank, and Mr. Zhang Long, Mr. Chung Shui Ming Timpson, Mr. Wim Kok, and Mr. Murray Horn continued to serve as independent non-executive directors of the Bank from 17 June 2016.

Upon election at the first extraordinary general meeting of 2015 of the Bank and upon approval of the CBRC, Ms. Anita Fung Yuen Mei and Mr. Carl Walter commenced their position as independent non-executive directors of the Bank from 14 October 2016.

As disclosed in the Bank's announcement on 17 June 2016, Ms. Chen Yuanling and Mr. Xu Tie ceased to serve as non-executive directors of the Bank, and Ms. Margaret Leung Ko May Yee ceased to serve as independent non-executive director of the Bank due to the expiration of their terms of office.

As disclosed in the Bank's announcement on 8 February 2017, Mr. Guo Yanpeng ceased to serve as non-executive director of the Bank due to change of job.

In accordance with the resolution at the first meeting of the fourth employee representatives' meeting of the Bank, Mr. Li Xiukun, Mr. Jin Yanmin and Mr. Li Zhenyu commenced their positions as employee representative supervisors of the Bank from January 2016.

Due to work arrangement, Mr. Jin Panshi, Mr. Zhang Huajian and Mr. Wang Lin ceased to serve as employee representative supervisors of the Bank from January 2016.

Due to the expiration of term of office, Mr. Wang Xinmin ceased to serve as external supervisor of the Bank from June 2016.
- (iii) The Bank does not need to pay the emoluments of non-executive directors appointed by Huijin for the services rendered in 2016 and 2015.
- (iv) The amounts only included fees for their services as supervisors.
- (v) Other benefits in kind included the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities. Other benefits also included the Bank's contribution to its own corporate annuity plan (which was set up in accordance with the relevant policies issued by the government authorities) and supplementary medical insurance.

None of the directors and supervisors received any inducements or compensation for loss of office, or waived any emoluments during the years ended 31 December 2016 and 2015.
- (vi) The total compensation package for these directors and supervisors for the year ended 31 December 2016 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have a significant impact on the Group's financial statements for the year ended 31 December 2016. The final compensation will be disclosed in a separate announcement when determined.
- (vii) The total compensation package for certain directors and supervisors for the year ended 31 December 2015 had not been finalised in accordance with regulations of the PRC relevant authorities till the date that the 2015 financial statements were announced. The aforesaid total compensation package for the directors and supervisors for the year ended 31 December 2015 remained to be approved by the Annual General Meeting.
- (viii) From 2015 onwards, remuneration of the Bank's leaders administered by central authorities are paid in accordance with relevant policies relating to the central remuneration reform.

15 INDIVIDUALS WITH HIGHEST EMOLUMENTS

None of the five individuals with the highest emoluments are directors or supervisors whose emoluments are disclosed in Note 14. The aggregate of the emoluments before individual income tax in respect of the five highest paid individuals during the year is as follows:

	2016 RMB'000	2015 RMB'000
Salaries and allowance	16,336	18,242
Variable compensation	35,941	24,457
Contributions to defined contribution retirement schemes	1,183	972
Other benefit in kind	365	248
	53,825	43,919

The number of these individuals whose emoluments before individual income tax are within the following bands is set out below.

	2016	2015
RMB7,000,001 – RMB7,500,000	–	1
RMB8,000,001 – RMB8,500,000	–	1
RMB8,500,001 – RMB9,000,000	–	1
RMB9,000,001 – RMB9,500,000	–	1
RMB9,500,001 – RMB10,000,000	1	–
RMB10,000,001 – RMB10,500,000	1	–
RMB10,500,001 – RMB11,000,000	1	1
RMB11,000,001 – RMB11,500,000	1	–
RMB11,500,001 – RMB12,000,000	1	–

None of these individuals received any inducements, or compensation for loss of office, or waived any emoluments during the year ended 31 December 2016 and 2015.

16 INCOME TAX EXPENSE

(1) Income tax expense

	2016	2015
Current tax	60,380	63,065
– Mainland China	58,713	61,708
– Hong Kong	875	731
– Other countries and regions	792	626
Adjustments for prior years	(187)	(1,313)
Deferred tax	2,628	7,859
Total	62,821	69,611

The provisions of income taxes for Mainland China and Hong Kong are calculated at 25% and 16.5% of the estimated taxable income from Mainland China and Hong Kong operations for the year respectively. Taxation for other overseas operations is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

(2) Reconciliation between income tax expense and accounting profit

	Note	2016	2015
Profit before tax		295,210	298,497
Income tax calculated at 25% statutory tax rate		73,803	74,624
Non-deductible expenses	(i)	10,648	10,655
Non-taxable income	(ii)	(21,443)	(14,355)
Adjustments on income tax for prior years which affect profit or loss		(187)	(1,313)
Income tax expense		62,821	69,611

Notes:

- (i) Non-deductible expenses primarily include losses resulting from write-off of loans, staff costs and entertainment expenses in excess of those deductible under the relevant PRC tax regulations.
- (ii) Non-taxable income primarily includes interest income from PRC government bonds and local government bonds.

17 EARNINGS PER SHARE

Basic earnings per share for the year ended 31 December 2016 and 2015 have been computed by dividing the net profit attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the years.

The Bank issued non-cumulative preference shares during the year ended 31 December 2015. For the purpose of calculating basic earnings per share, dividends on non-cumulative preference shares declared in respect of the period should be deducted from the amounts attributable to equity shareholders of the Bank.

The conversion feature of preference shares is considered to be contingently issuable ordinary shares. The triggering events of conversion did not occur as at 31 December 2016 and 2015, therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

	2016	2015
Net profit attributable to equity shareholders of the Bank	231,460	228,145
Less: profit for the year attributable to preference shareholders of the Bank	(1,067)	–
Net profit attributable to ordinary shareholders of the Bank	230,393	228,145
Weighted average number of shares (in millions of shares)	250,011	250,011
Basic earnings per share attributable to ordinary shareholders of the Bank (in RMB Yuan)	0.92	0.91
Diluted earnings per share attributable to ordinary shareholders of the Bank (in RMB Yuan)	0.92	0.91

18 CASH AND DEPOSITS WITH CENTRAL BANKS

	Note	2016	2015
Cash		73,296	77,678
Deposits with central banks			
– Statutory deposit reserves	(1)	2,566,219	2,159,725
– Surplus deposit reserves	(2)	183,764	140,511
– Fiscal deposits		25,982	23,630
Subtotal		2,775,965	2,323,866
Total		2,849,261	2,401,544

Notes:

- (1) The Group places statutory deposit reserves with the People's Bank of China ("PBOC") and overseas central banks where it has operations. The statutory deposit reserves are not available for use in the Group's daily business.

As at the end of the reporting period, the statutory deposit reserve rates in Mainland China of the Bank were as follows:

	2016	2015
Reserve rate for RMB deposits	17.0%	17.0%
Reserve rate for foreign currency deposits	5.0%	5.0%

The statutory RMB deposit reserve rates applicable to domestic subsidiaries of the Group are determined by the PBOC.

The amounts of statutory deposit reserves placed with the central banks of overseas countries are determined by local jurisdictions.

- (2) The surplus deposit reserve maintained with the PBOC is mainly for the purpose of clearing.

19 DEPOSITS WITH BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	2016	2015
Banks	482,348	337,260
Non-bank financial institutions	12,336	15,713
Gross balances	494,684	352,973
Allowances for impairment losses (Note 38)	(66)	(7)
Net balances	494,618	352,966

(2) Analysed by geographical sectors

	2016	2015
Mainland China	466,765	323,959
Overseas	27,919	29,014
Gross balances	494,684	352,973
Allowances for impairment losses (Note 38)	(66)	(7)
Net balances	494,618	352,966

20 PLACEMENTS WITH BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	2016	2015
Banks	121,238	150,589
Non-bank financial institutions	139,555	160,226
Gross balances	260,793	310,815
Allowances for impairment losses (Note 38)	(123)	(36)
Net balances	260,670	310,779

(2) Analysed by geographical sectors

	2016	2015
Mainland China	172,492	209,267
Overseas	88,301	101,548
Gross balances	260,793	310,815
Allowances for impairment losses (Note 38)	(123)	(36)
Net balances	260,670	310,779

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Analysed by nature

	Note	2016	2015
Held for trading purposes	(1)		
– Debt securities		141,330	17,421
– Equity instruments and funds		1,825	563
		143,155	17,984
Designated at fair value through profit or loss	(2)		
– Debt securities		8,690	586
– Equity instruments and funds		16,553	3,739
– Other debt instruments		319,972	248,864
		345,215	253,189
Total		488,370	271,173

Analysed by types of issuers

(1) Held for trading purpose

(a) Debt securities

	Note	2016	2015
Government		15,173	6,529
Policy banks		9,064	296
Banks and non-bank financial institutions		65,307	4,705
Enterprises		51,786	5,891
Total		141,330	17,421
Listed	(i)	141,330	17,404
– of which in Hong Kong		502	93
Unlisted		–	17
Total		141,330	17,421

Note:

(i) Debt securities traded on the China Domestic Interbank Bond Market are classified as listed.

(b) Equity instruments and funds

	2016	2015
Banks and non-bank financial institutions	123	116
Enterprises	1,702	447
Total	1,825	563
Listed	1,701	447
– of which in Hong Kong	1,682	421
Unlisted	124	116
Total	1,825	563

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Analysed by types of issuers (continued)

(2) Designated at fair value through profit or loss

(a) Debt securities

	2016	2015
Unlisted enterprises	8,690	586
Total	8,690	586

(b) Equity instruments and funds

	2016	2015
Banks and non-bank financial institutions	10,934	808
Enterprises	5,619	2,931
Total	16,553	3,739
Listed	15	1,412
– of which in Hong Kong	–	1,390
Unlisted	16,538	2,327
Total	16,553	3,739

(c) Other debt instruments

	2016	2015
Banks and non-bank financial institutions	213,182	145,028
Enterprises	106,790	103,836
Total	319,972	248,864

Other debt instruments were mainly the deposits with banks and credit assets invested by principal guaranteed wealth management products (Note 31(2)).

There was no significant limitation on the ability of the Group to dispose of financial assets at fair value through profit or loss.

22 DERIVATIVES AND HEDGE ACCOUNTING

(1) Analysed by type of contract

	Note	2016			2015		
		Notional amounts	Assets	Liabilities	Notional amounts	Assets	Liabilities
Interest rate contracts		470,809	3,278	2,492	506,536	1,372	1,291
Exchange rate contracts		4,650,215	73,183	83,025	2,427,232	25,675	25,715
Other contracts	(a)	333,553	13,325	4,816	119,735	4,452	936
Total		5,454,577	89,786	90,333	3,053,503	31,499	27,942

(2) Analysed by credit risk-weighted assets

	Note	2016	2015
Counterparty credit default risk-weighted assets			
– Interest rate contracts		2,649	1,579
– Exchange rate contracts		35,373	23,298
– Other contracts	(a)	10,751	3,559
Subtotal		48,773	28,436
Credit value adjustment		25,987	13,008
Total		74,760	41,444

The notional amounts of derivatives only represent the unsettled transactions volume as at the end of the reporting period, instead of the amount of risk assets. Since 1 January 2013, the Group has adopted Administrative Measures for the Capital of Commercial Banks (for Trial Implementation) and other related policies. According to the new rules set out by the CBRC, the credit risk-weighted assets included credit valuation adjustments, with the considerations of counterparty status and maturity characteristic, and back-to-back client-driven transactions.

Note:

(a) Other contracts mainly consist of precious metals contracts.

22 DERIVATIVES AND HEDGE ACCOUNTING (CONTINUED)

(3) Hedge accounting

The following designated hedging instruments are included in the derivatives financial instruments disclosed above.

	2016			2015		
	Notional amounts	Assets	Liabilities	Notional amounts	Assets	Liabilities
Fair value hedges						
Interest rate swaps	45,148	507	(69)	9,091	62	(30)
Foreign exchange swaps	348	24	-	-	-	-
Cash flow hedges						
Foreign exchange swaps	21,491	-	(823)	-	-	-
Total	66,987	531	(892)	9,091	62	(30)

(a) Fair value hedge

The Group uses interest rate swaps and foreign exchange swaps to hedge against changes of fair value in some available-for-sale financial assets, certificates of deposit issued, loans and advances to customers arising from changes in interest rates and exchange rates.

Net gains/(losses) on fair value hedges are as follows:

	2016	2015
Net gains/(losses) on		
- hedging instruments	419	18
- hedged items	(439)	(18)

The gain and loss arising from ineffective portion of fair value hedge was immaterial for the year ended 31 December 2016 and 2015.

(b) Cash flow hedge

The Group uses foreign exchange swaps to hedge against exposures to cash flow variability primarily from foreign exchange risks of some loans and advances to customers. The maturities of hedging instruments and hedged items are both within two years.

For the year ended 31 December 2016, net loss from the cash flow hedge of RMB150 million were recognised in other comprehensive income (2015: net gain 10 million) and the gain and loss arising from ineffective portion of cash flow hedge was immaterial.

23 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

Financial assets held under resale agreements by underlying assets are shown as follows:

	2016	2015
Debt securities		
- Government bonds	21,726	27,673
- Debt securities issued by banks and non-bank financial institutions	38,751	94,313
Subtotal	60,477	121,986
Discounted bills	42,697	188,741
Net balances	103,174	310,727

24 INTEREST RECEIVABLE

	2016	2015
Deposits with central banks	1,163	1,059
Deposits with banks and non-bank financial institutions	2,286	3,525
Financial assets held under resale agreements	218	704
Loans and advances to customers	29,789	26,100
Debt securities	63,359	61,921
Others	4,830	3,304
Gross balances	101,645	96,613
Allowances for impairment losses (Note 38)	-	(1)
Net balances	101,645	96,612

25 LOANS AND ADVANCES TO CUSTOMERS

(1) Analysed by nature

	2016	2015
Corporate loans and advances		
– Loans	6,711,679	6,398,830
– Finance leases	112,259	94,232
	6,823,938	6,493,062
Personal loans and advances		
– Residential mortgages	3,625,574	2,797,226
– Personal business loans	51,189	67,716
– Personal consumer loans	87,346	63,796
– Credit cards	447,244	395,549
– Others	209,586	207,696
	4,420,939	3,531,983
Discounted bills	512,155	460,095
Gross loans and advances to customers	11,757,032	10,485,140
Allowances for impairment losses (Note 38)	(268,677)	(250,617)
– Individual assessment	(99,453)	(82,196)
– Collective assessment	(169,224)	(168,421)
Net loans and advances to customers	11,488,355	10,234,523

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(2) Analysed by assessment method of allowances for impairment losses

	Note	Impaired loans and advances		Total	
		Loans and advances for which allowances are collectively assessed (a)	for which allowance are collectively assessed (b)		for which allowances are individually assessed (b)
As at 31 December 2016					
Gross loans and advances to customers		11,578,342	22,254	156,436	11,757,032
Allowances for impairment losses		(155,949)	(13,275)	(99,453)	(268,677)
Net loans and advances to customers		11,422,393	8,979	56,983	11,488,355
As at 31 December 2015					
Gross loans and advances to customers		10,319,160	18,474	147,506	10,485,140
Allowances for impairment losses		(157,632)	(10,789)	(82,196)	(250,617)
Net loans and advances to customers		10,161,528	7,685	65,310	10,234,523

Notes:

- (a) Loans and advances assessed on a collective basis for impairment are those graded normal or special mention.
- (b) Impaired loans and advances include loans for which objective evidence of impairment exists and assessed:
- individually (including corporate loans and advances which are graded substandard, doubtful or loss); or
 - collectively; these are portfolios of homogeneous loans (including personal loans and advances which are graded substandard, doubtful or loss).

The proportion of impaired loans and advances of the Group to gross loans and advances as at 31 December 2016 is 1.52% (31 December 2015: 1.58%).

- (c) The definitions of the loan classifications stated in notes (a) and (b) above are set out in Note 65(1).

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(3) Movements of allowances for impairment losses

	Note	2016			Total
		Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances		
			which are collectively assessed	which are individually assessed	
As at 1 January		157,632	10,789	82,196	250,617
Charge for the year		–	9,948	91,809	101,757
Release during the year		(1,840)	–	(10,329)	(12,169)
Unwinding of discount		–	–	(3,675)	(3,675)
Additions through acquisitions		8	10	18	36
Transfers out	(a)	149	(2,808)	(35,487)	(38,146)
Write-offs		–	(5,687)	(27,960)	(33,647)
Recoveries		–	1,023	2,881	3,904
As at 31 December		155,949	13,275	99,453	268,677

	Note	2015			Total
		Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances		
			which are collectively assessed	which are individually assessed	
As at 1 January		186,252	7,588	57,773	251,613
Charge for the year		708	8,631	150,252	159,591
Release during the year		(29,228)	(7)	(37,746)	(66,981)
Unwinding of discount		–	–	(3,070)	(3,070)
Transfers out	(a)	(100)	(49)	(57,436)	(57,585)
Write-offs		–	(5,702)	(29,149)	(34,851)
Recoveries		–	328	1,572	1,900
As at 31 December		157,632	10,789	82,196	250,617

Note:

- (a) Transfers out include the transfer of allowances for impairment losses upon disposal of non-performing loans, asset-backed securitization of non-performing loans and repossession of assets, and the relevant exchange gain or loss.

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(4) Overdue loans analysed by overdue period

	2016				
	Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	Total
Unsecured loans	9,921	5,943	4,608	911	21,383
Guaranteed loans	15,879	29,972	22,248	1,973	70,072
Loans secured by tangible assets other than monetary assets	29,794	28,213	22,970	1,473	82,450
Loans secured by monetary assets	580	1,974	1,531	109	4,194
Total	56,174	66,102	51,357	4,466	178,099
As a percentage of gross loans and advances to customers	0.48%	0.56%	0.43%	0.04%	1.51%

	2015				
	Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	Total
Unsecured loans	8,774	4,654	3,818	1,266	18,512
Guaranteed loans	21,819	28,007	8,329	2,318	60,473
Loans secured by tangible assets other than monetary assets	37,445	33,603	13,753	2,179	86,980
Loans secured by monetary assets	2,454	3,534	965	263	7,216
Total	70,492	69,798	26,865	6,026	173,181
As a percentage of gross loans and advances to customers	0.67%	0.66%	0.26%	0.06%	1.65%

Overdue loans represent loans of which the whole or part of the principal or interest are overdue for 1 day or more.

(5) Package sale of non-performing loans

During the year ended 31 December 2016, the total amount of non-performing loans sold through packaged sales to external asset management companies was RMB57,058 million (2015: RMB80,727 million).

26 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Analysed by nature

	Note	2016	2015
Debt securities	(1)	1,348,814	1,035,332
Equity instruments	(2)	22,640	14,242
Funds	(2)	262,380	17,178
Total	(3)	1,633,834	1,066,752

Notes:

- (1) Debt securities
Analysed by type of issuers

	Note	2016	2015
Government		772,775	409,857
Central banks		21,299	11,135
Policy banks		94,430	140,916
Banks and non-bank financial institutions		321,228	286,723
Public sector entities		–	20
Enterprises		139,082	186,681
Total		1,348,814	1,035,332
Listed	(i)	1,320,530	982,143
– of which in Hong Kong		51,784	18,059
Unlisted		28,284	53,189
Total		1,348,814	1,035,332

Note:

- (i) Debt securities traded on the China Domestic Interbank Bond Market are classified as listed.

- (2) Equity instruments and funds

	2016	2015
Debt equity swap (“DES”) Investments	887	1,172
Other equity instruments	21,753	13,070
Funds	262,380	17,178
Total	285,020	31,420
Listed	76,525	23,113
– of which in Hong Kong	4,180	2,969
Unlisted	208,495	8,307
Total	285,020	31,420

Pursuant to the DES arrangement by the PRC government in 1999, the Group obtained equity interests of certain entities in lieu of repayments of loans granted to them. According to relevant requirements, the Group is prohibited from being involved in management of the operations of these entities. In substance, the Group does not have any control, joint control or significant influence over these entities.

- (3) As at 31 December 2016, the Group’s cost of available for sale debt securities was RMB1,351,960 million (as at 31 December 2015: RMB1,010,316 million). The Group’s cost of available for sale equity instruments and funds was RMB293,459 million (as at 31 December 2015: RMB24,831 million).

27 HELD-TO-MATURITY INVESTMENTS

Analysed by types of issuers

	Note	2016	2015
Government		1,603,894	1,353,114
Central banks		422	151,090
Policy banks		258,080	342,889
Banks and non-bank financial institutions		456,139	585,907
Enterprises		122,931	133,013
Gross balances		2,441,466	2,566,013
Allowances for impairment losses (Note 38)		(3,049)	(2,033)
Net balances		2,438,417	2,563,980
Listed	(1)	2,401,617	2,552,087
– of which in Hong Kong		2,522	1,011
Unlisted		36,800	11,893
Total		2,438,417	2,563,980
Market value of listed Securities		2,456,614	2,653,065

Note:

- (1) Debt securities traded on the China Domestic Interbank Bond Market are classified as listed.

28 INVESTMENT CLASSIFIED AS RECEIVABLES

	Note	2016	2015
Government			
– Special government bond	(1)	49,200	49,200
– Others		228,762	82,177
Banks and non-bank financial institutions		50,271	91,717
Enterprises		33,662	60,348
Others	(2)	147,419	87,967
Gross balances		509,314	371,409
Allowance for impairment losses (Note 38)		(1,351)	(1,908)
Net balances		507,963	369,501
Listed		281,640	191,407
– of which in Hong Kong		485	–
Unlisted		226,323	178,094
Total		507,963	369,501

Notes:

- (1) This represents a non-transferable bond with a nominal value of RMB49,200 million issued by the Ministry of Finance (“MOF”) in 1998 to strengthen the capital base of CCB. The bond matures in 2028 and bears a fixed interest rate of 2.25% per annum. The PBOC approved the Bank’s use of the special government bond as eligible assets equivalent to the surplus deposit reserve at PBOC for clearing purpose.
- (2) Others include asset management plans and capital trust plan with fixed or determined payments. They will mature from January 2017 to November 2026 and bear interest rates ranging from 2.95% to 9.50% per annum. During the reporting period, matured plans have been repaid without overdue.

