IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE ADDRESSEES OUTSIDE OF THE UNITED STATES AND ARE NOT U.S. PERSONS.

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached offering circular. You are advised to read this disclaimer carefully before accessing, reading or making any other use of the attached offering circular. In accessing the attached 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 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 中國建設銀行股份有限公司 (the "**Bank**"), China Construction Bank Corporation Hong Kong Branch 中國建設銀行股份有限公司香港分行 (the "**Hong Kong Branch**") or such other branch of the Bank as specified in the relevant Pricing Supplement (a "**Branch Issuer**" and together with the Bank and the Hong Kong Branch, an "**Issuer**") China Construction Bank (Asia) Corporation Limited and The Hongkong and Shanghai Banking Corporation Limited (together, the "**Arrangers**") that (1) you and any customers you represent are not U.S. persons (as defined in Regulation S under the U.S. Securities Act of 1933, as amended (the "**Securities Act**")) and that 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 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 Bank, the Hong Kong Branch, the Issuer, the Arrangers, the dealers named herein (the "**Dealers**"), the agents named herein (the "**Agents**") nor their respective affiliates and their respective directors, officers, employees, representatives, agents and each person who controls the Bank, the Hong Kong Branch, the Issuer, an Arranger, a Dealer, 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.**

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Nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of the Bank, the Hong Kong Branch, the Issuer, the Arrangers or the Dealers 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 an Arranger or a Dealer 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.

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中国建设银行
China Construction Bank

CHINA CONSTRUCTION BANK CORPORATION
中 國 建 設 銀 行 股 份 有 限 公 司

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

CHINA CONSTRUCTION BANK CORPORATION HONG KONG BRANCH
中 國 建 設 銀 行 股 份 有 限 公 司 香 港 分 行

U.S.$15,000,000,000

Medium Term Note Programme

On 29 May 2015, China Construction Bank Corporation Hong Kong Branch 中國建設銀行股份有限公司香港分行 (the "**Hong Kong Branch**") established a U.S.$6,000,000,000 Medium Term Note Programme (the "**Programme**") and prepared an offering circular dated 29 May 2015, 26 September 2016 and 24 November 2017. With effect from 28 June 2018, the size of the Programme is increased from U.S.$6,000,000,000 to U.S.$15,000,000,000. This Offering Circular supersedes the offering circular dated 24 November 2017. Any Notes (as defined below) issued under this Programme on or after the date of this Offering Circular are issued subject to the provisions described herein save for, in the case of the terms and conditions of the Notes, any Notes issued on or after the date of this Offering Circular so as to be consolidated and form a single series with any Series (as defined under "*Terms and Conditions of the Notes*") of Notes issued before the date of this Offering Circular. Under the Programme, China Construction Bank Corporation 中國建設銀行股份有限公司 (the "**Bank**"), the Hong Kong Branch or such other branch of the Bank as specified in the relevant Pricing Supplement (a "**Branch Issuer**" and, together with the Bank and the Hong Kong Branch, an "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue notes (the "**Notes**") denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Notes may be issued in bearer or registered form (respectively "**Bearer Notes**" and "**Registered Notes**"). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed U.S.$15,000,000,000 (or its equivalent in other currencies calculated as described in the Dealer Agreement described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "Summary of the Programme" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "**relevant Dealer**" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

Application has been made to The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") for the listing of the Programme 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 during the 12 month period from the date of this Offering Circular on the Hong Kong Stock Exchange. 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 Offering Circular, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Offering Circular to Professional Investors only have been reproduced in this Offering Circular. 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, the Issuer, the Bank or the Hong Kong Branch 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 Offering Circular, 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 Offering Circular.