29 INVESTMENTS IN SUBSIDIARIES

(1) Investment cost

	Note	2016	2015
CCB Financial Leasing Corporation Limited ("CCBFLCL")		8,163	8,163
CCB Brasil Financial Holding – Investimentos e Participações Ltda.		6,906	5,495
CCB Life Insurance Company Limited ("CCB Life")		3,902	3,902
Jianxin Trust Corporation Limited ("Jianxin Trust")		3,409	3,409
China Construction Bank (London) Limited ("CCB London")		2,861	2,861
CCB Pension Management Corporation Limited ("CCB Pension")		1,955	1,955
China Construction Bank (Europe) S.A. ("CCB Europe")		1,629	1,629
Sino-German Bausparkasse Corporation Limited ("Sino-German")		1,502	1,502
PT Bank China Construction Bank Indonesia Tbk ("CCB Indonesia")	(a)	1,352	–
China Construction Bank (Malaysia) Berhad ("CCB Malaysia")	(b)	1,334	–
China Construction Bank (New Zealand) Limited ("CCB New Zealand")	(c)	976	314
China Construction Bank (Russia) Limited Liability Company ("CCB Russia")		851	851
Golden Fountain Finance Limited ("Golden Fountain")		676	676
CCB Principal Asset Management Corporation Limited ("CCB Principal")		130	130
China Construction Bank (Dubai) Limited ("CCB Dubai")	(d)	–	620
CCB International Group Holdings Limited ("CCBIG")		–	–
Rural Banks	(e)	1,378	1,378
Total		37,024	32,885

Notes:

- (a) In July 2016, the Bank acquired CCB Indonesia (Note 58(2)). As at 31 December 2016, the Bank held 60% of the total capital of CCB Indonesia.
- (b) In October 2016, the Bank set up a wholly-owned subsidiary, CCB Malaysia. As at 31 December 2016, the Bank held 100% of the total capital of CCB Malaysia.
- (c) In July 2016, the Bank injected additional capital of NZD 141 million to CCB New Zealand.
- (d) In the first half of 2016, the Bank has cancelled the registration of CCB Dubai and set up CCB Dubai Branch.
- (e) The total investment amount of rural banks consists of investment costs of 27 rural banks in total, which are established and controlled by the Bank in substance (as at 31 December 2015: 27 rural banks).

29 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

- (2) Except for CCB Indonesia, major subsidiaries of the Group are unlisted enterprises, details of the investments in subsidiaries are as follows:

Name of company	Principal place of business	Particulars of issued and paid up capital	Principal activities	% of ownership directly held by the Bank	% of ownership indirectly held by the Bank	% of voting rights held by the Bank	Method of investment
CCBFLCL	Beijing, the PRC	RMB8,000 million	Financial Leasing	100%	-	100%	Establishment
CCB Life	Shanghai, the PRC	RMB4,496 million	Insurance	51%	-	51%	Acquisition
Jianxin Trust	Anhui, the PRC	RMB1,527 million	Trust business	67%	-	67%	Acquisition
CCB London	London, United Kingdom	US\$200 million RMB1,500 million	Commercial Banking	100%	-	100%	Establishment
CCB Europe	Luxembourg	Euro 200 million	Commercial Banking	100%	-	100%	Establishment
Sino-German	Tianjin, the PRC	RMB2,000 million	House savings	75.1%	-	75.1%	Establishment
CCB Russia	Moscow, Russia	RUB4,200 million	Commercial Banking	100%	-	100%	Establishment
Golden Fountain	British Virgin Islands	US\$50,000	Investment	100%	-	100%	Acquisition
CCB Principal	Beijing, the PRC	RMB200 million	Fund management services	65%	-	65%	Establishment
CCB New Zealand	Auckland New Zealand	NZD199 million	Commercial Banking	100%	-	100%	Establishment
CCBIG	Hong Kong, the PRC	HK\$1	Investment	100%	-	100%	Establishment
CCB Pension	Beijing the PRC	RMB2,300 million	Pension Management	85%	-	85%	Establishment
CCB Brasil Financial Holding – Investimentos e Participações Ltda.	Sao Paulo Brasil	R\$3,018 million	Investment	99.99%	0.01%	100%	Acquisition
CCB Indonesia	Jakarta, Indonesia	IDR1,663,146 million	Commercial Banking	60%	-	60%	Acquisition
CCB Malaysia	Kuala Lumpur, Malaysia	MYR823 million	Commercial Banking	100%	-	100%	Establishment
CCB International (Holdings) Limited ("CCBI")	Hong Kong, the PRC	US\$601 million	Investment	-	100%	100%	Acquisition
China Construction Bank (Asia) Corporation Limited ("CCB Asia")	Hong Kong, the PRC	HK\$6,511 million RMB17,600 million	Commercial Banking	-	100%	100%	Acquisition
China Construction Bank (Brasil) Banco Múltiplo S/A ("CCB Brasil")	Sao Paulo Brasil	R\$1,554 million	Commercial Banking	-	99.31%	99.75%	Acquisition

- (3) As at 31 December 2016, the amount of the non-controlling interests of the subsidiaries was immaterial to the Group.

30 INTERESTS IN ASSOCIATES AND JOINT VENTURES

(1) The movement of the Group's interests in associates and joint ventures is as follows:

	2016	2015
As at 1 January	4,986	3,084
Acquisition during the year	2,408	1,657
Disposal during the year	(326)	(103)
Share of profits	69	275
Cash dividend receivable	(8)	(14)
Effect of exchange difference and others	189	87
As at 31 December	7,318	4,986

(2) Details of the interests in major associates and joint ventures are as follows:

Name of Company	Principal place of business	Particulars of issued and paid up capital	Principal activities	% of ownership held	% of voting held	Total assets at year end	Total liabilities at year end	Revenue for the year	Net profit for the year
Guoji Capital Company Limited	Beijing, the PRC	RMB2,370 million	Investment management and consultancy	12.66%	12.66%	2,906	378	102	62
Diamond String Limited	Hong Kong, the PRC	HK\$10,000	Property investment	50.00%	50.00%	1,786	1,528	203	87
Maotai CCBT Private Equity Fund (Limited Partnership)	Guizhou, the PRC	RMB900 million	Investment management and consultancy	38.11%	50.00%	969	1	51	37
Guangdong SOE Reorganization Development Fund (Limited Partnership)	Zhuhai, the PRC	RMB900 million	Investment management and consultancy	49.67%	33.33%	947	-	16	7

31 STRUCTURED ENTITIES

(1) Unconsolidated structured entities

Unconsolidated structured entities of the Group include trust plans, asset management plans, funds, asset-back securities and wealth management products held for investment purpose and non-principal guaranteed wealth management products, trust plans and funds, etc which are issued or established by the Group for providing wealth management services to customers and earning management fees, commission and custodian fees in return.

As at 31 December 2016 and 2015, the assets recognised for the Group's interests in the unconsolidated structured entities above included related investment and management fee, commission and custodian fee receivables accrued. The related carrying amount and the maximum exposure were as follows:

	2016	2015
Financial assets at fair value through profit or loss	5,408	1,639
Interest receivables	155	129
Available-for-sale financial assets	275,035	24,728
Investment classified as receivables	121,527	18,535
Interest in associates and joint ventures	4,184	2,606
Other assets	3,451	2,441
Total	409,760	50,078

For the year ended 31 December 2016 and 2015, the income from these unconsolidated structured entities held by the Group was as follows:

	2016	2015
Interest income	4,773	1,222
Fee and commission income	21,491	14,007
Net trading gain	132	21
Dividend income	2,102	699
Net gain arising from investment securities	3,033	20
Share of profit of associates and joint ventures	30	218
Total	31,561	16,187

As at 31 December 2016, the balance of the non-principal guaranteed wealth management products set up by the Group amounted to RMB1,794,708 million (as at 31 December 2015: RMB1,366,318 million). For the year ended 31 December 2016, there were debt securities purchased and sold between the Group and non-principal guaranteed wealth management products mentioned above. These transactions were based on market prices or general commercial terms. The profit and loss from these transactions was not material to the Group.

(2) Consolidated structured entities

The consolidated structured entities of the Group are primarily the principal guaranteed wealth management products (Note 21(2)c) and certain asset management plans and trust plans.

32 FIXED ASSETS

	Bank premises	Construction in progress	Equipment	Others	Total
Cost/deemed cost					
As at 1 January 2016	113,844	27,274	51,305	50,778	243,201
Additions	1,602	5,286	6,423	12,227	25,538
Transfer in/(out)	4,513	(6,065)	50	1,502	-
Other movements	13	(952)	(2,791)	(1,813)	(5,543)
As at 31 December 2016	119,972	25,543	54,987	62,694	263,196
Accumulated depreciation					
As at 1 January 2016	(26,319)	-	(32,101)	(24,749)	(83,169)
Charge for the year	(4,016)	-	(5,070)	(4,718)	(13,804)
Other movements	7	-	2,573	1,788	4,368
As at 31 December 2016	(30,328)	-	(34,598)	(27,679)	(92,605)
Allowances for impairment losses (Note 38)					
As at 1 January 2016	(423)	-	-	(78)	(501)
Charge for the year	-	-	-	(46)	(46)
Other movements	5	-	-	46	51
As at 31 December 2016	(418)	-	-	(78)	(496)
Net carrying value					
As at 1 January 2016	87,102	27,274	19,204	25,951	159,531
As at 31 December 2016	89,226	25,543	20,389	34,937	170,095
Cost/deemed cost					
As at 1 January 2015	105,224	28,378	46,807	42,350	222,759
Additions	2,017	8,688	7,044	9,182	26,931
Transfer in/(out)	6,830	(8,821)	43	1,948	-
Other movements	(227)	(971)	(2,589)	(2,702)	(6,489)
As at 31 December 2015	113,844	27,274	51,305	50,778	243,201
Accumulated depreciation					
As at 1 January 2015	(22,651)	-	(27,254)	(20,743)	(70,648)
Charge for the year	(3,783)	-	(7,369)	(5,980)	(17,132)
Other movements	115	-	2,522	1,974	4,611
As at 31 December 2015	(26,319)	-	(32,101)	(24,749)	(83,169)
Allowances for impairment losses (Note 38)					
As at 1 January 2015	(424)	-	-	(80)	(504)
Other movements	1	-	-	2	3
As at 31 December 2015	(423)	-	-	(78)	(501)
Net carrying value					
As at 1 January 2015	82,149	28,378	19,553	21,527	151,607
As at 31 December 2015	87,102	27,274	19,204	25,951	159,531

Notes:

- (1) Other movements include disposals, retirements and exchange gains or losses of fixed assets.
- (2) As at 31 December 2016, the ownership documentation for the Group's bank premises with a net carrying value of RMB22,952 million (as at 31 December 2015: RMB23,847 million) was being finalised. However, management is of the view that the aforesaid matter would not affect the rights of the Group to these assets nor have any significant impact on the business operation of the Group.

33 LAND USE RIGHTS

	2016	2015
Cost/deemed cost		
As at 1 January	21,217	21,255
Additions	86	28
Disposals	(97)	(66)
As at 31 December	21,206	21,217
Amortisation		
As at 1 January	(5,844)	(5,355)
Charge for the year	(505)	(509)
Disposals	27	20
As at 31 December	(6,322)	(5,844)
Allowances for impairment losses (Note 38)		
As at 1 January	(142)	(142)
As at 31 December	(142)	(142)
Net carrying value		
As at 1 January	15,231	15,758
As at 31 December	14,742	15,231

34 INTANGIBLE ASSETS

	Software	Others	Total
Cost/deemed cost			
As at 1 January 2016	6,435	959	7,394
Additions	1,307	178	1,485
Disposals	(54)	(9)	(63)
As at 31 December 2016	7,688	1,128	8,816
Amortisation			
As at 1 January 2016	(5,018)	(265)	(5,283)
Charge for the year	(858)	(98)	(956)
Disposals	25	5	30
As at 31 December 2016	(5,851)	(358)	(6,209)
Allowances for impairment losses (Note 38)			
As at 1 January 2016	(1)	(7)	(8)
As at 31 December 2016	(1)	(7)	(8)
Net carrying value			
As at 1 January 2016	1,416	687	2,103
As at 31 December 2016	1,836	763	2,599

34 INTANGIBLE ASSETS (CONTINUED)

	Software	Others	Total
Cost/deemed cost			
As at 1 January 2015	6,124	1,000	7,124
Additions	384	48	432
Disposals	(73)	(89)	(162)
As at 31 December 2015	6,435	959	7,394
Amortisation			
As at 1 January 2015	(4,525)	(156)	(4,681)
Charge for the year	(545)	(124)	(669)
Disposals	52	15	67
As at 31 December 2015	(5,018)	(265)	(5,283)
Allowances for impairment losses (Note 38)			
As at 1 January 2015	(1)	(7)	(8)
As at 31 December 2015	(1)	(7)	(8)
Net carrying value			
As at 1 January 2015	1,598	837	2,435
As at 31 December 2015	1,416	687	2,103

35 GOODWILL

- (1) The goodwill is mainly attributable to the expected synergies arising from the acquisition of CCB Asia, CCB Brasil and CCB Indonesia. The movement of the goodwill is listed as follows:

	2016	2015
As at 1 January	2,140	2,253
Additions through acquisitions	566	–
Effect of exchange difference	241	(113)
As at 31 December	2,947	2,140

- (2) Impairment test for CGU containing goodwill

The Group calculated the recoverable amount of CGU using cash flow projections based on financial forecasts approved by management. The average growth rate used by the Group is consistent with the forecasts included in industry reports. The discount rate used reflects specific risks relating to the relevant segments.

Based on the result of the impairment test, no impairment losses on goodwill of the Group were recognised as at 31 December 2016 (as at 31 December 2015: nil).

36 DEFERRED TAX

	2016	2015
Deferred tax assets	31,062	25,379
Deferred tax liabilities	(570)	(624)
Total	30,492	24,755

(1) Analysed by nature

	2016		2015	
	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
Deferred tax assets				
– Fair value adjustments	1,899	458	(31,962)	(7,892)
– Allowances for impairment losses	111,883	27,952	123,244	31,428
– Early retirement benefits and accrued salaries	24,749	6,188	23,779	5,945
– Others	(17,429)	(3,536)	(18,211)	(4,102)
Total	121,102	31,062	96,850	25,379
Deferred tax liabilities				
– Fair value adjustments	(2,115)	(501)	(2,754)	(637)
– Allowances for impairment losses	28	7	464	79
– Others	(447)	(76)	(128)	(66)
Total	(2,534)	(570)	(2,418)	(624)

(2) Movements of deferred tax

	Fair value adjustments	Allowances for impairment losses	Early retirement benefits and accrued salaries	Others	Total
As at 1 January 2016	(8,529)	31,507	5,945	(4,168)	24,755
Recognised in profit or loss	121	(3,548)	243	556	(2,628)
Recognised in other comprehensive income	8,365	–	–	–	8,365
As at 31 December 2016	(43)	27,959	6,188	(3,612)	30,492
As at 1 January 2015	(1,737)	38,283	6,298	(3,751)	39,093
Recognised in profit or loss	(313)	(6,776)	(353)	(417)	(7,859)
Recognised in other comprehensive income	(6,479)	–	–	–	(6,479)
As at 31 December 2015	(8,529)	31,507	5,945	(4,168)	24,755

The Group did not have significant unrecognised deferred tax as at the end of the reporting period.

37 OTHER ASSETS

	Note	2016	2015
Repossessed assets	(1)		
– Buildings		1,773	1,686
– Land use rights		745	314
– Others		955	762
		3,473	2,762
Clearing and settlement accounts		23,494	2,984
Fee and commission receivables		7,782	5,475
Insurance business related assets		5,803	7,976
Leasehold improvements		3,489	3,167
Deferred expenses		3,297	3,477
Others		33,000	22,255
Gross balance		80,338	48,096
Allowances for impairment losses (Note 38)			
– Repossessed assets		(1,062)	(644)
– Others		(3,278)	(3,938)
Total		75,998	43,514

Note:

- (1) For the year ended 31 December 2016, the original cost of repossessed assets disposed of by the Group amounted to RMB161 million (for the year ended 31 December 2015: RMB935 million). The Group intends to dispose of repossessed assets through various methods including auction, competitive bidding and disposal.

38 MOVEMENTS OF ALLOWANCES FOR IMPAIRMENT LOSSES

	Note	2016				As at 31 December
		As at 1 January	Charge for the year/ (Write-back)	Transfer (out)/in	Write-offs	
Deposits with banks and non-bank financial institutions	19	7	59	–	–	66
Placements with banks and non-bank financial institutions	20	36	90	–	(3)	123
Interest receivable	24	1	–	–	(1)	–
Loans and advances to customers	25(3)	250,617	89,588	(37,881)	(33,647)	268,677
Available for sale debt securities		1,051	217	41	–	1,309
Available for sale equity instrument		4,317	89	(330)	–	4,076
Held-to-maturity investments	27	2,033	970	46	–	3,049
Investment classified as receivables	28	1,908	(586)	29	–	1,351
Fixed assets	32	501	46	(51)	–	496
Land use rights	33	142	–	–	–	142
Intangible assets	34	8	–	–	–	8
Other assets	37	4,582	752	–	(994)	4,340
Total		265,203	91,225	(38,146)	(34,645)	283,637

38 MOVEMENTS OF ALLOWANCES FOR IMPAIRMENT LOSSES (CONTINUED)

	Note	2015				As at 31 December
		As at 1 January	Charge for the year/ (Write-back)	Transfer (out)/in	Write-offs	
Deposits with banks and non-bank financial institutions	19	7	-	-	-	7
Placements with banks and non-bank financial institutions	20	27	10	-	(1)	36
Interest receivable	24	1	-	-	-	1
Loans and advances to customers	25(3)	251,613	92,610	(58,755)	(34,851)	250,617
Available for sale debt securities		1,409	(402)	53	(9)	1,051
Available for sale equity instrument		4,413	28	(120)	(4)	4,317
Held-to-maturity investments	27	3,644	(1,633)	24	(2)	2,033
Investment classified as receivables	28	945	927	36	-	1,908
Fixed assets	32	504	-	(3)	-	501
Land use rights	33	142	-	-	-	142
Intangible assets	34	8	-	-	-	8
Other assets	37	3,693	1,334	-	(445)	4,582
Total		266,406	92,874	(58,765)	(35,312)	265,203

Transfer (out)/in includes the exchange differences.

39 THE TRANSACTION BALANCE BETWEEN THE BANK AND SUBSIDIARIES

The balances between the Bank and subsidiaries are analysed by assets category as follows:

	2016	2015
Deposits with banks and non-bank financial institutions	11,254	21,023
Placements with banks and non-bank financial institutions	86,820	93,305
Positive fair value of derivatives	1,087	1,795
Interest receivable	81	114
Loans and advances to customers	6,259	5,659
Available-for-sale financial assets	2,271	60
Held-to-maturity investments	690	-
Investment classified as receivables	486	-
Other assets	49,931	40,415
Total	158,879	162,371

The balances between the Bank and subsidiaries are analysed by liabilities category as follows:

	2016	2015
Deposits from banks and non-bank financial institutions	9,315	11,199
Placements from banks and non-bank financial institutions	105,653	63,580
Negative fair value of derivatives	3,715	1,237
Deposits from customers	3,974	2,371
Interest payable	611	505
Debt securities issued	890	1,910
Other liabilities	110	367
Total	124,268	81,169

40 BORROWINGS FROM CENTRAL BANKS

	2016	2015
Mainland China	385,375	898
Overseas	53,964	41,150
Total	439,339	42,048

41 DEPOSITS FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	2016	2015
Banks	413,150	160,367
Non-bank financial institutions	1,199,845	1,279,028
Total	1,612,995	1,439,395

(2) Analysed by geographical sectors

	2016	2015
Mainland China	1,442,126	1,342,935
Overseas	170,869	96,460
Total	1,612,995	1,439,395

42 PLACEMENTS FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	2016	2015
Banks	297,639	300,937
Non-bank financial institutions	24,907	20,775
Total	322,546	321,712

(2) Analysed by geographical sectors

	2016	2015
Mainland China	118,944	150,518
Overseas	203,602	171,194
Total	322,546	321,712

43 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016	2015
Principal guaranteed wealth management products	324,443	248,680
Financial liabilities related to precious metals	31,313	33,225
Structured financial instruments	40,835	20,744
Total	396,591	302,649

The Group's financial liabilities at fair value through profit or loss are those designated at fair value through profit or loss. As at the end of reporting period, the difference between the fair value of these financial liabilities and the contractual payables at maturity is not material. The amounts of changes in the fair value of these financial liabilities that are attributable to changes in credit risk are considered not significant during the year presented and cumulatively as at 31 December 2016 and 2015.

44 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

Financial assets sold under repurchase agreements by underlying assets are shown as follows:

	2016	2015
Securities		
– Bills issued by the PBOC	–	35,000
– Government bonds	167,088	200,409
– Debt securities issued by banks and non-bank financial institutions	15,640	32,376
Subtotal	182,728	267,785
Discounted bills	5,500	227
Others	2,352	–
Total	190,580	268,012

45 DEPOSITS FROM CUSTOMERS

	2016	2015
Demand deposits		
– Corporate customers	5,206,395	4,261,474
– Personal customers	3,022,447	2,611,873
Subtotal	8,228,842	6,873,347
Time deposits (including call deposits)		
– Corporate customers	3,120,699	2,918,679
– Personal customers	4,053,374	3,876,507
Subtotal	7,174,073	6,795,186
Total	15,402,915	13,668,533

Deposits from customers include:

	2016	2015
(1) Pledged deposits		
– Deposits for acceptance	99,822	118,897
– Deposits for guarantee	80,930	49,143
– Deposits for letter of credit	28,264	24,811
– Others	313,110	256,033
Total	522,126	448,884
(2) Outward remittance and remittance payables	14,121	11,969

46 ACCRUED STAFF COSTS

	Note	2016			As at 31 December
		As at 1 January	Increased	Decreased	
Salaries, bonuses, allowances and subsidies		25,291	62,093	(62,571)	24,813
Other social insurance and welfare		2,288	8,997	(8,550)	2,735
Housing funds		135	6,296	(6,238)	193
Union running costs and employee education costs		2,123	2,567	(2,438)	2,252
Post-employment benefits	(1)				
– Defined contribution plans		906	12,846	(12,788)	964
– Defined benefit plans		128	842	–	970
Early retirement benefits		2,315	91	(466)	1,940
Compensation to employees for termination of employment relationship		4	3	(4)	3
Total		33,190	93,735	(93,055)	33,870

	Note	2015			As at 31 December
		As at 1 January	Increased	Decreased	
Salaries, bonuses, allowances and subsidies		25,864	61,087	(61,660)	25,291
Other social insurance and welfare		2,134	8,561	(8,407)	2,288
Housing funds		100	6,501	(6,466)	135
Union running costs and employee education costs		1,842	2,540	(2,259)	2,123
Post-employment benefits	(1)				
– Defined contribution plans		821	12,717	(12,632)	906
– Defined benefit plans		920	14	(806)	128
Early retirement benefits		2,850	160	(695)	2,315
Compensation to employees for termination of employment relationship		4	7	(7)	4
Total		34,535	91,587	(92,932)	33,190

The Group has no overdue balance of accrued staff costs as at the end of the reporting period.

(1) Post-employment benefits

(a) Defined contribution plans

	2016			As at 31 December
	As at 1 January	Increased	Decreased	
Basic pension insurance	635	9,429	(9,400)	664
Unemployment insurance	33	485	(476)	42
Annuity contribution	238	2,932	(2,912)	258
Total	906	12,846	(12,788)	964

	2015			As at 31 December
	As at 1 January	Increased	Decreased	
Basic pension insurance	545	9,277	(9,187)	635
Unemployment insurance	30	628	(625)	33
Annuity contribution	246	2,812	(2,820)	238
Total	821	12,717	(12,632)	906

46 ACCRUED STAFF COSTS (CONTINUED)

(1) Post-employment benefits (continued)

(b) Defined benefit plans – Supplementary retirement benefits

The Group's obligations in respect of the supplementary retirement benefits as at the end of reporting period were calculated using the projected unit credit actuarial cost method and reviewed by qualified staff (a member of Society of Actuaries of the United States of America) of an external independent actuary: Towers, Perrin, Forster & Crosby, Inc., Hong Kong.

	Present value of defined benefit plan obligations		Fair value of plan assets		Net liabilities of defined benefit plans	
	2016	2015	2016	2015	2016	2015
As at 1 January	6,664	6,654	6,536	5,734	128	920
Cost of the net defined benefit liability in profit or loss						
– Interest costs	186	233	183	219	3	14
Remeasurements of the defined benefit liability in other comprehensive income						
– Actuarial losses	919	428	–	–	919	428
– Returns on plan assets	–	–	80	479	(80)	(479)
Other changes						
– Benefits paid	(638)	(651)	(638)	(651)	–	–
– Contribution to plan assets	–	–	–	755	–	(755)
As at 31 December	7,131	6,664	6,161	6,536	970	128

Interest cost was recognised in other general and administrative expenses.

(i) Principal actuarial assumptions of the Group as at the end of reporting period are as follows:

	2016	2015
Discount rate	3.00%	3.00%
Health care cost increase rate	7.00%	7.00%
Average expected future lifetime of eligible employees	12.8 years	11.6 years

Mortality assumptions of 2016 are based on China Life Insurance Mortality Table (2010-2013), (2015: 2000-2003). The Table below published historical statistics in China.

(ii) The sensitivity of the present value of supplementary retirement benefit obligations to changes in the weighted principal assumption is:

	Impact on present value of supplementary retirement benefit obligations	
	Increase in assumption by 0.25%	Decrease in assumption by 0.25%
Discount rate	(152)	158
Health care cost increase rate	57	(55)

(iii) As at 31 December 2016, the weighted average duration of supplementary retirement benefit obligations of the Group is 8.7 years (As at 31 December 2015: 8.0 years).

46 ACCRUED STAFF COSTS (CONTINUED)

(1) Post-employment benefits (continued)

(b) Defined benefit plans – Supplementary retirement benefits (continued)

(iv) Plan assets of the Group are as follows:

	2016	2015
Cash and cash equivalents	1,185	1,064
Equity instruments	359	383
Debt instruments	4,522	4,967
Others	95	122
Total	6,161	6,536

47 TAXES PAYABLE

	2016	2015
Income tax	35,526	40,596
Business tax	68	7,723
Value added tax	7,039	(1,315)
Others	2,267	2,407
Total	44,900	49,411

48 INTEREST PAYABLE

	2016	2015
Deposits from customers	185,018	190,236
Deposits from banks and non-bank financial institutions	15,801	9,941
Debts securities issued	2,312	2,256
Others	8,199	3,251
Total	211,330	205,684

49 PROVISIONS

	2016	2015
Litigation provisions	2,292	1,655
Others	6,984	5,453
Total	9,276	7,108

50 DEBT SECURITIES ISSUED

	Note	2016	2015
Certificates of deposit issued	(1)	199,008	170,796
Bonds issued	(2)	47,163	40,916
Subordinated bonds issued	(3)	145,599	144,979
Eligible Tier 2 capital bonds issued	(4)	59,784	58,853
Total		451,554	415,544

50 DEBT SECURITIES ISSUED (CONTINUED)

Notes:

- (1) Certificates of deposit were mainly issued by domestic branches, overseas branches and CCB Asia.
(2) Bonds issued

Issue date	Maturity date	Interest rate per annum	Issue place	Currency	2016	2015
2013-12-10	2016-12-12	3.25%	Taiwan	RMB	-	2,000
2014-03-13	2016-03-13	3.25%	Hong Kong	RMB	-	4,000
2014-04-01	2017-04-01	2.375%	Hong Kong	USD	2,085	1,948
2014-04-25	2016-04-25	3 months LIBOR+1.35%	Hong Kong	USD	-	130
2014-05-28	2016-05-30	3.38%	Frankfurt	RMB	-	1,500
2014-05-28	2019-05-28	1.375%	Switzerland	CHF	2,047	1,968
2014-06-27	2017-06-27	3.45%	Switzerland	RMB	1,250	1,250
2014-07-02	2019-07-02	3.25%	Hong Kong	USD	4,170	3,896
2014-09-05	2017-09-05	3.35%	Taiwan	RMB	800	800
2014-09-05	2019-09-05	3.75%	Taiwan	RMB	600	600
2014-09-05	2021-09-05	4.00%	Taiwan	RMB	600	600
2014-11-18	2016-11-18	3.30%	Taiwan	RMB	-	700
2014-11-18	2019-11-18	3.75%	Taiwan	RMB	1,000	1,000
2014-11-18	2021-11-18	3.95%	Taiwan	RMB	1,000	1,000
2014-11-18	2024-11-18	4.08%	Taiwan	RMB	600	600
2014-11-27	2016-12-06	3.45%	Hong Kong	RMB	-	120
2015-01-20	2020-01-20	3.125%	Hong Kong	USD	4,865	4,546
2015-02-11	2020-02-11	1.50%	Luxembourg	EUR	3,655	3,545
2015-03-31	2016-03-29	0.33%	Hong Kong	EUR	-	213
2015-04-29	2016-04-29	3.80%	Hong Kong	RMB	-	400
2015-06-18	2018-06-18	4.317%	Auckland	NZD	241	222
2015-06-18	2019-06-18	4.30%	Auckland	NZD	7	7
2015-06-18	2020-06-18	3 month New Zealand benchmark interest rate +1.2%	Auckland	NZD	120	111
2015-07-16	2018-06-18	3.935%	Auckland	NZD	72	67
2015-07-28	2020-07-28	3.25%	Hong Kong	USD	3,475	3,247
2015-08-31	2016-03-03	0.70%	Hong Kong	USD	-	185
2015-09-09	2016-03-07	0.75%	Hong Kong	USD	-	130
2015-09-09	2016-03-10	0.70%	Hong Kong	USD	-	162
2015-09-10	2019-09-10	3.945%	Auckland	NZD	59	55
2015-09-14	2016-03-10	0.75%	Hong Kong	USD	-	108
2015-09-15	2016-03-17	0.75%	Hong Kong	USD	-	130
2015-09-18	2018-09-18	3 month Australia benchmark interest rate +1.15%	Sydney	AUD	2,003	1,900
2015-09-22	2016-03-24	0.73%	Hong Kong	USD	-	130
2015-09-29	2016-03-31	0.72%	Hong Kong	USD	-	338
2015-10-19	2017-10-19	4.30%	London	RMB	990	990
2015-10-27	2016-04-28	0.82%	Hong Kong	USD	-	878
2015-10-27	2016-04-28	0.80%	Hong Kong	USD	-	130
2015-11-02	2016-05-04	0.75%	Hong Kong	USD	-	200
2015-11-12	2016-05-11	0.88%	Hong Kong	USD	-	130
2015-11-12	2016-05-11	0.85%	Hong Kong	USD	-	130
2015-11-26	2017-11-26	4.00%	Hong Kong	RMB	1,000	1,000
2015-12-07	2018-09-18	3 month Australia benchmark interest rate +1.15%	Sydney	AUD	15	14
2015-12-29	2020-01-27	3.80%	Auckland	NZD	96	89
2016-03-30	2026-03-30	4.08%	Mainland China	RMB	3,500	-
2016-05-16	2019-05-16	3.10%	Auckland	NZD	48	-
2016-05-31	2019-05-31	2.38%	Hong Kong	USD	757	-
2016-05-31	2021-05-31	2.75%	Hong Kong	USD	1,934	-
2016-08-18	2020-09-18	2.95%	Auckland	NZD	496	-
2016-10-18	2020-10-18	3.05%	Auckland	NZD	7	-
2016-10-21	2021-10-21	2.25%	Hong Kong	USD	4,865	-
2016-11-09	2019-11-09	3.05%	Mainland China	RMB	4,000	-
2016-11-09	2021-11-09	3.05%	Mainland China	RMB	1,000	-
2016-12-22	2019-12-22	3.35%	Auckland	NZD	48	-
Total nominal value					47,405	41,169
Less: unamortised issuance costs					(242)	(253)
Carrying value as at 31 December					47,163	40,916

50 DEBT SECURITIES ISSUED (CONTINUED)

(3) Subordinated bonds issued

The carrying value of the Group's subordinated bonds issued upon the approval of the PBOC, the CBRC, the HKMA and Brazil Central Bank is as follows:

Issue date	Maturity date	Interest rate per annum	Currency	Note	2016	2015
2009-02-24	2024-02-26	4.00%	RMB	(a)	28,000	28,000
2009-08-07	2024-08-11	4.04%	RMB	(b)	10,000	10,000
2009-11-03	2019-11-04	Benchmark rate released by Brazil Central Bank	BRL	(c)	427	328
2009-12-18	2024-12-22	4.80%	RMB	(d)	20,000	20,000
2010-04-27	2020-04-27	8.50%	USD	(c)	1,883	1,736
2010-07-30	2017-10-15	7.31%	USD	(c)	222	208
2011-11-03	2026-11-07	5.70%	RMB	(e)	40,000	40,000
2012-11-20	2027-11-22	4.99%	RMB	(f)	40,000	40,000
2014-08-20	2024-08-20	4.25%	USD	(g)	5,212	4,870
Total nominal value					145,744	145,142
Less: Unamortised issuance cost					(145)	(163)
Carrying value as at 31 December					145,599	144,979

Notes:

- The Group has an option to redeem the bonds on 26 February 2019. If they are not redeemed by the Group, the interest rate will increase to 7.00% per annum from 26 February 2019 for the next five years.
- The Group has an option to redeem the bonds on 11 August 2019. If they are not redeemed by the Group, the interest rate will increase to 7.04% per annum from 11 August 2019 for the next five years.
- The subordinated bonds were issued by BIC.
- The Group has an option to redeem the bonds on 22 December 2019. If they are not redeemed by the Group, the interest rate will increase to 7.80% per annum from 22 December 2019 for the next five years.
- The Group has an option to redeem the bonds on 7 November 2021, subject to an approval from relevant authority.
- The Group has an option to redeem the bonds on 22 November 2022, subject to an approval from relevant authority.
- The Group has an option to redeem the bonds on 20 August 2019, subject to an approval from relevant authority.

(4) Eligible Tier 2 capital bonds issued

Issue date	Maturity date	Interest rate per annum	Currency	Note	2016	2015
2014-08-15	2029-08-18	5.98%	RMB	(a)	20,000	20,000
2014-11-12	2024-11-12	4.90%	RMB	(b)	2,000	2,000
2015-05-13	2025-05-13	3.875%	USD	(c)	13,899	12,987
2015-12-18	2025-12-21	4.00%	RMB	(d)	24,000	24,000
Total nominal value					59,899	58,987
Less: Unamortised issuance cost					(115)	(134)
Carrying value as at 31 December					59,784	58,853

Notes:

- The Group has an option to redeem the bonds on 18 August 2024, subject to an approval from relevant authority. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory trigger event occurs. Any accumulated unpaid interest will not be paid, either.
- The Group has an option to redeem the bonds on 12 November 2019, subject to an approval from relevant authority. If they are not redeemed by the Group, the interest rate per annum will increase by 1.538% on the basis of twelve months CNH HIBOR applicable on the interest reset date from 12 November 2019 for the next five years. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory trigger event occurs. Any accumulated unpaid interest will not be paid, either.

50 DEBT SECURITIES ISSUED (CONTINUED)

(4) Eligible Tier 2 capital bonds issued (continued)

- (c) The Group has an option to redeem the bonds on 13 May 2020, subject to an approval from relevant authority. If they are not redeemed by the Group, the interest rate will be reset on 13 May 2020 and increase by 2.425% on the basis of five years USD treasury benchmark applicable on the interest reset date. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory trigger event occurs. Any accumulated unpaid interest will not be paid, either.
- (d) The Group has an option to redeem the bonds on 21 December 2020, subject to an approval from relevant authority. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory trigger event occurs. Any accumulated unpaid interest will not be paid, either.

51 OTHER LIABILITIES

	2016	2015
Insurance business related liabilities	95,892	58,540
Deferred income	11,473	14,089
Capital expenditure payable	10,388	8,951
Leasing business related liabilities	7,821	5,853
Dormant accounts	4,501	3,535
Payment and collection clearance accounts	3,190	2,049
Accrued expenses	3,074	3,019
Securities underwriting and redemption payable	1,100	2,060
Clearing and settlement Accounts	966	4,003
Others	28,847	20,455
Total	167,252	122,554

52 SHARE CAPITAL AND OTHER EQUITY INSTRUMENTS

(1) Share capital

	2016	2015
Listed in Hong Kong (H share)	240,417	240,417
Listed in Mainland China (A share)	9,594	9,594
Total	250,011	250,011

All H and A shares are ordinary shares, have a par value of RMB1 per share and rank pari passu with the same rights and benefits.

(2) Other equity instruments

(a) Preference shares outstanding as at the end of the reporting period

Preference shares	Issue date	Classification	Initial interest rate	Issue price	Quantity (million)	Total amount		Maturity date	Conversion conditions	
						Original Currency (USD)	(RMB)			
2015 Offshore Preference Shares	16 December 2015	Equity instruments	4.65%	\$20 per share	152.5	3,050	19,711	No maturity date	None	
Less: Issuance fee							(52)			
Carrying amount							19,659			

52 SHARE CAPITAL AND OTHER EQUITY INSTRUMENTS (CONTINUED)

(2) Other equity instruments (continued)

(a) Preference shares outstanding as at the end of the reporting period (continued)

The key terms are as below:

(1) Dividend

The initial annual dividend rate is 4.65% and is subsequently subject to reset per agreement, but in no case shall exceed 20.4850%. The dividend is measured and paid in dollars. After such dividend being paid at the agreed dividend payout ratio, the holders of the above offshore preference shares shall not be entitled to share in the distribution of the remaining profits of the Bank together with the holders of the ordinary shares. The dividends for offshore preference shares are non-cumulative. The Bank shall be entitled to cancel any dividend for the offshore preference shares, and such cancellation shall not be deemed a default. However, until the Bank fully pays the dividends for the current dividend period, the Bank shall not make any dividend distribution to ordinary shareholders.

(2) Redemption

Subject to receiving the prior approval of CBRC and satisfaction of the redemption conditions precedent, all or some only of the Offshore Preference Shares may be redeemed at the discretion of the Bank on 16 December 2020 or on any dividend payment date thereafter at the redemption price which is equal to issue price plus dividends payable but not yet distributed in current period.

(3) Compulsory conversion of preference shares

When an Additional Tier 1 Capital Instrument Trigger Event occurs, that is Core Tier 1 Capital Adequacy Ratio of the Bank falling to 5.125% (or below), the Bank shall (without the need for the consent of offshore preference shareholders) convert all or some only of the preference shares in issue into such number of H shares which will be sufficient to restore the Bank's Core Tier 1 Capital Adequacy Ratio to above 5.125% according to contract; When a Tier 2 Capital Instrument Trigger Event occurs, the Bank shall (without the need for the consent of offshore preference shareholders) convert all of the offshore preference shares in issue into such number of H shares according to contract. Tier 2 Capital Instrument Trigger Event is defined as the earlier of: (i) the CBRC having decided that without a conversion or write-off the Bank would become non-viable; and (ii) the relevant authorities having decided that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable. Once a preference share has been converted, it will not be restored in any circumstances. When the compulsory conversion of offshore preference shares occurs, the Bank shall report to the CBRC for approval and decision.

The Bank classifies offshore preference shares issued as an equity instrument and presented as an equity item on statements of financial position. Capital raised from the issuance of the above offshore preference shares, after deduction of the expenses relating to the issuance, was wholly used to replenish the Bank's additional tier 1 capital and to increase its capital adequacy ratio.

(b) Changes in Preference shares outstanding

Preference Shares	1 January 2016		Increase		31 December 2016	
	Amount (million shares)	Carrying value	Amount (million shares)	Carrying value	Amount (million shares)	Carrying value
2015 off shore preference shares	152.5	19,659	–	–	152.5	19,659

(c) Interests attributable to the holders of equity instruments

Items	2016	2015
1. Total equity attributable to equity holders of the Bank	1,576,500	1,434,020
(1) Equity attributable to ordinary equity holders of the Bank	1,556,841	1,414,361
(2) Equity attributable to other equity holders of the Bank	19,659	19,659
Of which: net profit	1,067	–
dividends received	1,067	–
2. Total equity attributable to non-controlling interests	13,154	11,063
(1) Equity attributable to non-controlling interests of ordinary shares	13,154	11,063

53 CAPITAL RESERVE

	2016	2015
Share premium	134,543	134,911
Cash flow hedge reserve	(150)	–
Others	(433)	338
Total	133,960	135,249

54 INVESTMENT REVALUATION RESERVE

The changes in fair value of available-for-sale financial assets were recognised in “investment revaluation reserve”.
Movements of investment revaluation reserve are as follows:

	2016		
	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount
As at 1 January	30,791	(7,733)	23,058
Losses during the year			
– Debt securities	(20,531)	5,228	(15,303)
– Equity instruments and funds	(6,401)	1,600	(4,801)
	(26,932)	6,828	(20,104)
Reclassification adjustments			
– Impairment	306	(77)	229
– Disposals	(5,546)	1,387	(4,159)
	(5,240)	1,310	(3,930)
As at 31 December	(1,381)	405	(976)

	Note	2015		
		Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount
As at 1 January		5,435	(1,369)	4,066
Gains during the year				
– Debt securities		26,655	(6,689)	19,966
– Equity instruments and funds		607	(152)	455
		27,262	(6,841)	20,421
Reclassification adjustments				
– Impairment		(374)	94	(280)
– Disposals		(1,533)	383	(1,150)
– Others	(1)	1	–	1
		(1,906)	477	(1,429)
As at 31 December		30,791	(7,733)	23,058

Note:

- (1) Others refer to the amortisation of accumulated losses previously recognised in revaluation reserve for the year. These accumulated losses were related to certain debt securities reclassified from available-for-sale financial assets to held-to-maturity investments in prior years.

55 SURPLUS RESERVE

Surplus reserves consist of statutory surplus reserve fund and discretionary surplus reserve fund.

The Bank is required to allocate 10% of its net profit, as determined under the Accounting Standards for Business Enterprises and other relevant requirements issued by the MOF on 15 February 2006. After making appropriations to the statutory surplus reserve fund, the Bank may also allocate its net profit to the discretionary surplus reserve fund upon approval by shareholders in annual general meetings.

56 GENERAL RESERVE

The general reserve of the Group as at the end of the reporting period is set up based upon the requirements of:

	Note	2016	2015
MOF	(1)	205,933	181,686
Hong Kong Banking Ordinance	(2)	2,124	2,124
Other regulatory bodies in Mainland China	(3)	2,546	2,152
Other overseas regulatory bodies		590	460
Total		211,193	186,422

Notes:

- (1) Pursuant to relevant regulations issued by the MOF, the Bank has to appropriate a certain amount of its net profit as general reserve to cover potential losses against its assets. In accordance with the 'Regulation on Management of Financial Institutions for Reserves' (Cai Jin [2012] No. 20), issued by the Ministry of Finance on 30 March 2012, the general reserve balance for financial institutions should not be lower than 1.5% of the ending balance of gross risk-bearing assets.
- (2) Pursuant to requirements of the Hong Kong Banking Ordinance, the Group's banking operations in Hong Kong are required to set aside amounts in a regulatory reserve in respect of losses which it will, or may, incur on loans and advances to customers, in addition to impairment losses recognised in accordance with the accounting policies of the Group. Transfers to and from the regulatory reserve are made through retained earnings.
- (3) Pursuant to the relevant regulatory requirements in Mainland China, the Bank's subsidiaries are required to appropriate a certain amount of its net profit as general reserve.