Where applicable for a relevant Tranche of Notes, the Notes will be issued within the relevant annual or otherwise general foreign debt issuance quota granted to the Bank by the National Development and Reform Commission of the PRC (the "**NDRC**") or registration will be completed by the Bank with the NDRC pursuant to 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 which came into effect on 14 September 2015 and the applicable implementation rules or policies thereof as issued by the NDRC from time to time (the "**NDRC Circular**"). After the issuance of such relevant Tranche of Notes, the Bank intends to provide the requisite information on the issuance of such Notes to the NDRC within the time period as required by the NDRC.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "*Terms and Conditions of the Notes*") of Notes will be set out in a pricing supplement (the "Pricing Supplement") which, with respect to Notes to be listed on the Hong Kong Stock Exchange, will be delivered to the Hong Kong Stock Exchange, on or before the date of issue of the Notes of such Tranche. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Offering Circular, 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 Offering Circular.

Application has been made to the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") for permission to deal in and quotation for any Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST. If the application to the SGX-ST to list a particular series of Notes is approved, for so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes, if traded, will be traded on the SGX-ST in a board lot size of at least S$200,000 (or its equivalent in other currencies). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. The approval in-principle from, the admission of any Notes to the Official List of, and the quotation of any Notes on, the SGX-ST, are not to be taken as indications of the merits of the Issuer, the Hong Kong Branch or the Bank, its subsidiaries, its associated companies (if any), the Programme or such Notes.

This 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 Offering Circular has been submitted for approval to the DFSA under the DFSA's Markets Rule 2.6 and, upon approval, will therefore be an Approved Prospectus for the purposes of Article 14 of the Markets Law. Application has also been made to the DFSA for Notes issued under the Programme during the period of 12 months from the date of this Offering Circular to be admitted to the official list of securities (the "**DFSA Official List**") maintained by the DFSA and to NASDAQ Dubai for such Notes to be admitted to trading on NASDAQ Dubai.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche (as defined under "*Terms and Conditions of the Notes*") of Notes will be set out in the applicable Pricing Supplement which, with respect to Notes to be listed on NASDAQ Dubai, will be delivered to the DFSA and NASDAQ Dubai before the listing of Notes of such Tranche.

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

The language of this Offering Circular is English. Certain legislative references and technical terms have been cited in their original language in order than the correct technical meaning may be ascribed to them under applicable law.

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes.

Each Tranche of Notes of each Series (as defined in "*Form of the Notes*") in bearer form will be represented on issue by a temporary global note in bearer form (each a "**Temporary Bearer Global Note**") or a permanent global note in bearer form (each a "**Permanent Bearer Global Note**"). Notes in registered form will initially be represented by a global note in registered form (each a "**Registered Global Note**" and together with any Temporary Bearer Global Notes and Permanent Bearer Global Notes, the "**Global Notes**" and each a "**Global Note**"). Registered Global Notes will be registered in the name of, or in the name of a nominee for, one or more clearing systems. Global Notes may be deposited on the issue date with a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"). Global Notes may also be deposited with a sub-custodian for the Hong Kong Monetary Authority (the "**HKMA**"), as operator of the Central Moneymarkets Unit Service, operated by the Hong Kong Monetary Authority (the "**CMU Service**"). The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes are described in "*Form of the Notes*".

The Issuer may agree with any Dealer (as defined herein) that the Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event (in the case of Notes intended to be listed on the Hong Kong Stock Exchange) a supplementary offering circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

The Bank has been rated A1 by Moody's Investors Service ("**Moody's**"). The Programme has been rated A1 by Moody's. Notes issued under the Programme may be rated or unrated. Where an issue of a certain series of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme and (where applicable) such rating will be specified in the relevant Pricing Supplement. 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.

See "Risk Factors" beginning on page 60 for a discussion of certain factors to be considered in connection with an investment in the Notes.

Arrangers

China Construction Bank (Asia) **HSBC**

Dealers

China Construction Bank (Asia) **HSBC**

The date of this Offering Circular is 28 June 2018.

IMPORTANT NOTICE

Each of the Issuer, the Hong Kong Branch and the Bank having made all reasonable enquiries confirms that to the best of its knowledge and belief (i) this Offering Circular contains all information with respect to the Issuer, the Hong Kong Branch 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 Hong Kong Branch, 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, the Hong Kong Branch and the Group and of the rights attaching to the Notes); (ii) the statements contained herein relating to the Issuer, the Hong Kong Branch, 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 Hong Kong Branch, 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 Offering Circular misleading in any material aspect.