57 PROFIT DISTRIBUTION

In the Annual General Meeting held on 17 June 2016, the shareholders approved the profit distribution for the year ended 31 December 2015. The Bank appropriated cash dividend for the year ended 31 December 2015 in an aggregate amount of RMB68,503 million.

In the Board of Directors' Meeting held on 27 October 2016, the directors approved the payment of dividends to offshore preference shareholders. Calculated by the initial dividend rate before the first call date which is in accordance with the terms and conditions of the offshore preference shares and equals to 4.65% (after tax), the dividends payments amounted to 1,067 million yuan (including tax). The dividend payment date was 16 December 2016.

On 29 March 2017, Board of Directors proposed the following profit distribution scheme for the year ended 31 December 2016:

- (1) Appropriate statutory surplus reserve amounted to RMB224,128 million, based on 10% of the net profit of the Bank amounted to RMB22,413 million for the year 2016 (2015: RMB22,517 million). It has been recorded in "Surplus reserve" as at the end of the reporting period.
- (2) Appropriate general reserve amounted to RMB34,228 million, pursuant to relevant regulations issued by MOF (2015: RMB24,247 million).
- (3) Appropriate cash dividend RMB0.278 per share before tax (2015: RMB0.274 per share) and in aggregation amount of RMB69,503 million to all shareholders. Proposed dividends as at the end of the reporting period are not recognised as a liability.

Above proposed profit distribution scheme is subject to the approval of shareholders in the Annual General Meeting. Cash dividends will be distributed to all shareholders registered at the relevant date upon approval.

58 NOTES TO CASH FLOW STATEMENT

(1) Cash and cash equivalents

	2016	2015
Cash	73,296	77,678
Surplus deposit reserves with central banks	183,764	140,511
Demand deposits with banks and non-bank financial institutions	60,921	58,320
Deposits with banks and non-bank financial institutions with original maturity with or within three months	229,622	13,193
Placements with banks and non-bank financial institutions with original maturity with or within three months	51,521	98,219
Total	599,124	387,921

(2) Acquisition of CCB Indonesia

To acquire CCB Indonesia, the Bank paid RMB1,169 million, and acquired cash and cash equivalents of RMB1,146 million. The net cash outflow arising from the aforesaid acquisition was RMB23 million, which is analysed as follows:

	Acquisition date Recognised values	Acquisition date Carrying amounts
Cash and deposits with central banks	892	892
Placements with banks and non-bank financial institutions	254	254
Financial assets at fair value through profit or loss	144	144
Financial assets purchased under resale agreements	610	610
Loans and advances to customers	4,017	4,017
Available-for-sale financial assets	43	43
Held-to-maturity investments	386	386
Fixed assets	352	259
Goodwill	–	92
Other assets	154	154
Deposits from banks and non-bank financial institutions	139	139
Deposits from customers	5,115	5,115
Debt securities issued	253	253
Other liabilities	119	96
Net assets	1,226	
Non-controlling interests	601	
Identifiable net assets attributable to the shareholders of the Bank	625	
Goodwill on acquisition	544	
Consideration transferred	1,169	
Acquisition of cash and cash equivalents	1,146	
Acquisition net cash outflow	23	

The goodwill on acquisition is attributable to the significant synergies expected to arise.

Operating income and net profit of CCB Indonesia contributed to the Group since the acquisition date did not result in any significant impact to the consolidated statement of comprehensive income for the year ended 31 December 2016. The Group's operating income and net profit for the year ended 31 December 2016 would not have been materially different if the acquisition had occurred on 1 January 2016.

As at 31 December 2016, the Bank has acquired 60% interests in CCB Indonesia and has taken control of CCB Indonesia.

59 TRANSFERRED FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to structured entities. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

Securities Lending Transactions

Transferred financial assets that do not qualify for derecognition mainly include debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities lent under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognized them. As at 31 December 2016, the carrying value of debt securities lent to counterparties was RMB36,577 million (as at 31 December 2015: RMB9,804 million).

Credit Assets Securitisation Transactions

The Group enters into securitisation transactions in normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors. The Group retains interests in the form of subordinated tranches which would give rise to the Group's continuing involvement in the transferred assets. Those financial assets are recognised on the statement of financial positions to the extent of the Group's continuing involvement.

As at 31 December 2016, loans with an original carrying amount of RMB69,530 million (as at 31 December 2015: RMB16,841 million) have been securitised by the Group under arrangements in which the Group retained a continuing involvement in such assets. As at 31 December 2016, the carrying amount of assets that the Group continued to recognise was RMB5,156 million (as at 31 December 2015: RMB1,138 million). The carrying amount of continuing involvement assets and liabilities that the Group continued to recognise was RMB5,216 million as at 31 December 2016 (as at 31 December 2015: RMB1,177 million).

60 OPERATING SEGMENTS

The Group has presented the operating segments in a manner consistent with the way in which information is reported internally to the Group's chief operating decision makers for the purposes of resource allocation and performance assessment. Measurement of segment assets and liabilities and segment income and results is based on the Group's accounting policies.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense". Interest income and expense earned from third parties are referred to as "external net interest income/expense".

Segment revenues, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income and results are determined before intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the period to acquire fixed assets, intangible assets and other long-term assets.

60 OPERATING SEGMENTS (CONTINUED)

(1) Geographical segments

The Group operates principally in Mainland China with branches covering all provinces, autonomous regions and municipalities directly under the central government, and several subsidiaries located in Mainland China. The Group also has bank branch operations in Hong Kong, Macau, Taiwan, Singapore, Frankfurt, Johannesburg, Tokyo, Seoul, New York, Sydney, Ho Chi Minh City, Luxembourg, Toronto, London, Zurich, Dubai, Chile and certain subsidiaries operating in Hong Kong, London, Moscow, Luxembourg, British Virgin Islands, Auckland, Jakarta, San Paulo and Kuala Lumpur.

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branches and subsidiaries that generate the income. Segment assets, liabilities and capital expenditure are allocated based on their geographical location.

Geographical segments of the Group, as defined for management reporting purposes, are defined as follows:

- “Yangtze River Delta” refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Shanghai Municipality, Jiangsu Province, Zhejiang Province, City of Ningbo and City of Suzhou;
- “Pearl River Delta” refers to the following areas where the tier-1 branches of the Bank operate: Guangdong Province, City of Shenzhen, Fujian Province and City of Xiamen;
- “Bohai Rim” refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Beijing Municipality, Shandong Province, Tianjin Municipality, Hebei Province and City of Qingdao;
- the “Central” region refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Shanxi Province, Guangxi Autonomous Region, Hubei Province, Henan Province, Hunan Province, Jiangxi Province, Hainan Province and Anhui Province;
- the “Western” region refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Sichuan Province, Chongqing Municipality, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Inner Mongolia Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region; and
- the “Northeastern” region refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Liaoning Province, Jilin Province, Heilongjiang Province and City of Dalian.

60 OPERATING SEGMENTS (CONTINUED)

(1) Geographical segments (continued)

	2016								Total
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	
External net interest income	40,351	36,855	34,408	45,352	49,218	11,517	191,503	8,595	417,799
Internal net interest income/(expense)	28,147	22,638	36,501	30,117	25,491	12,653	(153,546)	(2,001)	-
Net interest income	68,498	59,493	70,909	75,469	74,709	24,170	37,957	6,594	417,799
Net fee and commission income	17,974	16,352	19,581	17,983	13,301	5,821	24,865	2,632	118,509
Net trading gain/(loss)	388	517	(686)	122	44	46	1,051	2,493	3,975
Dividend income	1,908	5	1	278	2	-	87	277	2,558
Net gain arising from investment securities	759	-	29	501	254	-	8,780	775	11,098
Other operating income/(expense), net	173	709	1,812	522	2,987	221	(3,202)	2,699	5,921
Operating income	89,700	77,076	91,646	94,875	91,297	30,258	69,538	15,470	559,860
Operating expenses	(26,634)	(21,740)	(27,905)	(31,221)	(29,002)	(11,658)	(16,683)	(6,672)	(171,515)
Impairment losses	(23,181)	(18,363)	(16,112)	(17,404)	(9,517)	(4,949)	(1,612)	(2,066)	(93,204)
Share of profit of associates and joint ventures	-	-	-	30	-	-	-	39	69
Profit before tax	39,885	36,973	47,629	46,280	52,778	13,651	51,243	6,771	295,210
Capital expenditure	2,351	1,873	7,896	3,110	2,533	1,209	2,233	5,935	27,140
Depreciation and amortisation	2,433	1,639	2,731	3,032	2,483	1,280	1,674	745	16,017
	2016								
Segment assets	3,287,924	2,248,437	2,341,529	3,223,419	2,745,765	966,670	8,456,699	1,663,306	24,933,749
Interests in associates and joint ventures	-	-	31	4,184	-	-	-	3,103	7,318
	3,287,924	2,248,437	2,341,560	3,227,603	2,745,765	966,670	8,456,699	1,666,409	24,941,067
Deferred tax assets									31,062
Elimination									(4,008,424)
Total assets									20,963,705
Segment liabilities	3,292,293	2,252,473	2,325,284	3,220,764	2,742,194	966,764	7,020,522	1,561,611	23,381,905
Deferred tax liabilities									570
Elimination									(4,008,424)
Total liabilities									19,374,051
Off-balance sheet credit commitments	570,239	403,398	699,060	418,924	318,757	151,838	2,800	159,510	2,724,526

60 OPERATING SEGMENTS (CONTINUED)

(1) Geographical segments (continued)

	2015								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Total
External net interest income	55,092	35,989	42,840	54,038	59,323	17,135	186,749	6,586	457,752
Internal net interest income/(expense)	17,014	23,628	30,196	22,276	17,479	9,803	(122,393)	1,997	-
Net interest income	72,106	59,617	73,036	76,314	76,802	26,938	64,356	8,583	457,752
Net fee and commission income	17,470	16,120	18,435	17,348	13,778	5,877	22,652	1,850	113,530
Net trading gain/(loss)	439	343	(105)	188	234	56	1,859	899	3,913
Dividend income	252	4	8	301	12	-	9	147	733
Net gain arising from investment securities	1,279	-	20	375	398	298	1,373	1,332	5,075
Other operating income, net	29	79	979	329	2,848	178	128	1,114	5,684
Operating income	91,575	76,163	92,373	94,855	94,072	33,347	90,377	13,925	586,687
Operating expenses	(32,210)	(25,536)	(31,506)	(36,720)	(34,056)	(13,781)	(15,265)	(5,752)	(194,826)
Impairment losses	(32,332)	(20,358)	(12,618)	(7,720)	(8,335)	(7,161)	(2,177)	(2,938)	(93,639)
Share of profit of associates and joint ventures	-	-	-	200	-	-	-	75	275
Profit before tax	27,033	30,269	48,249	50,615	51,681	12,405	72,935	5,310	298,497
Capital expenditure	2,429	2,605	6,034	5,143	3,185	1,733	3,204	795	25,128
Depreciation and amortisation	3,044	2,006	3,019	3,692	3,110	1,651	2,691	523	19,736
	2015								
Segment assets	2,565,723	1,756,844	1,988,554	2,855,335	2,798,176	1,056,288	5,835,333	1,149,541	20,005,794
Interests in associates and joint ventures	-	-	-	2,196	-	-	-	2,790	4,986
	2,565,723	1,756,844	1,988,554	2,857,531	2,798,176	1,056,288	5,835,333	1,152,331	20,010,780
Deferred tax assets									25,379
Elimination									(1,686,670)
Total assets									18,349,489
Segment liabilities	2,571,710	1,766,077	1,972,961	2,846,741	2,795,577	1,058,505	4,506,665	1,072,216	18,590,452
Deferred tax liabilities									624
Elimination									(1,686,670)
Total liabilities									16,904,406
Off-balance sheet credit commitments	497,837	385,693	611,674	356,079	305,375	116,537	3,500	125,589	2,402,284

60 OPERATING SEGMENTS (CONTINUED)

(2) Business segments

Business segments, as defined for management reporting purposes, are as follows:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, trade financing, deposit taking and wealth management services, agency services, financial consulting and advisory services, cash management services, remittance and settlement services, custody services and guarantee services, etc.

Personal banking

This segment represents the provision of a range of financial products and services to individual customers. The products and services comprise personal loans, deposit taking and wealth management services, card business, remittance services and agency services, etc.

Treasury business

This segment covers the Group's treasury operations. The treasury enters into inter-bank money market transactions, repurchase and resale transactions, and invests in debt securities. It also trades in derivatives and foreign currency for its own account. The treasury carries out customer-driven derivatives, foreign currency and precious metal trading. Its function also includes the management of the Group's overall liquidity position, including the issuance of debt securities.

Others

These represent equity investments and the revenues, results, assets and liabilities of overseas branches and subsidiaries.

60 OPERATING SEGMENTS (CONTINUED)

(2) Business segments (continued)

	2016				
	Corporate banking	Personal banking	Treasury business	Others	Total
External net interest income	165,280	62,914	171,382	18,223	417,799
Internal net interest income/(expense)	52,430	95,564	(141,946)	(6,048)	–
Net interest income	217,710	158,478	29,436	12,175	417,799
Net fee and commission income	33,038	60,426	21,352	3,693	118,509
Net trading (loss)/gain	(7,075)	673	8,801	1,576	3,975
Dividend income	–	–	–	2,558	2,558
Net gain arising from investment securities	–	–	9,066	2,032	11,098
Other operating (expense)/income, net	(58)	(256)	9,998	(3,763)	5,921
Operating income	243,615	219,321	78,653	18,271	559,860
Operating expenses	(59,923)	(88,569)	(10,179)	(12,844)	(171,515)
Impairment losses	(85,363)	(1,483)	(2,466)	(3,892)	(93,204)
Share of profit of associates and joint ventures	–	–	–	69	69
Profit before tax	98,329	129,269	66,008	1,604	295,210
Capital expenditure	5,376	9,040	1,095	11,629	27,140
Depreciation and amortisation	5,014	8,433	1,021	1,549	16,017
	2016				
Segment assets	7,064,795	4,522,379	8,195,103	1,564,749	21,347,026
Interests in associates and joint ventures	–	–	–	7,318	7,318
	7,064,795	4,522,379	8,195,103	1,572,067	21,354,344
Deferred tax assets					31,062
Elimination					(421,701)
Total assets					20,963,705
Segment liabilities	9,780,961	7,169,317	834,943	2,009,961	19,795,182
Deferred tax liabilities					570
Elimination					(421,701)
Total liabilities					19,374,051
Off-balance sheet credit commitments	1,917,363	647,498	–	159,665	2,724,526

61 ENTRUSTED LENDING BUSINESS

At the balance sheet date, the amounts of the entrusted loans and funds were as follows:

	2016	2015
Entrusted loans	2,398,103	1,932,138
Entrusted funds	2,398,103	1,932,138

62 PLEDGED ASSETS

(1) Assets pledged as security

(a) Carrying value of pledged assets analysed by asset type

	2016	2015
Discounted bills	5,500	227
Bonds	655,915	268,279
Others	2,352	—
Total	663,767	268,506

(b) Carrying value of pledged assets analysed by classification in the statement of financial position

	2016	2015
Loans and advances to customers	6,506	227
Financial assets at fair value through profit or loss	9,810	—
Available-for-sale financial assets	9,558	3,888
Held-to-maturity investments	566,474	264,391
Investment classified as receivables	71,100	—
Other assets	319	—
Total	663,767	268,506

(2) Collateral accepted as securities for assets

The Group conducts resale agreements under usual and customary terms of placements, and holds collateral for these transactions. As at 31 December 2016 and 2015, the Group did not hold any collateral for resale agreements, which it was permitted to sell or repledge in the absence of default for the transactions.

63 COMMITMENTS AND CONTINGENT LIABILITIES

(1) Credit commitments

Credit commitments take the form of undrawn loan facilities which are approved and contracted, unutilised credit card limits, financial guarantees, letters of credit, etc. The Group assesses and makes allowance for any probable losses accordingly.

The contractual amounts of loans and credit card commitments represent the cash outflows should the contracts be fully drawn upon. The amounts of guarantees and letters of credit represent the maximum potential loss that would be recognised if counterparties failed completely to perform as contracted. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers.

As credit commitments may expire without being drawn upon, the total of the contractual amounts set out in the following table do not represent the expected future cash outflows.

	2016	2015
Loan commitments		
– with an original maturity within one year	509,828	149,566
– with an original maturity of one year or over	64,779	312,872
Credit card commitments	690,144	577,047
	1,264,751	1,039,485
Bank acceptances	296,606	324,963
Financing guarantees	107,160	141,604
Non-financing guarantees	776,775	649,326
Sight letters of credit	37,383	20,383
Usance letters of credit	160,141	175,860
Others	81,710	50,663
Total	2,724,526	2,402,284

(2) Credit risk-weighted amount

The credit risk-weighted amount refers to the amount as computed in accordance with the rules set out by the CBRC and depends on the status of the counterparty and the maturity characteristics.

	2016	2015
Credit risk-weighted amount of contingent liabilities and commitments	1,073,108	993,117

(3) Operating lease commitments

The Group leases certain property and equipment under operating leases, which typically run for an initial period of one to five years and may include an option to renew the lease when all terms are renegotiated. As at the end of the reporting period, the future minimum lease payments under non-cancellable operating leases for property and equipment were as follows:

	2016	2015
Within one year	5,717	5,650
After one year but within two years	4,396	4,387
After two years but within three years	3,194	3,177
After three years but within five years	5,076	3,469
After five years	2,756	2,737
Total	21,139	19,420

(4) Capital commitments

As at the end of the reporting period, the Group had capital commitments as follows:

	2016	2015
Contracted for	4,930	4,049

63 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(5) Underwriting obligations

As at 31 December 2016, there was no unexpired underwriting commitment of the Group (as at 31 December 2015: nil).

(6) Government bonds redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations, which represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured as at 31 December 2016, were RMB75,695 million (as at 31 December 2015: RMB73,647 million).

(7) Outstanding litigation and disputes

As at 31 December 2016, the Group was the defendant in certain pending litigations and disputes with gross claims of RMB7,783 million (as at 31 December 2015: RMB6,501 million). Provisions have been made for the estimated losses arising from such litigations based upon the opinions of the Group's internal and external legal counsels (Note 49). The Group considers that the provisions made are reasonable and adequate.

(8) Provision against commitments and contingent liabilities

The Group assessed and made provisions for any probable outflow of economic benefits in relation to the commitments and contingent liabilities in accordance with their accounting policies (Note 4 (14)).

64 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Transactions with parent companies and their affiliates

The parent companies of the Group are CIC and Huijin.

Approved by the State Council, CIC was established on 29 September 2007 with a registered capital of RMB1,550 billion. As a wholly owned subsidiary of CIC, Huijin exercises its rights and obligations as an investor on behalf of PRC government.

Huijin was incorporated on 16 December 2003 as a wholly state-owned investment company. It was registered in Beijing with a registered capital of RMB828,209 million. Its principal activities are equity investments as authorised by the State Council, without engaging in other commercial operations. As at 31 December 2016, Huijin directly held 57.11% shares of the Bank.

The related companies under parent companies include the subsidiaries under parent companies and other associates and joint ventures.

The Group's transactions with parent companies and their affiliates mainly include deposit taking, entrusted asset management, operating leases, lending, purchase and sale of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under normal commercial terms.

The Group has issued subordinated debts with a nominal value of RMB145,744 million (as at 31 December 2015: RMB145,142 million). These are bearer bonds and tradable in secondary market. Accordingly, the Group has no information in respect of the amount of the bonds held by the affiliates of parent companies as at the end of the reporting period.

64 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(1) Transactions with parent companies and their affiliates (continued)

(a) Transactions with parent companies

In the ordinary course of the business, material transactions that the Group entered into with parent companies are as follows:

Amounts

	2016		2015	
	Amount	Ratio to similar transactions	Amount	Ratio to similar transactions
Interest income	460	0.07%	460	0.06%
Interest expense	106	0.04%	451	0.14%

Balances outstanding as at the end of the reporting period

	2016		2015	
	Balance	Ratio to similar transactions	Balance	Ratio to similar transactions
Interest receivable	151	0.15%	150	0.16%
Held-to-maturity investments	12,770	0.52%	12,770	0.50%
Deposits from customers	865	0.01%	2,339	0.02%
Interest payable	6	0.00%	19	0.01%
Credit commitments	288	0.01%	288	0.02%

(b) Transactions with the affiliates of parent companies

In the ordinary course of the business, material transactions that the Group entered into with the affiliates of parent companies are as follows:

Amounts

	Note	2016		2015	
		Amount	Ratio to similar transactions	Amount	Ratio to similar transactions
Interest income		28,755	4.13%	45,602	5.92%
Interest expense		2,528	0.91%	2,179	0.70%
Fee and commission income		228	0.18%	241	0.20%
Fee and commission expense		295	3.15%	79	1.00%
Operating expenses	(i)	612	0.40%	1,120	0.71%

64 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(1) Transactions with parent companies and their affiliates (continued)

(b) Transactions with the affiliates of parent companies (continued)

Balances outstanding as at the end of the reporting period

	Note	2016		2015	
		Balance	Ratio to similar transactions	Balance	Ratio to similar transactions
Deposits with banks and non-bank financial institutions		72,746	14.71%	24,251	6.87%
Placements with banks and non-bank financial institutions		69,487	26.66%	30,668	9.87%
Financial assets at fair value through profit or loss		8,111	1.66%	1,987	0.73%
Positive fair value of derivatives		3,581	3.99%	186	0.59%
Financial assets held under resale agreements		10,897	10.56%	22,871	7.36%
Interest receivable		14,606	14.37%	16,462	17.04%
Loans and advances to customers		53,297	0.46%	100,256	0.98%
Available-for-sale financial assets		234,915	14.38%	240,539	22.55%
Held-to-maturity investments		419,087	17.19%	509,481	19.87%
Investment classified as receivables		46,959	9.24%	63,442	17.17%
Other assets	(ii)	80	0.11%	—	—
Deposits from banks and non-bank financial institutions	(iii)	34,485	2.14%	116,218	8.07%
Placements from banks and non-bank financial institutions		68,722	21.31%	63,911	19.87%
Financial liabilities at fair value through profit or loss		—	—	2,246	0.74%
Negative fair value of derivatives		7,332	8.12%	38	0.14%
Financial assets sold under repurchase agreements		15,904	8.35%	141,189	52.68%
Deposits from customers		18,471	0.12%	22,940	0.17%
Interest payable		3,058	1.45%	308	0.15%
Credit commitments		23,159	1.18%	22,104	1.46%

Notes:

- (i) Operating expenses mainly represent rental expenses paid by the Group for leased assets, including properties and motor vehicles, owned by parent companies and its affiliates, and fees for related services provided by parent companies and its affiliates.
- (ii) Other assets mainly represent other receivables from the affiliates of parent companies.
- (iii) Deposits from the affiliates of parent companies are unsecured and are repayable under normal commercial terms.

64 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(2) Transactions with associates and joint ventures of the Group

Transactions between the Group and its associates and joint ventures are conducted in the normal and ordinary course of the business and under normal commercial terms as those transactions conducted between the Group and non-related companies outside the Group. In the ordinary course of the business, material transactions that the Group entered into with associates and joint ventures are as follows:

Amounts

	2016	2015
Interest income	12	18
Interest expense	4	7
Operating expenses	7	–

Balances outstanding as at the end of the reporting period

	2016	2015
Loans and advances to customers	680	741
Financial liabilities at fair value through profit or loss	448	–
Deposits from customers	1,547	1,007

(3) Transactions between the Bank and its subsidiaries

Transactions between the Bank and its subsidiaries are conducted in the normal and ordinary course of the business and under normal commercial terms as those transactions conducted between the Group and non-related companies outside the Group. All the inter-group transactions and inter-group balances are eliminated when preparing the consolidated financial statements as mentioned in Note 4(1)(b).

In the ordinary course of the business, material transactions that the Bank entered into with its subsidiaries are as follows:

Amounts

	2016	2015
Interest income	1,154	2,259
Interest expense	1,651	509
Fee and commission income	3,421	903
Fee and commission expense	646	335
Net trading loss	–	(23)
Dividend income	50	28
Net gain arising from investment securities	315	–
Other operating expense, net	(370)	(139)

Balances outstanding as at the end of the reporting period are presented in Note 39.

As at 31 December 2016, the total maximum guarantee limit of guarantee letters issued by the Bank with its subsidiaries as beneficiary is RMB44,793 million (as at 31 December 2015: RMB36,284 million).

For the year ended 31 December 2016, the transactions between subsidiaries of the Group are mainly deposits from banks and non-bank financial institutions and placements from banks and non-bank financial institutions. As at 31 December 2016, the balances of the above transactions were RMB4,478 million (as at 31 December 2015: RMB1,775 million) and RMB3,928 million (as at 31 December 2015: RMB1,346 million) respectively.

64 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(4) Transactions with other PRC state-owned entities

State-owned entities refer to those entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations. Transactions with other state-owned entities include but are not limited to: lending and deposit taking; taking and placing of inter-bank balances; entrusted lending and other custody services; insurance and securities agency, and other intermediary services; purchase, sale, underwriting and redemption of bonds issued by other state-owned entities; purchase, sale and leases of property and other assets; and rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group's pricing strategy and approval processes for major products and services, such as loans, deposits and commission income, do not depend on whether the customers are state-owned entities or not. Having due regard to the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(5) Transactions with the Annuity Scheme and Plan Assets

Apart from the obligations for defined contributions to the Annuity Scheme and regular banking transactions, there were no other transactions between the Group and the Annuity Scheme for the years ended 31 December 2016 and 2015.

As at 31 December 2016, RMB2,950 million of the Group's supplementary retirement benefit plan assets (as at 31 December 2015: RMB3,280 million) were managed by CCB Principal and management fees from the Bank was RMB8.73 million (as at 31 December 2015: RMB30.07 million).

(6) Key management personnel

Key management personnel are those persons having authorities and responsibilities for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and senior executives. The Group enters into banking transactions with key management personnel in the normal course of business. For the years ended 31 December 2016 and 2015, there were no material transactions and balances with key management personnel.

The compensation of directors and supervisors is disclosed in Note 14. The senior executives' annual compensation before individual income tax during the year is as follows:

	2016			
	Remuneration paid RMB'000	Contributions to defined contribution retirement schemes RMB'000	Other benefits in kind (note (i)) RMB'000	Total (note (ii)) RMB'000
Executive Vice President				
Yang Wensheng	436	47	102	585
Huang Yi	436	47	102	585
Yu Jingbo	436	47	102	585
Chief Disciplinary Officer				
Zhu Kepeng	436	47	102	585
Chief Risk Officer				
Liao Lin (note iii)	—	—	—	—
Chief Financial Officer				
Xu Yiming	788	47	122	957
Secretary to the Board				
Chen Caihong	788	47	122	957
Former Chief Risk Officer				
Zeng Jianhua	788	47	122	957
	4,108	329	774	5,211

64 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(6) Key management personnel (continued)

	2015			
	Accrued cost RMB'000	Social insurance, corporate annuity, supplementary medical insurance and housing fund paid by the Bank RMB'000	Other monetary income RMB'000	Total (note (iv)) RMB'000
Executive Vice President				
Yang Wensheng	586	162	–	748
Huang Yi	586	162	–	748
Yu Jingbo	586	157	–	743
Chief Disciplinary Officer				
Zhu Kepeng	195	56	–	251
Chief Risk Officer				
Zeng Jianhua	1,823	154	–	1,977
Chief Financial Officer				
Xu Yiming	1,823	154	–	1,977
Secretary to the Board				
Chen Caihong	1,823	154	–	1,977
	7,422	999	–	8,421

Notes:

- (i) Other benefits in kind included the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities. Other benefits also included the Bank's contribution to its own corporate annuity plan (which was set up in accordance with the relevant policies issued by the government authorities) and supplementary medical insurance.
- (ii) The total compensation package for these key management personnel for the year ended 31 December 2016 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation to be adjusted for is not expected to have significant impact on the Group's financial statements for the year ended 31 December 2016. The final compensation will be disclosed in a separate announcement when determined.
- (iii) Upon appointment at the first session of the Bank's Board Meeting in 2017 and upon approval of the CBRC, Mr. Liao Lin commenced his position as chief risk officer of the Bank from March 2017.
- (iv) The total compensation package for certain key management personnel for the year ended 31 December 2015 had not been finalised in accordance with regulations of the PRC relevant authorities till the date that the 2015 financial statements were announced. The aforesaid total compensation package for the key management personnel for the year ended 31 December 2015 was the final amount.
- (v) From 2015 onwards, remuneration of the Bank's leaders administered by central authorities has been paid in accordance with relevant policies relating to the central remuneration reform.

(7) Loans, quasi-loans and other credit transactions to directors, supervisors and senior executives

The Group had no material balance of loans, quasi-loans and other credit transactions to directors, supervisors and senior executives as at the end of reporting period. Those loans, quasi-loans and other credit transactions to directors, supervisors and senior executives were conducted in the normal and ordinary course of the business and under normal commercial terms or on the same terms and conditions with those which are available to other employees, based on terms and conditions granted to third parties adjusted for risk reduction.

65 RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- market risk
- liquidity risk
- operational risk
- insurance risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's capital management.

Risk management framework

The Board of Directors carry out their responsibilities according to Articles of Association and other related regulatory requirements. The Board of Directors of the Bank has established the Risk Management Committee, responsible for making risk management strategies and policies, monitoring the implementation, and evaluating the overall risk profile on a regular basis. The Board of Supervisors has oversight of the establishment of the overall risk management system and how well the Board of Directors and senior management carry out risk management responsibilities. Senior management is responsible for carrying out the risk strategy established by the Board of Directors and the implementation of the overall risk management of the Group. Senior management appoints Chief Risk Officer who assisted the president with the corresponding risk management work.

To identify, evaluate, monitor and manage risk, the Group has designed a comprehensive governance framework, internal control policies and procedures. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training system, standardised management and process management, aims at developing a disciplined and constructive control environment, in which all employees understand their roles and obligations.

Risk Management Department is the overall business risk management department. Credit Management Department is the overall credit risk management department. Credit Approval Department is the overall credit business approval department. Internal Control and Compliance Department is the coordination department for operating risk management and internal control and compliance risk management. Other departments are responsible for various corresponding risks.

The Group Audit Committee is responsible for monitoring and evaluating internal controls, and monitoring the compliance of core business sectors and their management procedures. Internal Control and Compliance Department assists the Audit Committee to execute the above mentioned responsibilities and reports to the Audit Committee.

(1) Credit risk

Credit risk management

Credit risk represents the financial loss that arises from the failure of a debtor or counterparty to discharge its contractual obligations or commitments to the Group.

Credit business

The Risk Management Department takes the lead in the development and implementation of the credit risk measurement tools including customers rating and facilities grading and is responsible for the special assets resolutions. The Credit Management Department is responsible for establishing credit risk management policies and monitoring the quality of credit assets. The Credit Approval Department is responsible for the group's comprehensive credit limits and credit approval of various credit businesses. While the Credit Management Department takes the lead, both the Credit Management Department and the Credit Approval Department will coordinate with the Corporate Banking Department, the SME Business Department, the Institutional Banking Department, the International Business Department, the Strategic Client Department, the Housing Finance & Personal Lending Department, the Credit Card Center, and the Legal Affairs Department to implement the credit risk management policies and procedures.

65 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

Credit business (continued)

With respect to the credit risk management of corporate and institutional business, the Group has accelerated the adjustment of its credit portfolio structure, enhanced post-lending monitoring, and refined the industry-specific guideline and policy baseline for credit approval. Management also fine-tuned the credit acceptance and exit policies, and optimised its economic capital and credit risk limit management. All these policies have been implemented to improve the overall asset quality. The Group manages credit risk throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring. The Group performs pre-lending evaluations by assessing the entity's credit ratings based on internal rating criteria and assessing the risks and rewards with respect to the proposed project. Credit approvals are granted by designated Credit Approval Officers. The Group continually monitors credit businesses, particularly those related to targeted industries, geographical segments, products and clients. Any adverse events that may significantly affect a borrower's repayment ability are reported timely and measures are implemented to prevent and control risks.

With respect to the personal credit business, the Group relies on credit assessment of applicants as the basis for loan approval. Customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and recommendations to the loan-approval departments for approval. The Group monitors borrowers' repayment ability, the status of collateral and any changes to collateral value. Once a loan becomes overdue, the Group starts the recovery process according to recovery procedures.

To mitigate risks, the Group requests the customers to provide collateral and guarantees where appropriate. A fine management system and operating procedure for collateral have been developed, and there is a guideline to specify the suitability of accepting specific types of collateral. Collateral values, structures and legal covenants are regularly reviewed to ensure that they still serve their intended purposes and conform to market practices.

Credit grading classification

The Group adopts a loan risk classification approach to manage the loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their level of risk. Substandard, doubtful and loss loans are considered as impaired loans and advances when one or more events demonstrate there is objective evidence of a loss event which triggers impairment. The allowance for impairment loss on impaired loans and advances is collectively or individually assessed as appropriate.

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' abilities to service their loans are apparently in question and they cannot rely entirely on normal business revenues to repay principal and interest. Certain losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

The Group has also applied the same grading criteria and management approach in classifying the off-balance sheet credit-related operations.

65 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

Treasury business

For risk management purposes, credit risk arising on debt securities and exposures relating to the Group's derivatives portfolio is managed independently and information there on is disclosed in notes (1)(h) and (1)(i) below. The Group sets credit limits for treasury activities and monitors them regularly with reference to the fair values of the relevant financial instruments.

(a) *Maximum credit risk exposure*

The following table presents the maximum exposure to credit risk as at the end of the reporting period without taking into consideration any collateral held or other credit enhancement. In respect of the financial assets recognised in the statement of financial position, the maximum exposure to credit risk is represented by the carrying amount after deducting for any impairment allowance.

	2016	2015
Deposits with central banks	2,775,965	2,323,866
Deposits with banks and non-bank financial institutions	494,618	352,966
Placements with banks and non-bank financial institutions	260,670	310,779
Debt investments at fair value through profit or loss	469,992	266,871
Positive fair value of derivatives	89,786	31,499
Financial assets held under resale agreements	103,174	310,727
Interest receivable	101,645	96,612
Loans and advances to customers	11,488,355	10,234,523
Available-for-sale debt securities	1,348,814	1,035,332
Held-to-maturity investments	2,438,417	2,563,980
Investment classified as receivables	507,963	369,501
Other financial assets	69,405	37,324
Total	20,148,804	17,933,980
Off-balance sheet credit commitments	2,724,526	2,402,284
Maximum credit risk exposure	22,873,330	20,336,264

65 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(b) Distribution of loans and advances to customers in terms of credit quality is analysed as follows

	Note	2016	2015
Gross impaired loans			
– Individually assessed and impaired gross amount		156,436	147,506
– Allowances for impairment losses		(99,453)	(82,196)
Subtotal		56,983	65,310
– Collectively assessed and impaired gross amount		22,254	18,474
– Allowances for impairment losses		(13,275)	(10,789)
Subtotal		8,979	7,685
Overdue but not impaired			
– between 1 day and 90 days		31,522	31,443
– between 91 days and 180 days		4	4
– more than 180 days		21	–
Gross amount		31,547	31,447
Allowances for impairment losses	(i)	(6,804)	(4,424)
Subtotal		24,743	27,023
Neither overdue nor impaired			
– Unsecured loans		3,442,193	3,019,394
– Guaranteed loans		1,880,508	1,771,076
– Loans secured by tangible assets other than monetary assets		5,002,018	4,493,357
– Loans secured by monetary assets		1,222,076	1,003,886
Gross amount		11,546,795	10,287,713
Allowances for impairment losses	(i)	(149,145)	(153,208)
Subtotal		11,397,650	10,134,505
Total		11,488,355	10,234,523

Note:

(i) The balances represent collectively assessed allowances of impairment losses.

65 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(b) *Distribution of loans and advances to customers in terms of credit quality is analysed as follows (continued)*

Within overdue but not impaired loans and advances and impaired loans and advances which are subject to individual assessment, the portion covered or not covered by collateral held are shown as follows:

	2016		
	Overdue but not impaired loans and advances		Impaired loans and advances which are subject to individual assessment
	Corporate	Personal	Corporate
Portion covered	3,632	15,005	27,773
Portion not covered	5,644	7,266	128,663
Total	9,276	22,271	156,436

	2015		
	Overdue but not impaired loans and advances		Impaired loans and advances which are subject to individual assessment
	Corporate	Personal	Corporate
Portion covered	7,064	13,592	32,260
Portion not covered	4,255	6,998	115,246
Total	11,319	20,590	147,506

The above collateral includes land use rights, buildings and equipment, etc. The fair value of collateral was estimated by the Group with reference to the latest available external valuations adjusted after taking into account the current realisation experience as well as the market situation.

65 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(c) Loans and advances to customers analysed by economic sector concentrations

	2016			2015		
	Gross loan balance	Percentage	Balance secured by collateral	Gross loan balance	Percentage	Balance secured by collateral
Corporate loans and advances						
– Manufacturing	1,323,238	11.24%	464,514	1,389,829	13.24%	489,547
– Transportation, storage and postal services	1,287,693	10.95%	520,293	1,221,103	11.64%	464,515
– Leasing and commercial services	826,410	7.03%	309,203	658,284	6.28%	286,263
– Production and supply of electric power, heat, gas and water	726,706	6.18%	192,922	671,632	6.41%	194,565
– Wholesale and retail trade	492,343	4.19%	252,177	502,129	4.79%	234,835
– Real estate	448,576	3.82%	316,657	522,916	4.99%	410,355
– Water, environment and public utility management	324,204	2.76%	167,715	316,480	3.02%	166,754
– Construction	259,268	2.21%	76,772	272,991	2.60%	90,796
– Mining	250,530	2.13%	29,755	258,323	2.46%	36,724
– Public management, social securities and social organisation	130,037	1.11%	33,862	122,773	1.17%	52,413
– Agriculture, forestry, farming, fishing	90,685	0.77%	34,986	110,861	1.06%	42,553
– Education	77,445	0.66%	21,415	79,275	0.76%	22,026
– Others	586,803	4.99%	80,183	366,466	3.50%	86,177
Total corporate loans and advances	6,823,938	58.04%	2,500,454	6,493,062	61.92%	2,577,523
Personal loans and advances	4,420,939	37.60%	3,820,851	3,531,983	33.69%	3,038,719
Discounted bills	512,155	4.36%	–	460,095	4.39%	12
Total loans and advances to customers	11,757,032	100.00%	6,321,305	10,485,140	100.00%	5,616,254

Details of impaired loans, impairment allowances, charges, and amounts written off in respect of economic sectors which constitute 10% or more of total gross loans and advances to customers are as follows:

	2016				
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances	Charged to profit or loss during the year	Written off during the year
Manufacturing	71,443	(44,348)	(29,902)	(44,859)	14,272
Transportation, storage and postal services	6,004	(3,935)	(21,943)	(2,412)	250

	2015				
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances	(Charged)/ Released to profit or loss during the year	Written off during the year
Manufacturing	72,766	(38,735)	(27,606)	(48,879)	12,345
Transportation, storage and postal services	3,265	(2,032)	(22,505)	810	1,921

65 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(d) Loans and advances to customers analysed by geographical sector concentrations

	2016			2015		
	Gross loan balance	Percentage	Balance secured by collateral	Gross loan balance	Percentage	Balance secured by collateral
Yangtze River Delta	2,117,133	18.02%	1,360,362	1,968,394	18.76%	1,269,793
Central	1,982,785	16.86%	1,197,869	1,768,362	16.87%	1,075,030
Western	1,953,377	16.61%	1,124,332	1,803,236	17.20%	1,035,556
Bohai Rim	1,946,622	16.56%	892,618	1,812,640	17.29%	811,161
Pearl River Delta	1,762,963	14.99%	1,312,827	1,432,094	13.66%	1,026,685
Northeastern	643,515	5.47%	296,115	612,441	5.84%	295,842
Head office	452,941	3.85%	-	402,733	3.84%	-
Overseas	897,696	7.64%	137,182	685,240	6.54%	102,187
Gross loans and advances to customers	11,757,032	100.00%	6,321,305	10,485,140	100.00%	5,616,254

As at the end of reporting period, details of impaired loans and impairment allowances in respect of geographical sectors are as follows:

	2016		
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances
Yangtze River Delta	41,539	(27,423)	(32,173)
Western	29,435	(14,557)	(30,102)
Pearl River Delta	29,426	(18,429)	(24,124)
Bohai Rim	29,199	(15,573)	(31,505)
Central	26,654	(14,557)	(28,012)
Northeastern	14,794	(7,885)	(10,423)
Head Office	4,296	-	(9,471)
Overseas	3,347	(1,029)	(3,414)
Total	178,690	(99,453)	(169,224)

	2015		
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances
Yangtze River Delta	49,223	(24,924)	(33,213)
Western	24,668	(11,248)	(31,631)
Pearl River Delta	30,285	(16,977)	(23,087)
Bohai Rim	22,941	(11,611)	(30,393)
Central	19,617	(9,219)	(27,775)
Northeastern	11,998	(6,853)	(10,954)
Head Office	4,671	(376)	(9,039)
Overseas	2,577	(988)	(2,329)
Total	165,980	(82,196)	(168,421)

The definitions of geographical segments are set out in Note 60(1).

65 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(e) Loans and advances to customers analysed by types of collateral

	2016	2015
Unsecured loans	3,471,042	3,034,953
Guaranteed loans	1,964,685	1,833,933
Loans secured by tangible assets other than monetary assets	5,095,325	4,591,009
Loans secured by monetary assets	1,225,980	1,025,245
Gross loans and advances to customers	11,757,032	10,485,140

(f) Rescheduled loans and advances to customers

	2016		2015	
	Total	Percentage of gross loans and advances to customers	Total	Percentage of gross loans and advances to customers
Rescheduled loans and advances to customers	5,020	0.04%	6,466	0.06%
Of which:				
Rescheduled loans and advances overdue for more than 90 days	2,321	0.02%	1,940	0.02%

(g) Distribution of amounts due from banks and non-bank financial institutions in terms of credit quality is as follows:

Amount due from banks and non-bank financial institutions includes deposits and placements with banks and non-bank financial institutions, and financial assets held under resale agreements of which counterparties are banks and non-bank financial institutions.

	Note	2016	2015
Impaired			
– Individually assessed and impaired gross amount		29	76
– Allowances for impairment losses		(29)	(43)
Subtotal		–	33
Neither overdue nor impaired			
– Grade A to AAA		815,896	883,645
– Grade B to BBB		5,238	3,161
– Unrated		37,488	87,633
Total		858,622	974,439
Allowances for impairment losses	(i)	(160)	–
Subtotal		858,462	974,439
Total		858,462	974,472

Amounts neither overdue nor impaired are analysed above according to the Group's internal credit rating. Unrated amounts due from banks and non-bank financial institutions include amounts due from a number of banks and non-bank financial institutions for which the Group have not assigned an internal credit rating.

Note:

- (i) The balances represent collectively assessed allowances of impairment losses.