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**HKSE Rules**") for the purpose of giving information with regard to the Issuer, the Hong Kong Branch and the Bank. Each of the Issuer, the Hong Kong Branch and the Bank accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having taken all reasonable care and made all reasonable enquiries, that the information contained in this Offering Circular is in accordance with the facts and that to the best of its knowledge and belief there are no other facts the omission of which would make any statements herein misleading or would likely affect the import of such statements.

No person is or has been authorised by the Issuer, the Hong Kong Branch or the Bank to give any information or to make any representations other than those contained in this 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, the Hong Kong Branch, the Bank, the Arrangers or the Dealers.

The Arrangers and the Dealers have not separately verified the information contained in this Offering Circular to the fullest extent permitted by law. None of the Arrangers or the Dealers 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 Offering Circular. To the fullest extent permitted by law, none of the Arrangers or the Dealers accepts any responsibility for the contents of this Offering Circular. Each of the Arrangers and the Dealers accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement. Neither this Offering Circular nor any financial statements included or incorporated herein 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, the Hong Kong Branch, the Bank, the Arrangers or the Dealers that any recipient of this 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 Offering Circular and make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer, the Hong Kong Branch, the Bank and the risks involved. The purchase of Notes by investors should be based upon their investigation, as they deem necessary. None of the Arrangers nor the Dealers undertakes to review the financial condition or affairs of the Issuer, the Hong Kong Branch, the Bank and the Group during the life of the arrangements contemplated by this Offering Circular, nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Arrangers or the Dealers.

Neither this 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, the Hong Kong Branch, the Bank, any of the Arrangers or the Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular or any Pricing Supplement nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer, the Hong Kong Branch or the Bank 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 Arrangers and the Dealers expressly do not undertake to review the financial condition or affairs of the Issuer, the Hong Kong Branch or the Bank during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Offering Circular when deciding whether or not to purchase any Notes.

IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF NOTES, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISING MANAGER(S) (OR PERSON(S) ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN THE APPLICABLE PRICING SUPPLEMENT MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE PRICE OF THE NOTES OF THE SERIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF NOTES. 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.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act). For a further description of certain restrictions on the offering and sale of the Notes and on distribution of this Offering Circular, see "*Subscription and Sale*" and the applicable Pricing Supplement.

PRIIPs/IMPORTANT – EEA RETAIL INVESTORS – If the Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to EEA Retail Investors", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "**Prospectus Directive**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MIFID II product governance/target market – The Pricing Supplement in respect of any Notes may include a legend entitled "MiFID II Product Governance" which will outline the target market in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person offering, selling or recommending the Notes (a "**distributor**") should take into consideration such target market; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.

This Offering Circular complies with the requirements in Part 2 of the Markets Law (DIFC Law No. 1 of 2012) and Chapter 2 of the Markets 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 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 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 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 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 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 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 Offering Circular. No offer of Notes will be made to the public in the Kingdom of Bahrain and this 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 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 Offering Circular, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this 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 Offering Circular he or she should consult an authorised financial adviser.

This 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 Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. None of the Issuer, the Hong Kong Branch, the Bank, the Arrangers or the Dealers represents that this 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, the Hong Kong Branch, the Bank, the Arrangers or the Dealers which would permit a public offering of any Notes or distribution of this 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 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 Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this 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*" and the relevant Pricing Supplement.

PRESENTATION OF FINANCIAL INFORMATION

This Offering Circular contains the audited consolidated financial statements of the Group as at and for the year ended 31 December 2016 (the "**Group 2016 Annual Financial Statements**") and the audited consolidated financial statements of the Group as at and for the year ended 31 December 2017 (the "**Group 2017 Annual Financial Statements**"). The Group 2016 Annual Financial Statements and the Group 2017 Annual Financial Statements were prepared in accordance with the International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**").