65 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(h) Distribution of debt investments analysed by rating

The Group adopts a credit rating approach to manage the credit risk of the debt investments portfolio held. The ratings are obtained from Bloomberg Composite, or major rating agencies where the issuers of the debt investments are located. The carrying amounts of the debt investments analysed by the rating agency designations as at the end of the reporting period are as follows:

Note	2016					Total
	Unrated	AAA	AA	A	Lower than A	
Impaired						
Individually assessed and impaired gross amount						
– Banks and non-bank financial institutions	347	–	–	–	–	347
– Enterprises	718	–	–	–	120	838
– Others	200	–	–	200	–	400
Total	1,265	–	–	200	120	1,585
Allowances for impairment losses						(878)
Subtotal						707
Neither overdue nor impaired						
– Government	1,892,081	728,643	21,717	6,253	21,988	2,670,682
– Central banks	12,087	–	9,681	–	–	21,768
– Policy banks	359,789	50	1,735	–	–	361,574
– Banks and non-bank financial institutions	865,663	166,698	30,002	36,798	6,701	1,105,862
– Enterprises	137,574	290,981	16,148	11,610	6,092	462,405
– Others	115,341	15,941	13,237	2,500	–	147,019
Total	3,382,535	1,202,313	92,520	57,161	34,781	4,769,310
Allowances for impairment losses (i)						(4,831)
Subtotal						4,764,479
Total						4,765,186

65 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(h) Distribution of debt investments analysed by rating (continued)

	Note	2015					Total
		Unrated	AAA	AA	A	Lower than A	
Impaired							
Individually assessed and impaired gross amount							
– Banks and non-bank financial institutions		325	–	–	–	–	325
– Enterprises		3,219	–	–	–	–	3,219
– Others		200	200	–	–	–	400
Total		3,744	200	–	–	–	3,944
Allowances for impairment losses							(923)
Subtotal							3,021
Neither overdue nor impaired							
– Government		1,282,135	593,329	20,103	2,975	2,924	1,901,466
– Central banks		155,155	3,422	913	–	2,771	162,261
– Policy banks		484,102	–	–	–	–	484,102
– Banks and non-bank financial institutions		1,020,578	73,303	2,758	12,048	5,229	1,113,916
– Public sector entities		–	20	–	–	–	20
– Enterprises		134,251	336,413	5,493	8,873	2,370	487,400
– Others		70,380	9,034	7,353	800	–	87,567
Total		3,146,601	1,015,521	36,620	24,696	13,294	4,236,732
Allowances for impairment losses	(i)						(4,069)
Subtotal							4,232,663
Total							4,235,684

Note:

(i) The balances represent collectively assessed allowances of impairment losses.

(i) Credit risk arising from the Group's derivatives exposures

The majority of the Group's derivatives transactions with domestic customers are hedged back-to-back with overseas banks and non-bank financial institutions. The Group is exposed to credit risk both in respect of the domestic customers and the overseas banks and non-bank financial institutions. The Group manages this risk by monitoring this exposure on a regular basis.

(j) Settlement risk

The Group's activities may give rise to settlement risk at the time of the settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement or clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

65 RISK MANAGEMENT (CONTINUED)

(2) Market risk

Market risk is the risk of loss, in respect of the Group's on and off balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk arises from both the Group's trading and non-trading business. A trading book consists of positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book. Non-trading book records those financial instruments and commodities which are not included in the trading book.

The Group continues to improve market risk management system. The Market Risk Management Department is responsible for leading the establishment of market risk management policies and rules, developing the market risk measurement tools, monitoring and reporting the trading market risk and related daily work. The Asset and Liability Management Department (the "ALM") is responsible for managing non-trading interest rate risk, exchange rate risk and the size and structure of the assets and liabilities in response to structural market risk. The Financial Market Department manages the Bank's RMB and foreign currency investment portfolios, conducts proprietary and customer-driven transactions, as well as implementing market risk management policies and rules. The Audit Department is responsible for regularly performing independent audits of the reliability and effectiveness of the processes constituting the risk management system.

The Group's interest rate risk mainly comprises repricing risk and basis risk arising from mismatch of term structure and pricing basis of assets and liabilities. The Group uses multiple tools such as repricing gap analysis, sensitivity analysis on net interest income, scenario analysis and stress testing, etc. to monitor the interest rate risk periodically.

The Group's foreign exchange exposure mainly comprises exposures from foreign currency portfolios within treasury proprietary investments in debt securities and money market placements, and currency exposures from its overseas business. The Group manages its foreign exchange exposure by spot foreign exchange transactions and by matching its foreign currency denominated assets with corresponding liabilities in the same currency, and also uses derivatives in the management of its own foreign currency asset and liability portfolios and structural positions.

The Group is also exposed to market risk in respect of its customer driven derivatives portfolio and manages this risk by entering into back-to-back hedging transactions with overseas banks and non-bank financial institutions.

The Group considers that the market risk arising from stock prices in respect of its investment portfolios is minimal.

The Group monitors market risk separately in respect of trading portfolios and non-trading portfolios. Trading portfolios include exchange rate and interest rate derivatives as well as trading securities. The historical simulation model for the Value-at-risk ("VaR") analysis is a major tool used by the Bank to measure and monitor the market risk of its trading portfolio. Net interest income sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major tools used by the Group to monitor the market risk of its overall businesses.

65 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(a) VaR analysis

VaR is a technique which estimates the potential losses that could occur on risk positions taken, due to movements in market interest rates, foreign exchange rates and other market prices over a specified time horizon and at a given level of confidence. The Risk Management Department calculates interest rates, foreign exchange rates and commodity prices VaR for the Bank's trading portfolio. By reference to historical movements in interest rates, foreign exchange rates and commodity prices, the Risk Management Department calculates VaR on a daily basis for the trading portfolio and monitors regularly. VaR is calculated at a confidence level of 99% and with a holding period of one day.

A summary of the VaR of the Bank's trading portfolio as at the end of the reporting period and during the respective years is as follows:

	Note	2016			
		As at 31 December	Average	Maximum	Minimum
Risk valuation of trading portfolio		106	157	265	91
Of which:					
– Interest rate risk		61	52	144	20
– Foreign exchange risk	(i)	97	156	253	64
– Commodity risk		6	13	60	–

		2015			
		As at 31 December	Average	Maximum	Minimum
Risk valuation of trading portfolio		149	83	200	48
Of which:					
– Interest rate risk		46	38	172	17
– Foreign exchange risk	(i)	142	71	206	13
– Commodity risk		1	3	12	–

Note:

(i) The VaR in relation to bullion is included in foreign exchange risk above.

VaR for each risk factor is the independently derived largest potential loss in a specific holding period and at a certain confidence level due to fluctuations solely in that risk factor. The individual VaRs do not add up to the total VaR as there is diversification effect due to correlation amongst the risk factors.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations, including the following:

- A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Within the model used there is 1 percent probability that losses could exceed the VaR;
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and
- The VaR measure is dependent upon the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

65 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(b) Net interest income sensitivity analysis

In monitoring interest rate risk on its overall non-derivative financial assets and liabilities, the Bank regularly measures its future net interest income sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant financial position). An incremental 100 basis points parallel fall or rise in all yield curves, other than that applicable to balances with central banks, would increase or decrease annualised net interest income of the Group for the year by RMB48,500 million (as at 31 December 2015: RMB40,586 million). Had the impact of yield curves movement for demand deposits from customers been excluded, the annualised net interest income of the Group for the year would decrease or increase by RMB43,566 million (as at 31 December 2015: RMB40,443 million).

The above interest rate sensitivity is for illustration purpose only and is assessed based on simplified assumptions. The figures here indicate estimated net interest income movements under various predicted yield curve scenarios and are subject to the Bank's current interest rate exposures. However, the possible risk management measures that can be undertaken by the department who manages the interest related risk or related business departments to mitigate interest rate risk have not been taken into account. In practice, the department who manage the interest related risk strives to reduce loss arising from interest rate risk while increasing its net income. These figures are estimated on the assumption that the interest rates on various maturities will move within similar ranges, and therefore do not reflect the potential net interest income changes in the event that interest rates on some maturities may change and others remain unchanged. Moreover, the above estimations are based on other simplified assumptions, including that all positions will be held to maturity and rolled over upon maturity.

(c) Interest rate repricing gap analysis

Interest rate risk refers to the risk where the market interest rates, term structure and other factors may experience unfavourable fluctuations which impact the overall profitability and fair value resulting in losses to the Bank. The key determinants of the Group's interest rate risk arise from the mismatch between the maturity periods of the assets and liabilities, and inconsistent pricing basis, resulting in repricing risk and basis risk.

The ALM is responsible for regularly monitoring the interest rate risk positions and measuring the interest rate repricing gap. The main reason for measuring the interest rate repricing gap is to assist in analysing the impact of interest rate changes on net interest income.

65 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(c) Interest rate repricing gap analysis (continued)

The following tables indicate the average interest rate ("AIR") for the respective year, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the reporting period.

	Note	2016					Total	
		Average interest rate (i)	Non-interest bearing	Within three months	Between three months and one year	Between one year and five years		More than five years
Assets								
Cash and deposits with central banks		1.51%	110,050	2,739,211	-	-	-	2,849,261
Deposits and placements with banks and non-bank financial institutions		2.76%	-	599,855	153,084	2,349	-	755,288
Financial assets held under resale agreements		2.60%	-	101,581	1,593	-	-	103,174
Loans and advances to customers	(ii)	4.26%	-	6,682,710	4,406,772	320,988	77,885	11,488,355
Investments	(iii)	3.65%	310,718	534,360	583,313	2,004,704	1,642,807	5,075,902
Other assets			691,725	-	-	-	-	691,725
Total assets		3.67%	1,112,493	10,657,717	5,144,762	2,328,041	1,720,692	20,963,705
Liabilities								
Borrowings from central banks		2.76%	-	142,591	296,602	146	-	439,339
Deposits and placements from banks and non-bank financial institutions		2.09%	-	1,447,097	450,354	36,010	2,080	1,935,541
Financial liabilities at fair value through profit or loss		2.88%	19,947	247,942	128,702	-	-	396,591
Financial assets sold under repurchase agreements		2.72%	-	187,932	1,008	1,574	66	190,580
Deposits from customers		1.45%	110,999	10,313,397	3,377,431	1,593,009	8,079	15,402,915
Debt securities issued		4.04%	-	158,133	71,781	131,577	90,063	451,554
Other liabilities			557,531	-	-	-	-	557,531
Total liabilities		1.61%	688,477	12,497,092	4,325,878	1,762,316	100,288	19,374,051
Asset-liability gap		2.07%	424,016	(1,839,375)	818,884	565,725	1,620,404	1,589,654

65 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(c) Interest rate repricing gap analysis (continued)

	Note	Average interest rate (i)	Non-interest bearing	2015				Total
				Within three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with central banks		1.53%	114,845	2,286,699	-	-	-	2,401,544
Deposits and placements with banks and non-bank financial institutions		3.91%	-	448,836	210,523	4,386	-	663,745
Financial assets held under resale agreements		3.29%	-	242,317	68,410	-	-	310,727
Loans and advances to customers	(ii)	5.42%	-	5,771,201	4,191,281	198,752	73,289	10,234,523
Investments	(iii)	3.97%	40,707	384,287	798,241	1,663,387	1,389,770	4,276,392
Other assets			462,558	-	-	-	-	462,558
Total assets		4.43%	618,110	9,133,340	5,268,455	1,866,525	1,463,059	18,349,489
Liabilities								
Borrowings from central banks		3.20%	-	37,806	4,242	-	-	42,048
Deposits and placements from banks and non-bank financial institutions		2.31%	-	1,546,782	162,526	51,799	-	1,761,107
Financial liabilities at fair value through profit or loss		3.60%	19,443	150,998	132,208	-	-	302,649
Financial assets sold under repurchase agreements		2.72%	-	268,002	10	-	-	268,012
Deposits from customers		1.84%	121,249	8,970,336	3,066,679	1,503,008	7,261	13,668,533
Debt securities issued		4.07%	-	140,575	66,470	84,011	124,488	415,544
Other liabilities			446,513	-	-	-	-	446,513
Total liabilities		1.97%	587,205	11,114,499	3,432,135	1,638,818	131,749	16,904,406
Asset-liability gap		2.46%	30,905	(1,981,159)	1,836,320	227,707	1,331,310	1,445,083

Notes:

- (i) Average interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.
- (ii) For loans and advances to customers, the "within three months" category includes overdue amounts (net of allowances for impairment losses) of RMB76,096 million as at 31 December 2016 (as at 31 December 2015: RMB85,374 million).
- (iii) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investment, investment classified as receivables and investments in associates and joint ventures.

65 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(d) Currency risk

The Group's foreign exchange exposure mainly comprises exposures that arise from the foreign currency portfolio within the Treasury Department's proprietary investments, and currency exposures originated by the Group's overseas businesses.

The Group manages currency risk by spot and forward foreign exchange transactions and by matching its foreign currency denominated assets with corresponding liabilities in the same currency, and also uses derivatives (principally foreign exchange swaps and cross currency swaps) in the management of its own foreign currency asset and liability portfolios and structural positions.

The Group actively manages foreign currency exposure risk, and minimizes foreign exchange risk by business lines. Therefore, the net exposure is not sensitive to exchange rate fluctuations and the potential impact to the pre-tax profits and other comprehensive income of the Group is not material.

The currency exposures of the Group's assets and liabilities as at the end of the reporting period are as follows:

	Note	2016			Total
		RMB	USD (RMB equivalent)	Others (RMB equivalent)	
Assets					
Cash and deposits with central banks		2,627,642	132,659	88,960	2,849,261
Deposits and placements with banks and non-bank financial institutions	(i)	677,609	164,499	16,354	858,462
Loans and advances to customers		10,318,156	815,966	354,233	11,488,355
Investments		4,874,843	122,967	78,092	5,075,902
Other assets		508,602	153,120	30,003	691,725
Total assets		19,006,852	1,389,211	567,642	20,963,705
Liabilities					
Borrowings from central banks		385,374	28,964	25,001	439,339
Deposits and placements from banks and non-bank financial institutions	(ii)	1,740,191	275,673	110,257	2,126,121
Financial liabilities at fair value through profit or loss		380,632	15,162	797	396,591
Deposits from customers		14,539,781	568,294	294,840	15,402,915
Debt securities issued		213,579	213,937	24,038	451,554
Other liabilities		512,886	28,376	16,269	557,531
Total liabilities		17,772,443	1,130,406	471,202	19,374,051
Net position		1,234,409	258,805	96,440	1,589,654
Net notional amount of derivatives		93,770	(105,995)	500,673	488,448
Credit commitments		2,461,840	88,183	174,503	2,724,526

65 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(d) Currency risk (continued)

	Note	2015			Total
		RMB	USD (RMB equivalent)	Others (RMB equivalent)	
Assets					
Cash and deposits with					
Central banks		2,211,080	119,786	70,678	2,401,544
Deposits and placements with banks and non-bank financial institutions	(i)	843,723	92,685	38,064	974,472
Loans and advances to customers		9,347,418	646,063	241,042	10,234,523
Investments		4,160,960	62,675	52,757	4,276,392
Other assets		430,526	14,218	17,814	462,558
Total assets		16,993,707	935,427	420,355	18,349,489
Liabilities					
Borrowings from central banks		16,041	21,751	4,256	42,048
Deposits and placements from banks and non-bank financial institutions	(ii)	1,754,011	208,219	66,889	2,029,119
Financial liabilities at fair value through profit or loss		286,732	15,280	637	302,649
Deposits from customers		13,011,964	401,284	255,285	13,668,533
Debt securities issued		258,044	125,261	32,239	415,544
Other liabilities		429,389	6,538	10,586	446,513
Total liabilities		15,756,181	778,333	369,892	16,904,406
Net position		1,237,526	157,094	50,463	1,445,083
Net notional amount of derivatives		288,525	(360,087)	77,993	6,431
Credit commitments		2,209,582	92,679	100,023	2,402,284

Notes:

- (i) Including financial assets held under resale agreements.
- (ii) Including financial assets sold under repurchase agreements.

65 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk

Liquidity risk is the risk that occurs when the Group cannot obtain sufficient funds in time and at a reasonable cost to repay debts when they are due, fulfill other payment obligations, or meet the other funding needs in regular business development. Major factors and events affecting liquidity risks include: massive outflow of wholesale or retail deposits, increase in wholesale or retail financing cost, debtor defaults, decrease in the liquidity of assets, and decrease in the financing ability etc.

In managing liquidity risks, the decision-making system consists of the Bank's Board of Directors and its sub-committee, and the senior management. The Head Office's Asset and Liability Management Department takes the lead in the daily management of the Bank's liquidity risks, and works along with the Financial Market Department, Channel and Operation Management Department, Data Management Department, Public Relations & Corporate Culture Department, Board of Directors' Office, management arms of business lines, and relevant divisions of the branches and subsidiaries to ensure proper execution of liquidity risk management actions. The Board of Supervisors and Audit Department complete the triangle as the supervisory component. These three units perform decision-making, execution and supervisory functions respectively in the Bank's liquidity risk management as per their roles and responsibilities.

The Group's objective for liquidity risk management is to guarantee the Group's payment and settlement security, and maintain an optimal balance between the Bank's liquidity position and profitability. Liquidity risks are managed on a consolidated basis, where the Head Office centrally manages the Bank's overall liquidity risks, and in light of regulatory requirements, external macro environment and the Bank's business development status, formulates liquidity risk management policies, including limit management, intraday liquidity risk management, stress testing and contingency planning. Subsidiaries are the primary owners of their own liquidity risk management.

The Group conducts stress testing on its liquidity risk position on a quarterly basis in order to gauge its risk tolerance in adverse situations, including improbable extreme scenarios. The results have shown that under stress scenarios, the Bank's liquidity risk increases but remains manageable.

The Group uses a variety of methods to measure its liquidity risks, including liquidity index analysis, analysis of remaining contractual maturities and undiscounted cash flow analysis.

65 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(a) Maturity analysis

The following tables provide an analysis of the assets and liabilities of the Group based on the remaining periods to repayment as at the end of the reporting period:

	2016							Total
	Indefinite	Repayable on demand	Within one month	Between one and three months	Between three months and one year	Between one and five years	More than five years	
Assets								
Cash and deposits with central banks	2,592,203	257,058	-	-	-	-	-	2,849,261
Deposits and placements with banks and non-bank financial institutions	-	85,218	306,393	138,820	218,544	6,313	-	755,288
Financial assets held under resale agreements	-	-	78,001	23,580	1,593	-	-	103,174
Loans and advances to customers	75,438	484,321	401,828	709,215	2,644,332	2,901,246	4,271,975	11,488,355
Investments								
– Financial assets at fair value through profit or loss	18,378	-	62,282	133,374	152,097	107,723	14,516	488,370
– Available-for-sale financial assets	285,020	-	29,090	66,362	168,110	783,090	302,162	1,633,834
– Held-to-maturity investments	-	-	5,318	44,950	200,830	1,053,776	1,133,543	2,438,417
– Investment classified as receivables	-	-	45,048	26,747	53,056	178,486	204,626	507,963
– Investments in associates and joint ventures	7,318	-	-	-	-	-	-	7,318
Other assets	229,069	89,276	34,077	79,502	173,739	55,946	30,116	691,725
Total assets	3,207,426	915,873	962,037	1,222,550	3,612,301	5,086,580	5,956,938	20,963,705
Liabilities								
Borrowings from central banks	-	-	83,176	59,415	296,602	146	-	439,339
Deposits and placements from banks and non-bank financial institutions	-	982,735	226,509	167,189	491,880	61,488	5,740	1,935,541
Financial liabilities at fair value through profit or loss	-	19,947	131,301	116,642	128,701	-	-	396,591
Financial assets sold under repurchase agreements	-	-	184,074	3,858	1,008	1,574	66	190,580
Deposits from customers	-	8,336,446	966,975	1,113,365	2,723,870	2,244,258	18,001	15,402,915
Debt securities issued								
– Certificates of deposit issued	-	-	61,274	65,381	57,153	15,037	163	199,008
– Bonds issued	-	-	-	2,084	4,023	36,959	4,097	47,163
– Subordinated bonds issued	-	-	-	-	218	100,230	45,151	145,599
– Eligible Tier 2 capital bonds issued	-	-	-	-	-	13,828	45,956	59,784
Other liabilities	582	116,506	52,697	67,710	234,456	78,943	6,637	557,531
Total liabilities	582	9,455,634	1,706,006	1,595,644	3,937,911	2,552,463	125,811	19,374,051
Net gaps	3,206,844	(8,539,761)	(743,969)	(373,094)	(325,610)	2,534,117	5,831,127	1,589,654
Notional amount of derivatives								
– Interest rate contracts	-	-	70,611	77,418	204,710	106,484	11,586	470,809
– Exchange rate contracts	-	-	771,445	782,146	2,949,614	140,260	6,750	4,650,215
– Other contracts	-	-	47,553	98,665	177,124	10,177	34	333,553
Total	-	-	889,609	958,229	3,331,448	256,921	18,370	5,454,577

65 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(a) Maturity analysis (continued)

	2015							Total
	Indefinite	Repayable on demand	Within one month	Between one and three months	Between three months and one year	Between one and five years	More than five years	
Assets								
Cash and deposits with central banks	2,183,358	218,186	-	-	-	-	-	2,401,544
Deposits and placements with banks and non-bank financial institutions	-	64,768	178,137	200,987	210,163	9,690	-	663,745
Financial assets held under resale agreements	-	-	166,890	75,427	68,410	-	-	310,727
Loans and advances to customers	84,254	431,544	301,975	540,601	2,561,181	2,744,588	3,570,380	10,234,523
Investments								
- Financial assets at fair value through profit or loss	4,301	-	28,452	44,072	125,694	62,885	5,769	271,173
- Available-for-sale financial assets	31,420	-	10,097	36,054	144,847	545,503	298,831	1,066,752
- Held-to-maturity investments	-	-	8,851	79,769	407,854	1,106,884	960,622	2,563,980
- Investment classified as receivables	-	-	12,681	12,997	91,533	109,525	142,765	369,501
- Investments in associates and joint ventures	4,986	-	-	-	-	-	-	4,986
Other assets	210,352	49,476	24,933	57,701	105,588	12,790	1,718	462,558
Total assets	2,518,671	763,974	732,016	1,047,608	3,715,270	4,591,865	4,980,085	18,349,489
Liabilities								
Borrowings from central banks	-	-	24,161	13,645	4,242	-	-	42,048
Deposits and placements from banks and non-bank financial institutions	-	1,213,163	174,380	113,540	183,794	72,226	4,004	1,761,107
Financial liabilities at fair value through profit or loss	-	19,443	71,245	79,753	132,208	-	-	302,649
Financial assets sold under repurchase agreements	-	-	267,902	100	10	-	-	268,012
Deposits from customers	-	6,957,679	920,974	1,102,123	2,610,766	2,058,410	18,581	13,668,533
Debt securities issued								
- Certificates of deposit issued	-	5	53,697	44,566	65,683	6,744	101	170,796
- Bonds issued	-	-	-	5,348	6,283	27,113	2,172	40,916
- Subordinated bonds issued	-	-	-	-	-	65,048	79,931	144,979
- Eligible Tier 2 capital bonds issued	-	-	-	-	-	14,897	43,956	58,853
Other liabilities	624	116,531	38,625	52,189	162,974	73,417	2,153	446,513
Total liabilities	624	8,306,821	1,550,984	1,411,264	3,165,960	2,317,855	150,898	16,904,406
Net gaps	2,518,047	(7,542,847)	(818,968)	(363,656)	549,310	2,274,010	4,829,187	1,445,083
Notional amount of derivatives								
- Interest rate contracts	-	-	50,555	60,114	326,230	66,504	3,133	506,536
- Exchange rate contracts	-	-	460,982	504,496	1,305,375	150,764	5,615	2,427,232
- Other contracts	-	-	29,724	16,848	72,287	876	-	119,735
Total	-	-	541,261	581,458	1,703,892	218,144	8,748	3,053,503

65 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(b) Contractual undiscounted cash flow

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities and off balance sheet credit commitments of the Group as at the end of reporting period. The Group's expected cash flows on these instruments may vary significantly from this analysis.

	2016							
	Carrying amount	Gross cash outflow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowings from central banks	439,339	448,505	-	84,409	59,995	303,955	146	-
Deposits and placements from banks and non-bank financial institutions	1,935,541	1,971,240	982,986	230,278	168,537	512,184	69,621	7,634
Financial liabilities at fair value through profit or loss	396,591	399,304	19,947	132,354	117,192	129,811	-	-
Financial assets sold under repurchase agreements	190,580	190,852	-	184,290	3,903	1,019	1,574	66
Deposits from customers	15,402,915	15,773,027	8,337,879	978,905	1,142,665	2,829,974	2,462,243	21,361
Debt securities issued								
- Certificates of deposit issued	199,008	201,424	-	61,772	65,817	58,028	15,639	168
- Bond issued	47,163	53,205	-	208	2,196	5,196	40,721	4,884
- Subordinated bonds issued	145,599	179,558	-	-	1,231	6,185	124,329	47,813
- Eligible Tier 2 capital bonds issued	59,784	80,834	-	-	-	2,814	24,277	53,743
Other financial liabilities	189,807	189,807	67,124	12,538	19,252	85,665	-	5,228
Total	19,006,327	19,487,756	9,407,936	1,684,754	1,580,788	3,934,831	2,738,550	140,897
Off-balance sheet loan commitments and credit card commitments (Note)		1,264,751	1,043,081	71,231	15,313	70,347	52,127	12,652
Guarantees, acceptances and other credit commitments (Note)		1,459,775	-	317,599	163,731	367,089	566,264	45,092

65 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(b) Contractual undiscounted cash flow (continued)

	2015							
	Carrying amount	Gross cash outflow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowings from central banks	42,048	42,510	-	24,523	13,677	4,310	-	-
Deposits and placements from banks and non-bank financial institutions	1,761,107	1,784,978	1,220,543	175,072	115,194	189,612	79,301	5,256
Financial liabilities at fair value through profit or loss	302,649	304,350	19,443	71,583	80,379	132,945	-	-
Financial assets sold under repurchase agreements	268,012	268,096	-	267,986	100	10	-	-
Deposits from customers	13,668,533	14,066,150	6,959,367	933,650	1,131,199	2,718,065	2,301,457	22,412
Debt securities issued								
- Certificates of deposit issued	170,796	172,518	5	53,797	44,932	66,816	6,864	104
- Bond issued	40,916	44,707	-	189	5,526	6,975	29,684	2,333
- Subordinated bonds issued	144,979	185,557	-	-	1,223	5,743	92,319	86,272
- Eligible Tier 2 capital bonds issued	58,853	82,009	-	-	-	2,711	25,483	53,815
Other financial liabilities	137,111	137,111	131,454	1,622	601	2,257	-	1,177
Total	16,595,004	17,087,986	8,330,812	1,528,422	1,392,831	3,129,444	2,535,108	171,369
Off-balance sheet loan commitments and credit card commitments (Note)		1,039,485	860,456	75,469	19,376	40,592	39,341	4,251
Guarantees, acceptances and other credit commitments (Note)		1,362,799	-	332,601	169,052	339,391	481,361	40,394

Note: The off-balance sheet loan commitments and credit card commitments may expire without being drawn upon. Guarantees, acceptances and other credit commitments do not represent the amount to be paid.

65 RISK MANAGEMENT (CONTINUED)

(4) Operational risk

Operational risk is the risk of loss due to inadequate or flawed internal processes, people, systems or external events. In 2016, the Group continued to strengthen its operational risk management, optimize operational risk management tools and deepen and expand the applications of these tools.

- Using a variety of means and methods, including special self-assessments, entity-level comprehensive self-assessments and project re-visits, the Bank took anticipatory actions to identify and assess operational risks and strengthen and improve internal controls.
- It also strengthened its operational risk monitoring and early-warning capability, including establishing tailored key risk indicator monitoring systems in tier-one branches, overseas institutions and subsidiaries, improving the head office-level key risk indicator system, and reinforcing risk management and control over key areas and components.
- As part of its efforts to strengthen the business continuity management system, the Bank harmonized the emergency management and disaster recovery strategy in the New Generation Core System, and followed the implementation of the New Generation Core System with timely development of relevant supporting rules and procedures as well as special action plans.

(5) Fair value of financial instruments

(a) Valuation technique, input and process

The Board is responsible for establishing a robust internal control policy of valuation, and takes the ultimate responsibility for the adequacy and effectiveness of internal control system. The Board of Supervisors takes charge of supervising the performance of the Board and Senior Management. According to the requirements of the Board and the Board of Supervisors, Senior Management is responsible for organising and implementing the internal control system over the valuation process to ensure the effectiveness of the internal control system of valuation.

The Group has established an independent valuation process for financial assets and financial liabilities. The relevant departments are responsible for performing valuation, verifying valuation model and accounting of valuation results.

The major valuation techniques and inputs used by the Group are set out in Note 4(3)(g) and Note 4(24)(c). For the year ended 31 December 2016, there was no significant change in the valuation techniques or inputs used to determine fair value as compared to those used for the year ended 31 December 2015.

(b) Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Fair value based on inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

65 RISK MANAGEMENT (CONTINUED)

(5) Fair value of financial instruments (continued)

(c) Financial instruments measured at fair value

(i) Fair value hierarchy

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	2016			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
<i>Financial assets held for trading purpose</i>				
– Debt securities	3,134	138,196	–	141,330
– Equity instruments and funds	1,825	–	–	1,825
<i>Financial assets designated as at fair value through profit or loss</i>				
– Debt securities	–	–	8,690	8,690
– Equity instruments and funds	421	–	16,132	16,553
– Other debt instruments	–	55,116	264,856	319,972
Positive fair value of derivatives	–	89,320	466	89,786
Available-for-sale financial assets				
– Debt securities	59,380	1,283,715	5,719	1,348,814
– Equity instruments and funds	40,617	231,378	9,349	281,344
Total	105,377	1,797,725	305,212	2,208,314
Liabilities				
Financial liabilities at fair value through profit or loss				
<i>Financial liabilities designated as at fair value through profit or loss</i>				
–	–	395,883	708	396,591
Negative fair value of derivatives	–	89,788	545	90,333
Total	–	485,671	1,253	486,924

65 RISK MANAGEMENT (CONTINUED)

(5) Fair value of financial instruments (continued)

(c) Financial instruments measured at fair value (continued)

(i) Fair value hierarchy (continued)

	2015			Total
	Level 1	Level 2	Level 3	
Assets				
Financial assets at fair value through profit or loss				
<i>Financial assets held for trading purpose</i>				
– Debt securities	44	17,377	–	17,421
– Equity instruments and funds	563	–	–	563
<i>Financial assets designated as at fair value through profit or loss</i>				
– Debt securities	–	–	586	586
– Equity instruments and funds	1,413	–	2,326	3,739
– Other debt instruments	–	40,660	208,204	248,864
Positive fair value of derivatives	–	30,616	883	31,499
Available-for-sale financial assets				
– Debt securities	40,907	984,821	9,604	1,035,332
– Equity instruments and funds	24,352	–	5,027	29,379
Total	67,279	1,073,474	226,630	1,367,383
Liabilities				
Financial liabilities at fair value through profit or loss				
<i>Financial liabilities designated as at fair value through profit or loss</i>				
Negative fair value of derivatives	–	302,130	519	302,649
	–	27,078	864	27,942
Total	–	329,208	1,383	330,591

A majority of the financial assets classified as level 2 is RMB bonds. The fair value of these bonds is determined based on the valuation results provided by China Central Depository & Clearing Co., Ltd. A majority of the financial liabilities designated as at fair value through profit or loss classified as level 2 is the fund raised from principal guaranteed wealth management products, the fair value of which is determined based on the income approach. The majority of derivatives is classified as level 2 and valued using income approach. For the valuation of financial instruments classified as level 2, all significant inputs are observable market data.

The financial asset at fair value through profit or loss classified as level 3 is the underlying assets of principal guaranteed wealth management products. These financial assets are valued using income approach and market approach, which incorporate the non-observable assumptions including discount rate.

As at 31 December 2016 and 2015, there were no significant transfers between level 1 and level 2 of the fair value hierarchy of the Group.

65 RISK MANAGEMENT (CONTINUED)

(5) Fair value of financial instruments (continued)

(c) Financial instruments measured at fair value (continued)

(ii) Movements of fair value of financial instruments in level 3 of the fair value hierarchy

The following table shows a reconciliation from the opening balances to the ending balances for fair value measurement in level 3 of the fair value hierarchy:

	2016									
	Financial assets designated as at fair value through profit or loss			Positive fair value of derivatives	Available-for-sale financial assets		Total assets	Financial liabilities designated as at fair value through profit or loss		Total liabilities
	Debt securities	Equity instruments and funds	Other debt instruments		Debt securities	Equity instruments and funds		Negative fair value of derivatives		
As at 1 January 2016	586	2,326	208,204	883	9,604	5,027	226,630	(519)	(864)	(1,383)
Total gains or losses:										
In profit or loss	(19)	(113)	7,600	(361)	275	(19)	7,363	55	275	330
In other comprehensive income	-	-	-	-	424	(34)	390	-	-	-
Purchases	8,221	20,155	397,871	-	690	9,837	436,774	(369)	-	(369)
Sales and settlements	(98)	(6,236)	(348,819)	(56)	(5,274)	(5,462)	(365,945)	125	44	169
As at 31 December 2016	8,690	16,132	264,856	466	5,719	9,349	305,212	(708)	(545)	(1,253)
	2015									
	Financial assets designated as at fair value through profit or loss			Positive fair value of derivatives	Available-for-sale financial assets		Total assets	Financial liabilities designated as at fair value through profit or loss		Total liabilities
	Debt securities	Equity instruments and funds	Other debt instruments		Debt securities	Equity instruments and funds		Negative fair value of derivatives		
As at 1 January 2015	967	1,951	169,916	1,299	3,672	4,797	182,602	(817)	(1,288)	(2,105)
Total gains or losses:										
In profit or loss	(283)	(2)	5,754	(414)	(83)	(64)	4,908	83	422	505
In other comprehensive income	-	-	-	-	194	(214)	(20)	-	-	-
Purchases	523	3,903	388,910	3	8,192	3,632	405,163	(302)	-	(302)
Sales and settlements	(621)	(3,526)	(356,376)	(5)	(2,371)	(3,124)	(366,023)	517	2	519
As at 31 December 2015	586	2,326	208,204	883	9,604	5,027	226,630	(519)	(864)	(1,383)

65 RISK MANAGEMENT (CONTINUED)

(5) Fair value of financial instruments (continued)

(c) Financial instruments measured at fair value (continued)

(ii) Movements of fair value of financial instruments in level 3 of the fair value hierarchy (continued)

In level 3 of the fair value hierarchy, total gains or losses included in profit or loss for the year in the above table are presented in net trading gain, net gain arising from investment securities and impairment losses of the statement of comprehensive income.

Gains or losses on level 3 financial assets and liabilities included in the statement of comprehensive income comprise:

	2016			2015		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Total gains/(losses)	7,782	(89)	7,693	5,899	(486)	5,413

(d) Financial instruments not measured at fair value

(i) Financial assets

The Group's financial assets not measured at fair value mainly include cash and deposits with central banks, deposits and placements with banks and non-bank financial institutions, financial assets held under resale agreements, loans and advances to customers, held-to-maturity investments and investment classified as receivables.

Deposits with central banks, deposits and placements with banks and non-bank financial institutions and financial assets held under resale agreements.

Deposits with central banks, deposits and placements with banks and non-bank financial institutions and financial assets held under resale agreements are mainly priced at market interest rates and mature within one year. Accordingly, the carrying values approximate the fair values.

Loans and advances to customers

Majority of the loans and advances to customers are repriced at least annually to the market rate. Accordingly, their carrying values approximate the fair values.

Investments

The following table shows the carrying values and the fair values of investment classified as receivables and held-to-maturity investments which are not presented in the statement of financial position at their fair values.

	2016					2015				
	Carrying value	Fair value	Level 1	Level 2	Level 3	Carrying value	Fair value	Level 1	Level 2	Level 3
Investment classified as receivables	507,963	512,409	-	358,488	153,921	369,501	373,854	-	285,262	88,592
Held-to-maturity investments	2,438,417	2,494,243	1,351	2,492,892	-	2,563,980	2,665,423	1,099	2,661,813	2,511
Total	2,946,380	3,006,652	1,351	2,851,380	153,921	2,933,481	3,039,277	1,099	2,947,075	91,103

(ii) Financial liabilities

The Group's financial liabilities not measured at fair value mainly include borrowings from central banks, deposits and placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements, deposits from customers, and debt securities issued. The fair value of subordinated bonds and the eligible Tier 2 capital bonds issued as at 31 December 2016 was RMB212,166 million (as at 31 December 2015: RMB217,554 million), and their carrying value was RMB205,383 million (as at 31 December 2015: RMB203,832 million). The carrying values of other financial liabilities approximated their fair values as at the end of the reporting period. The Group uses observable inputs to measure the fair values of subordinated bonds and eligible Tier 2 capital bonds issued, and classified as the Level 2 of the fair value hierarchy.

65 RISK MANAGEMENT (CONTINUED)

(6) Offsetting financial assets and financial liabilities

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. These financial assets and financial liabilities of the Group are not offset in accordance with IFRS.

As at 31 December 2016, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements are not material to the Group.

(7) Insurance Risk

The risk under an insurance contract is the possibility that the insured event occurs and the uncertainty in the resulting claim amount. The characteristic of an insurance contract inherently decides randomness and unpredictability of the underlying insurance risk. For insurance contracts where the theory of probability is applied to pricing and provisioning of insurance contract liabilities, the principal risk that the Group faces is that the actual claims and benefit payments exceed the carrying amount of the insurance contract liabilities.

The Group manages the uncertainty of insurance risk through its underwriting strategy and policies to diversify the underwriting risks, adequate reinsurance arrangements, and enhanced underwriting control and claim control.

The Group makes related assumptions for the insurance risks and recognizes insurance contract liabilities accordingly. Insurance risk may be elevated by the uncertainty of insurance risk assumptions including assumptions of mortality, expenses and interest rates.

65 RISK MANAGEMENT (CONTINUED)

(8) Capital management

The Bank has implemented comprehensive capital management, covering capital management policies design, capital projecting and planning, capital calculation, internal capital assessment, capital allocation, capital motivation, restriction and conduction, capital raising, monitor and reporting, and applications of advanced approach of capital calculation on the management of the ordinary course of the business. General principles of capital management of the Bank is to continuously retain an adequate capital level, retain a certain margin of safety and a certain level of buffer based on that all regulatory requirements have been complied, and ensure that the capital can cover all kinds of risks adequately; exercise reasonable and effective capital allocation and strengthen capital restraint and incentive mechanism to support the strategic planning effectively and to restrict and conduct the business so as to increase the capital efficiency and return level continuously; tamp capital strength, and retain relatively high capital quality by achieving capital supplement with priority to the internal accumulation and utilising various capital instruments reasonably to optimise capital structure; continuously develop the advanced approach of capital management on the applications in the business management such as credit policies, credit approval and pricing.

Capital adequacy ratio is a reflection of the Group's ability to maintain a stable operation and resist adverse risks. In accordance with CBRC's "Measures for Capital Management of Commercial Banks (Trial)" and relevant regulations, commercial banks should meet the minimum capital requirements from 1 January 2013. The Common Equity Tier 1 ratio should be at or above a minimum of 5%, Tier 1 ratio at or above a minimum of 6% and total capital ratio at or above a minimum of 8%. Systematically important domestic banks should also meet the 1% additional capital requirement, with their Common Equity Tier 1 capital. Meanwhile, in accordance with CBRC's "Notice of relevant transitional arrangement for implementation of Measures for Capital Management of Commercial Banks (Trial)", a capital conservation buffer will be introduced progressively during the transitional period, which will be raised through Common Equity Tier 1 capital. If a countercyclical buffer is required or the Pillar 2 capital requirement is raised by the regulator to a specific commercial bank, the minimum requirements should be met within the transitional period.

The Group timely monitors, analyses and reports capital adequacy ratios, assesses if the capital management objectives have been met and exercises effective management of capital adequacy ratio. The Group adopts various measures such as controlling asset growth, adjusting the structure of risk assets, increasing internal capital supply and raising capital through external channels, to ensure that the Common Equity Tier 1 ratio, Tier 1 ratio and total capital ratio of the Group are in full compliance with regulatory requirements and meet internal management requirements. This helps to insulate against potential risks as well as support healthy business developments. The Group now fully complies with all regulatory requirements in this respect.

The Group's capital planning has taken the regulatory requirements, the Group's development strategy and risk appetite into consideration, and based on those factors the Group projects the capital usage and need.

The capital raising management of the Group involves reasonable utilisation of various capital instruments to ensure that both external regulatory and internal capital management objectives are met, taking into account capital planning and operating environment. This helps to optimise the Group's capital structure.

In April 2014, CBRC has officially approved the implementation of the advanced approach of capital management by the Bank. In this approach, the Bank has elected to use foundation internal rating based ("IRB") approach for corporate risk exposure which is compliant with regulatory requirements, IRB approach for retail risk exposure, internal models approach for market risk and standardised approach for operational risk exposure.

65 RISK MANAGEMENT (CONTINUED)

(8) Capital management (continued)

The Group's capital adequacy ratio calculated in accordance with the "Measures for Capital Management of Commercial Banks (Trial)" issued by the CBRC as at the end of the reporting period are as follows:

	Note	2016	2015
Common Equity Tier 1 ratio	(a)(b)(c)	12.98%	13.13%
Tier 1 ratio	(a)(b)(c)	13.15%	13.32%
Total capital ratio	(a)(b)(c)	14.94%	15.39%
Common Equity Tier 1 capital			
– Qualifying common share capital		250,011	250,011
– Capital reserve	(d)	132,800	157,613
– Surplus reserve		175,445	153,032
– General reserve		211,134	186,383
– Retained earnings		784,164	669,802
– Non-controlling interest recognised in Common Equity Tier 1 capital		4,069	4,121
– Others	(e)	798	(5,330)
Deductions for Common Equity Tier 1 capital			
– Goodwill	(f)	2,752	1,946
– Other intangible assets (excluding land use rights)	(f)	2,083	1,657
– Cash-flow hedge reserve		(150)	–
– Investments in common equity of financial institutions being controlled but outside the scope of consolidation		3,902	3,902
Additional Tier 1 capital			
– Other directly issued qualifying additional Tier 1 instruments including related premium		19,659	19,659
– Non-controlling interest recognised in Additional Tier 1 capital		82	61
Tier 2 capital			
– Directly issued qualifying Tier 2 instruments including related premium		155,684	170,147
– Provisions in Tier 2	(g)	58,281	50,014
– Non-controlling interest recognised in Tier 2 capital		375	2,165
Common Equity Tier 1 capital after deduction	(h)	1,549,834	1,408,127
Tier 1 capital after deduction	(h)	1,569,575	1,427,847
Total capital after deduction	(h)	1,783,915	1,650,173
Risk-weighted assets	(i)	11,937,774	10,722,082

65 RISK MANAGEMENT (CONTINUED)

(8) Capital management (continued)

Notes:

- (a) Since the Half Year report of 2014, the Group has elected the advanced approach to calculate capital adequacy ratio and implemented the parallel period rules.
- (b) The Common Equity Tier 1 ratio is calculated by dividing the Common Equity Tier 1 Capital after deduction by risk-weighted assets. Tier 1 ratio is calculated by dividing the Tier 1 Capital after deduction by risk-weighted assets. Total Capital ratio is calculated by dividing the Total capital after deduction by risk-weighted assets.
- (c) The scope for calculating capital adequacy ratio of the Group includes all the domestic branches and subsidiaries in the financial sector (excluding CCB Life).
- (d) Capital reserve includes investment revaluation reserve.
- (e) Others mainly include foreign exchange reserve.
- (f) Both balances of goodwill and other intangible assets (excluding land use right) are the net amounts after deducting relevant deferred tax liabilities.
- (g) Since the Half Year report of 2014, eligible excessive loan provisions was measured based on the advanced approach and implemented parallel period rules.
- (h) Common Equity Tier 1 capital after deduction is calculated by netting off the corresponding deduction items from the Common Equity Tier 1 capital. Tier 1 capital after deduction is calculated by netting off the corresponding deduction items from the Tier 1 capital. Total capital after deduction is calculated by netting off the corresponding deduction items from the total capital.
- (i) At 31 December 2016, according to the rules of advanced approach, risk-weighted assets include credit risk-weighted assets, market risk-weighted assets, operational risk-weighted assets and excessive risk-weighted assets due to the application of capital floor.