The Group 2016 Annual Financial Statements and the Group 2017 Annual Financial Statements have been audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong ("**PricewaterhouseCoopers**") in accordance with Hong Kong Standards on Auditing ("**HKSA**") and are included elsewhere in this Offering Circular.

The selected consolidated quarterly financial information of the Group as at and for the three months ended 31 March 2017 and 2018 was extracted from the unaudited and unreviewed consolidated quarterly financial statements of the Group as at and for the three months ended 31 March 2018 (the "**Group 2018 First Quarter Financial Statements**") included in the quarterly report of the Group (the "**Group 2018 1Q Report**") published on 26 April 2018 and prepared in accordance with IFRS.

The Group 2018 First Quarter Financial Statements (which include the comparative financial information as at and for the three months ended 31 March 2017) included in this 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. 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 2018 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 2018.

As of 1 January 2018, the Bank has adopted new accounting standards, including IFRS 9, which are effective for accounting periods beginning on or after 1 January 2018. The IFRS 9 model introduces, among other things, an expected loss impairment model. The impact of the initial application of the new accounting standards is disclosed in note 70 of the Group 2017 Annual Financial Statements. The Bank has estimated that the adoption of IFRS 9 would reduce its net assets by approximately 1 per cent. as at 1 January 2018. According to the IFRS 9 transitional arrangement, upon initial application of IFRS 9, the Group is not required to restate the comparable figures of the prior period. Instead, differences caused by the adoption of the IFRS 9 is adjusted to the beginning balance of retained earnings and other comprehensive income.

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; references to the Hong Kong Branch refer to China Construction Bank Corporation Hong Kong Branch 中國建設銀行股份有限公司香港分行; references to the Issuer refer to the Bank, the Hong Kong Branch or such other branch of the Bank as specified in the relevant Pricing Supplement as being the issuer of a Series of Notes; references to the Group refer to the Bank and its subsidiaries taken as a whole; references herein to U.S. dollars and U.S.$ are to the lawful currency of the United States of America (the "**USA**" or the "**U.S.**"); references to Hong Kong dollars, HK 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 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 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.

THIRD PARTY INFORMATION

The Issuer confirms that all third party information in this Offering Circular has been accurately reproduced and, so far as it is aware and has been able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

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DOCUMENTS INCORPORATED BY REFERENCE

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Offering Circular:

(a) the most recently published audited consolidated financial statements of the Bank and the most recently published unaudited but reviewed consolidated interim financial statements of the Bank, together with any audit or review reports prepared in connection therewith and the most recently published unaudited and unreviewed consolidated quarterly financial statements of the Bank; and

(b) all supplements or amendments to this Offering Circular circulated by the Issuer from time to time,

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

The Issuer will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer at its office, as set out at the end of this Offering Circular. In addition, such documents will be available free of charge from the office of The Hongkong and Shanghai Banking Corporation Limited (the "**Fiscal Agent**") at Level 30, HSBC Main Building, 1 Queen's Road Central, Hong Kong. Pricing Supplements relating to unlisted Notes will only be available for inspection by a holder of such Notes and such holder must produce evidence satisfactory to the Issuer or the relevant Paying Agent as to its holding of Notes and its identity.

If the terms of the Programme are modified or amended in a manner which would make this Offering Circular, as so modified or amended, inaccurate or misleading, a new offering circular will be prepared.

GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer may from time to time issue Notes denominated in any currency, subject to those matters set out herein. A summary of the terms and conditions of the Programme and the Notes appears below. The applicable terms of any Notes will be agreed between the Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes endorsed on, attached to, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Notes, as more fully described under "*Form of the Notes*".

This Offering Circular and any supplement hereto will only be valid for Notes issued under the Programme during the period of 12 months from the date of this Offering Circular in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed U.S.$15,000,000,000 or its equivalent in other currencies. For the purpose of calculating the U.S. dollar equivalent of the aggregate nominal amount of Notes issued under the Programme from time to time:

(a) the U.S. dollar equivalent of Notes denominated in another Specified Currency (as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under "*Form of the Notes*") shall be determined, at the discretion of the Issuer, either as at the date on which agreement is reached for the issue of Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in Hong Kong, in each case on the basis of the spot rate for the sale of the U.S. dollar against the purchase of such Specified Currency in the Hong Kong foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation;

(b) the U.S. dollar equivalent of Dual Currency Notes, Index Linked Notes and Partly Paid Notes (each as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under "*Form of the Notes*") shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Notes (in the case of Partly Paid Notes regardless of the subscription price paid); and

(c) the U.S. dollar equivalent of Zero Coupon Notes (as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under "*Form of the Notes*") and other Notes issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

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 2015, 2016 and 2017 are extracted from the Group 2016 Annual Financial Statements and Group 2017 Annual Financial Statements as prepared and presented in accordance with IFRS and have been audited by PricewaterhouseCoopers.

The selected consolidated quarterly financial information of the Group as at and for the three months ended 31 March 2017 and 2018 was extracted from the Group 2018 First Quarter Financial Statements included in the Group 2018 1Q Report published on 26 April 2018 and prepared in accordance with IFRS. The Group 2018 First Quarter Financial Statements (which include the comparative financial information as at and for the three months ended 31 March 2017) included in this 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 Arrangers and the Dealers 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 2017 and 2018 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 2017 and 2018 should not be taken as an indication of the expected financial condition, results of operations and results of the Group for the full financial year ending 31 December 2018.

As of 1 January 2018, the Bank has adopted new accounting standards, including IFRS 9, which are effective for accounting periods beginning on or after 1 January 2018. The IFRS 9 model introduces, among other things, an expected loss impairment model. The impact of the initial application of the new accounting standards is disclosed in note 70 of the Group 2017 Annual Financial Statements. The Bank has estimated that the adoption of IFRS 9 would reduce its net assets by approximately 1 per cent. as at 1 January 2018. According to the IFRS 9 transitional arrangement, upon initial application of IFRS 9, the Group is not required to restate the comparable figures of the prior period. Instead, differences caused by the adoption of the IFRS 9 is adjusted to the beginning balance of retained earnings and other comprehensive income.

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 Offering Circular.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015, 2016 AND 2017

	As at 31 December		
	2015	2016	2017
	(Audited) (RMB millions, unless otherwise stated)		
Assets:			
Cash and deposits with central banks	2,401,544	2,849,261	2,988,256
Deposits with banks and non-bank financial institutions	352,966	494,618	175,005
Precious metals	86,549	202,851	157,036
Placements with banks and non-bank financial institutions	310,779	260,670	325,233
Financial assets at fair value through profit or loss	271,173	488,370	578,436
Positive fair value of derivatives	31,499	89,786	82,980
Financial assets held under resale agreements	310,727	103,174	208,360
Interest receivable	96,612	101,645	116,993
Loans and advances to customers	10,234,523	11,488,355	12,574,473
Available-for-sale financial assets	1,066,752	1,633,834	1,550,680
Held-to-maturity investments	2,563,980	2,438,417	2,586,722
Investment classified as receivables	369,501	507,963	465,810
Interests in associates and joint ventures	4,986	7,318	7,067
Fixed assets	159,531	170,095	169,679
Land use rights	15,231	14,742	14,545
Intangible assets	2,103	2,599	2,752
Goodwill	2,140	2,947	2,751
Deferred tax assets	25,379	31,062	46,189
Other assets	43,514	75,998	71,416
Total assets	18,349,489	20,963,705	22,124,383
Liabilities:			
Borrowings from central banks	42,048	439,339	547,287
Deposits from banks and non-bank financial institutions	1,439,395	1,612,995	1,336,995
Placements from banks and non-bank financial institutions	321,712	322,546	383,639
Financial liabilities at fair value through profit or loss	302,649	396,591	414,148
Negative fair value of derivatives	27,942	90,333	79,867
Financial assets sold under repurchase agreements	268,012	190,580	74,279
Deposits from customers	13,668,533	15,402,915	16,363,754
Accrued staff costs	33,190	33,870	32,632
Taxes payable	49,411	44,900	54,106
Interest payable	205,684	211,330	199,588
Provisions	7,108	9,276	10,581
Debt securities issued	415,544	451,554	596,526
Deferred tax liabilities	624	570	389
Other liabilities	122,554	167,252	234,765
Total liabilities	16,904,406	19,374,051	20,328,556
Equity:			
Share capital	250,011	250,011	250,011
Other equity instruments preference shares	19,659	19,659	79,636
Capital reserve	135,249	133,960	135,225
Investment revaluation reserve	23,058	(976)	(26,004)
Surplus reserve	153,032	175,445	198,613
General reserve	186,422	211,193	259,680
Retained earnings	672,154	786,860	886,921
Exchange reserve	(5,565)	348	(4,322)
Total equity attributable to equity shareholders of the Bank	1,434,020	1,576,500	1,779,760
Non-controlling interests	11,063	13,154	16,067
Total equity	1,445,083	1,589,654	1,795,827
Total liabilities and equity	18,349,489	20,963,705	22,124,383