66 STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY OF THE BANK

	2016	2015
Assets:		
Cash and deposits with central banks	2,842,072	2,383,573
Deposits with banks and non-bank financial institutions	389,062	361,141
Precious metals	202,851	86,549
Placements with banks and non-bank financial institutions	318,511	333,398
Financial assets at fair value through profit or loss	360,628	260,207
Positive fair value of derivatives	81,425	24,396
Financial assets held under resale agreements	67,391	309,539
Interest receivable	98,040	93,988
Loans and advances to customers	11,084,938	9,899,993
Available-for-sale financial assets	1,473,168	945,797
Held-to-maturity investments	2,410,110	2,554,049
Investment classified as receivables	508,363	350,966
Investments in subsidiaries	37,024	32,885
Investment in consolidated structured entities	211,908	—
Fixed assets	145,421	144,363
Land use rights	14,277	14,795
Intangible assets	1,588	1,359
Deferred tax assets	28,281	24,298
Other assets	106,344	69,437
Total assets	20,381,402	17,890,733

	2016	2015
Liabilities:		
Borrowings from central banks	438,660	41,154
Deposits from banks and non-bank financial institutions	1,582,881	1,442,259
Placements from banks and non-bank financial institutions	311,095	304,195
Financial liabilities at fair value through profit or loss	395,769	301,778
Negative fair value of derivatives	83,332	23,320
Financial assets sold under repurchase agreements	170,067	264,569
Deposits from customers	15,114,993	13,393,246
Accrued staff costs	31,779	31,593
Taxes payable	43,653	48,515
Interest payable	210,035	204,336
Provisions	7,336	5,813
Debt securities issued	386,491	356,711
Deferred tax liabilities	53	81
Other liabilities	54,015	53,067
Total liabilities	18,830,159	16,470,637

**66 STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY OF THE BANK
(CONTINUED)**

	2016	2015
Equity:		
Share capital	250,011	250,011
Other equity instruments		
Preference Shares	19,659	19,659
Capital reserve	134,520	135,441
Investment revaluation reserve	(1,213)	22,549
Surplus reserve	175,445	153,032
General reserve	206,697	182,319
Retained earnings	766,312	658,545
Exchange reserve	(188)	(1,460)
Total equity	1,551,243	1,420,096
Total liabilities and equity	20,381,402	17,890,733

Approved and authorised for issue by the Board of Directors 29 March 2017.

Wang Zuji
*Vice chairman, executive
director and president*

Chung Shui Ming Timpson
*Independent non-executive
director*

Murray Horn
*Independent non-executive
director*

66 STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY OF THE BANK (CONTINUED)

	Share capital	Other equity instruments- preference shares	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Exchange reserve	Total equity
As at 31 December 2015	250,011	19,659	135,441	22,549	153,032	182,319	658,545	(1,460)	1,420,096
Movements during the year	-	-	(921)	(23,762)	22,413	24,378	107,767	1,272	131,147
(1) Total comprehensive income for the year	-	-	(921)	(23,762)	-	-	224,128	1,272	200,717
(2) Profit distribution									
i Appropriation to surplus reserve	-	-	-	-	22,413	-	(22,413)	-	-
ii Appropriation to general reserve	-	-	-	-	-	24,378	(24,378)	-	-
iii Dividends paid to ordinary shareholders	-	-	-	-	-	-	(68,503)	-	(68,503)
iv Dividends paid to preference shareholders	-	-	-	-	-	-	(1,067)	-	(1,067)
As at 31 December 2016	250,011	19,659	134,520	(1,213)	175,445	206,697	766,312	(188)	1,551,243
As at 31 December 2014	250,011	-	135,387	4,288	130,515	165,916	547,542	(1,423)	1,232,236
Movements during the year	-	19,659	54	18,261	22,517	16,403	111,003	(37)	187,860
(1) Total comprehensive income for the year	-	-	54	18,261	-	-	225,176	(37)	243,454
(2) Changes in share capital									
i Capital injection by other equity holders	-	19,659	-	-	-	-	-	-	19,659
(3) Profit distribution									
i Appropriation to surplus reserve	-	-	-	-	22,517	-	(22,517)	-	-
ii Appropriation to general reserve	-	-	-	-	-	16,403	(16,403)	-	-
iii Appropriation to ordinary shareholders	-	-	-	-	-	-	(75,253)	-	(75,253)
As at 31 December 2015	250,011	19,659	135,441	22,549	153,032	182,319	658,545	(1,460)	1,420,096

67 EVENTS AFTER THE REPORTING PERIOD

There are no significant events after the reporting period.

68 COMPARATIVE FIGURES

Certain comparative figures have been adjusted to confirm with the presentation and disclosures in the current period.

69 ULTIMATE PARENT

As stated in Note 1, the immediate and ultimate parent of the Group is Huijin and CIC respectively.

70 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Up to the date of issue of the financial statements, the IASB has issued the following amendments, new standards and interpretations which are relevant to the Group. These amendments, new standards and interpretations are not yet effective for the year ended 31 December 2016 and have not been adopted in the financial statements.

Standards	Effective for annual periods beginning on or after
(1) Amendments to IAS 7, "Statement of Cash Flows", disclosure initiative	1 January 2017
(2) Amendments to IAS 12, "Income Taxes"	1 January 2017
(3) IFRS 9, "Financial Instruments"	1 January 2018
(4) IFRS 15, "Revenue from Contracts with Customers"	1 January 2018
(5) IFRS 16, "Leases"	1 January 2019

(1) Amendments to IAS 7, "Statement of Cash Flows"

The amendments require to disclose information that will allow financial information users to understand changes in liabilities arising from financing activities. The amendments is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(2) Amendments to IAS 12, "Income Taxes"

The amendments on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(3) IFRS 9, "Financial Instruments"

IFRS 9 was issued in July 2014. It will replace the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 has three financial asset classifications categories for investments in debt instruments: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classifications categories: amortised cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognised in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognised in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss.

IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model, which constitutes a change from the incurred loss model in IAS 39. IFRS 9 contains a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. The new rules mean that on initial recognition of a non-credit impaired financial asset carried at amortised cost, a day-1 loss equal to the 12-month ECL is recognised in profit or loss. Where there is a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL.

IFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more "rule-based" approach of IAS39.

70 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

(3) IFRS 9, “Financial Instruments” (continued)

IFRS 9 will have an impact on the Group’s financial statements. The Group has set up a project team to carry out preparatory work in phases. The Group will establish new financial asset classification standards, revise the financial asset impairment model and related disclosures in the financial statements in accordance with IFRS 9. The Group will also update the internal controls and policies and upgrade the relevant IT system to meet the IFRS 9 implementation requirements. The Group anticipates the overall implementation preparation to be completed by the end of 2017. Currently the Group is carrying out the preparatory work as planned, and in the process of evaluating the impact of IFRS 9 implementation on the Group’s consolidated financial statements.

(4) IFRS 15, “Revenue from Contracts with Customers”

IFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an “earnings processes to an “asset-liability” approach based on transfer of control.

IFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contracts with customers.

IFRS 15 replaces the previous revenue standards: IAS 18 Revenue and IAS 11 Construction Contracts, and the related Interpretations on revenue recognition.

The Group anticipates that adoption of IFRS 15 will not have a significant impact on the Group’s consolidated financial statements.

(5) IFRS 16, “Leases”

IFRS 16, “Leases” addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on statement of financial position for lessees. The standard replaces IAS 17 “Leases”, and related interpretations. The Group is currently assessing the impact of IFRS 16 upon initial application.

China Construction Bank Corporation
Consolidated statement of comprehensive income
For the three months ended 31 March 2017
(Expressed in millions of Renminbi, unless otherwise stated)

	Three months ended 31 March	
	2017	2016
	(Unaudited)	(Unaudited)
Interest income	179,561	177,272
Interest expense	(72,638)	(69,386)
Net interest income	106,923	107,886
Fee and commission income	41,542	40,234
Fee and commission expense	(2,775)	(1,858)
Net fee and commission income	38,767	38,376
Net trading gain	1,073	469
Dividend income	440	343
Net gain arising from investment securities	558	5,016
Other operating income, net:		
- Other operating income	23,761	36,611
- Other operating expense	(12,484)	(32,921)
Other operating income, net	11,277	3,690
Operating income	159,038	155,780
Operating expenses	(35,095)	(40,955)
	123,943	114,825
Impairment losses on:		
- Loans and advances to customers	(35,322)	(27,025)
- Others	(840)	324
Impairment losses	(36,162)	(26,701)
Share of (loss)/profit of associates and joint ventures	(8)	20
Profit before tax	87,773	88,144
Income tax expense	(17,542)	(20,233)
Net profit	70,231	67,911

China Construction Bank Corporation
Consolidated statement of comprehensive income (continued)
For the three months ended 31 March 2017
(Expressed in millions of Renminbi, unless otherwise stated)

	Three months ended 31 March	
	2017	2016
	(Unaudited)	(Unaudited)
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Others	-	7
Subtotal	-	7
Items that may be reclassified subsequently to profit or loss		
Loss of available-for-sale financial assets arising during the period	(12,425)	(852)
Income tax impact relating to available-for-sale financial assets	3,010	195
Reclassification adjustments included in profit or loss	234	(2,467)
Net (loss)/gain on cash flow hedges	(115)	3
Exchange difference on translating foreign operations	60	363
Subtotal	(9,236)	(2,758)
Other comprehensive income for the period, net of tax	(9,236)	(2,751)
Total comprehensive income for the period	60,995	65,160
Net profit attributable to:		
Equity shareholders of the Bank	70,012	67,952
Non-controlling interests	219	(41)
	70,231	67,911
Total comprehensive income attributable to:		
Equity shareholders of the Bank	60,908	65,385
Non-controlling interests	87	(225)
	60,995	65,160
Basic and diluted earnings per share (in RMB Yuan)	0.28	0.27

China Construction Bank Corporation
Consolidated statement of financial position
As at 31 March 2017
(Expressed in millions of Renminbi, unless otherwise stated)

	31 March 2017	31 December 2016
	(Unaudited)	(Audited)
Assets:		
Cash and deposits with central banks	2,981,283	2,849,261
Deposits with banks and non-bank financial institutions	416,047	494,618
Precious metals	220,142	202,851
Placements with banks and non-bank financial institutions	303,778	260,670
Financial assets at fair value through profit or loss	582,574	488,370
Positive fair value of derivatives	61,818	89,786
Financial assets held under resale agreements	247,613	103,174
Interest receivable	113,440	101,645
Loans and advances to customers	11,877,235	11,488,355
Available-for-sale financial assets	1,683,649	1,633,834
Held-to-maturity investments	2,372,235	2,438,417
Investment classified as receivables	522,066	507,963
Interests in associates and joint ventures	6,882	7,318
Fixed assets	167,626	170,095
Land use rights	14,574	14,742
Intangible assets	2,267	2,599
Goodwill	2,953	2,947
Deferred tax assets	37,765	31,062
Other assets	81,257	75,998
Total assets	21,695,204	20,963,705

China Construction Bank Corporation
Consolidated statement of financial position (continued)
As at 31 March 2017
(Expressed in millions of Renminbi, unless otherwise stated)

	<u>31 March</u> 2017	<u>31 December</u> 2016
	(Unaudited)	(Audited)
Liabilities:		
Borrowings from central banks	492,736	439,339
Deposits from banks and non-bank financial institutions	1,411,115	1,612,995
Placements from banks and non-bank financial institutions	431,976	322,546
Financial liabilities at fair value through profit or loss	397,469	396,591
Negative fair value of derivatives	63,007	90,333
Financial assets sold under repurchase agreements	56,132	190,580
Deposits from customers	16,232,198	15,402,915
Accrued staff costs	30,074	33,870
Taxes payable	57,337	44,900
Interest payable	208,695	211,330
Provisions	9,897	9,276
Debt securities issued	466,060	451,554
Deferred tax liabilities	757	570
Other liabilities	<u>187,144</u>	<u>167,252</u>
Total liabilities	<u>20,044,597</u>	<u>19,374,051</u>

China Construction Bank Corporation
 Consolidated statement of financial position (continued)
 As at 31 March 2017
 (Expressed in millions of Renminbi, unless otherwise stated)

	31 March 2017	31 December 2016
	(Unaudited)	(Audited)
Equity:		
Share capital	250,011	250,011
Other equity instruments		
Preference shares	19,659	19,659
Capital reserve	133,845	133,960
Investment revaluation reserve	(9,992)	(976)
Surplus reserve	175,445	175,445
General reserve	211,221	211,193
Retained earnings	856,844	786,860
Exchange reserve	375	348
Total equity attributable to equity shareholders of the Bank	1,637,408	1,576,500
Non-controlling interests	13,199	13,154
Total equity	1,650,607	1,589,654
Total liabilities and equity	21,695,204	20,963,705

Approved and authorised for issue by the Board of Directors on 27 April 2017.

Wang Zuji <i>Vice chairman, executive director and president</i>	Chung Shui Ming Timpson <i>Independent non-executive director</i>	Dong Shi <i>Non-executive director</i>
--	---	--

China Construction Bank Corporation
Consolidated statement of cash flows
For the three months ended 31 March 2017
(Expressed in millions of Renminbi, unless otherwise stated)

	Three months ended 31 March	
	2017	2016
	(Unaudited)	(Unaudited)
 <i>Cash flows from operating activities</i>		
Profit before tax	87,773	88,144
 <i>Adjustments for:</i>		
– Impairment losses	36,162	26,701
– Depreciation and amortisation	3,985	3,703
– Interest income from impaired financial assets	(752)	(944)
– Revaluation (gain)/loss on financial instruments at fair value through profit or loss	(81)	124
– Share of loss/(profit) of associates and joint ventures	8	(20)
– Dividend income	(440)	(343)
– Unrealised foreign exchange (gain)/loss	(10,442)	3,675
– Interest expense on bonds issued	2,842	2,811
– Net gain on disposal of investment securities	(558)	(5,016)
– Net gain on disposal of fixed assets and other long-term assets	(12)	(31)
	118,485	118,804

China Construction Bank Corporation
Consolidated statement of cash flows (continued)
For the three months ended 31 March 2017
(Expressed in millions of Renminbi, unless otherwise stated)

	Three months ended 31 March	
	2017	2016
	(Unaudited)	(Unaudited)
<i>Cash flows from operating activities (continued)</i>		
<i>Changes in operating assets:</i>		
Net decrease/(increase) in deposits with central banks and with banks and non-bank financial institutions	107,348	(58,645)
Net decrease in placements with banks and non-bank financial institutions	46,367	73,199
Net increase in loans and advances to customers	(426,878)	(357,188)
Net (increase)/decrease in financial assets held under resale agreements	(144,496)	37,850
Net increase in financial assets at fair value through profit or loss	(93,541)	(75,703)
Net increase in other operating assets	(38,680)	(86,334)
	(549,880)	(466,821)
<i>Changes in operating liabilities:</i>		
Net increase in borrowings from central banks	53,657	65,685
Net increase in placements from banks and non-bank financial institutions	112,182	11,672
Net increase in deposits from customers and from banks and non-bank financial institutions	638,268	850,463
Net decrease in financial assets sold under repurchase agreements	(134,299)	(257,094)
Net increase/(decrease) in certificates of deposit issued	14,515	(27,235)
Income tax paid	(10,596)	(7,720)
Net increase in financial liabilities at fair value through profit or loss	990	27,068
Net increase in other operating liabilities	19,991	45,209
	694,708	708,048
Net cash from operating activities	263,313	360,031

China Construction Bank Corporation
Consolidated statement of cash flows (continued)
For the three months ended 31 March 2017
(Expressed in millions of Renminbi, unless otherwise stated)

	Three months ended 31 March	
	2017	2016
	(Unaudited)	(Unaudited)
<i>Cash flows from investing activities</i>		
Proceeds from sale and redemption of investments	333,172	264,611
Dividends received	464	343
Proceeds from disposal of fixed assets and other long-term assets	2,060	1,245
Purchase of investment securities	(339,310)	(271,874)
Purchase of fixed assets and other long-term assets	(2,783)	(2,823)
Acquisition of subsidiaries, associates and joint ventures	(801)	(823)
Net cash used in investing activities	(7,198)	(9,321)
<i>Cash flows from financing activities</i>		
Capital contribution by non-controlling interests	93	-
Consideration paid for acquisition of non-controlling interests	(100)	-
Dividends paid	(60)	(21)
Repayments of borrowings	-	(5,395)
Interest paid on bonds issued	(1,565)	(1,650)
Net cash used in financing activities	(1,632)	(7,066)

China Construction Bank Corporation
Consolidated statement of cash flows (continued)
For the three months ended 31 March 2017
(Expressed in millions of Renminbi, unless otherwise stated)

	Three months ended 31 March	
	2017	2016
	(Unaudited)	(Unaudited)
Effect of exchange rate changes on cash and cash equivalents	(3,027)	(981)
Net increase in cash and cash equivalents	251,456	342,663
Cash and cash equivalents as at 1 January	599,124	387,921
Cash and cash equivalents as at 31 March	850,580	730,584
Cash flows from operating activities include:		
Interest received	167,140	169,665
Interest paid, excluding interest expense on bonds issued	(73,708)	(69,099)

THE ISSUER

China Construction Bank Corporation Hong Kong Branch
中國建設銀行股份有限公司香港分行
28/F, CCB Tower
3 Connaught Road Central
Hong Kong

FISCAL AGENT

The Hongkong and Shanghai Banking Corporation Limited
Level 30
HSBC Main Building
1 Queen's Road Central
Hong Kong

REGISTRAR AND TRANSFER AGENT

The Hongkong and Shanghai Banking Corporation Limited
Level 30
HSBC Main Building
1 Queen's Road Central
Hong Kong

LEGAL ADVISERS

To the Issuer as to Hong Kong law

Linklaters
10th Floor, Alexandra House
Chater Road
Hong Kong

To the Issuer as to PRC law

King & Wood Mallesons
17th Floor
One ICC Shanghai International Commerce Center
999 Middle Huai Hai Road, Xuhui District
Shanghai 200031
the People's Republic of China

To the Joint Lead Managers as to English law

Clifford Chance
27th Floor, Jardine House
One Connaught Place
Central
Hong Kong

To the Joint Lead Managers as to PRC law

Global Law Office
15/F, Tower 1, China Central Place
No. 81 Jianguo Road
Beijing 100025
the People's Republic of China

INDEPENDENT AUDITOR

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central
Hong Kong

JOINT GLOBAL CO-ORDINATORS

China Construction Bank (Asia) Corporation Limited
28/F, CCB Tower
3 Connaught Road Central
Central
Hong Kong

CCB International Capital Limited
12/F, CCB Tower
3 Connaught Road Central
Hong Kong

China Construction Bank Corporation Singapore Branch
9 Raffles Place #33-01/02
Republic Plaza
Singapore 048619

Citigroup Global Markets Limited
Citigroup Centre
Canada Square, Canary Wharf
London E14 5LB
United Kingdom

Standard Chartered Bank
Marina Bay Financial Centre
Tower 1, Level 20
8 Marina Boulevard
Singapore 018981

JOINT LEAD MANAGERS

**China Construction Bank (Asia)
Corporation Limited**
28/F, CCB Tower
3 Connaught Road Central
Central
Hong Kong

CCB International Capital Limited
12/F, CCB Tower
3 Connaught Road Central
Hong Kong

**China Construction Bank Corporation
Singapore Branch**
9 Raffles Place #33-01/02
Republic Plaza
Singapore 048619

Citigroup Global Markets Limited
Citigroup Centre
Canada Square, Canary Wharf
London E14 5LB
United Kingdom

Standard Chartered Bank
Marina Bay Financial Centre
Tower 1, Level 20
8 Marina Boulevard
Singapore 018981

Bank of China Limited
7/F Bank of China Tower
1 Garden Road
Central, Hong Kong

Bank of China (Hong Kong) Limited
8/F Bank of China Tower
1 Garden Road
Central, Hong Kong

**China Minsheng Banking Corp., Ltd.,
Hong Kong Branch**
40/F., Two International Finance Centre
8 Finance Street
Central, Hong Kong

First Abu Dhabi Bank PJSC
One First Abu Dhabi Bank Tower
Sheikh Khalifa Street
PO Box 4 Abu Dhabi
United Arab Emirates

**Crédit Agricole Corporate and
Investment Bank**
27th Floor
Two Pacific Place
88 Queensway
Hong Kong

**Industrial and Commercial Bank of China
Limited, Singapore Branch**
6 Raffles Quay #23-01
Singapore 048580

**Industrial and Commercial Bank of
China (Asia) Limited**
28/F., ICBC Tower
3 Garden Road
Central, Hong Kong

Merrill Lynch International
2 King Edward Street
London EC1A 1HQ
United Kingdom

KGI Asia Limited
41/F Central Plaza
18 Harbour Road
Wanchai, Hong Kong

Mizuho Securities Asia Limited
12th Floor, Chater House
8 Connaught Road Central
Hong Kong

Société Générale
34/F Three Pacific Place
1 Queen's Road East
Hong Kong

Wells Fargo Securities, LLC
27/F, Three Pacific Place
1 Queen's Road East
Hong Kong