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2018

	As at 31 March 2018 (Unaudited and unreviewed)	As at 31 December 2017 (Audited)
	(RMB millions, unless otherwise stated)	
Assets:		
Cash and deposits with central banks	2,782,774	2,988,256
Deposits with banks and non-bank financial institutions	551,144	175,005
Precious metals	141,246	157,036
Placements with banks and non-bank financial institutions	301,908	325,233
Financial assets at fair value through profit or loss	768,145	578,436
Positive fair value of derivatives	132,827	82,980
Financial assets held under resale agreements	477,379	208,360
Interest receivable	131,624	116,993
Loans and advances to customers	12,780,050	12,574,473
Available-for-sale financial assets	–	1,550,680
Held-to-maturity investments	–	2,586,722
Receivables	–	465,810
Interests in associates and joint ventures	7,321	7,067
Fixed assets	167,514	169,679
Land use rights	14,273	14,545
Intangible assets	2,626	2,752
Goodwill	2,646	2,751
Deferred tax assets	57,702	46,189
Other assets	95,428	71,416
Total assets	22,848,740	22,124,383
Liabilities:		
Borrowings from central banks	552,760	547,287
Deposits from banks and non-bank financial institutions	1,173,475	1,336,995
Placements from banks and non-bank financial institutions	491,628	383,639
Financial liabilities at fair value through profit or loss	482,298	414,148
Negative fair value of derivatives	132,750	79,867
Financial assets sold under repurchase agreements	44,083	74,279
Deposits from customers	16,899,661	16,363,754
Accrued staff costs	28,310	32,632
Taxes payable	74,519	54,106
Interest payable	187,245	199,588
Provisions	36,804	10,581
Debt securities issued	610,693	596,526
Deferred tax liabilities	462	389
Other liabilities	280,436	234,765
Total liabilities	20,995,124	20,328,556
Equity:		
Share Capital	250,011	250,011
Other equity instruments preference shares	79,636	79,636
Capital reserve	134,537	135,225
Investment revaluation reserve	(15,479)	(26,004)
Surplus reserve	198,613	198,613
General reserve	259,784	259,680
Retained earnings	930,275	886,921
Exchange reserve	–	(4,322)
Total equity attributable to equity shareholders of the Bank	1,837,377	1,779,760
Non-controlling interests	16,239	16,067
Total equity	1,853,616	1,795,827
Total liabilities and equity	22,848,740	22,124,383

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2015, 2016 AND 2017

	For the year ended 31 December		
	2015	2016	2017
	(Audited) (RMB millions, unless otherwise stated)		
Interest income	770,559	696,637	750,154
Interest expense	(312,807)	(278,838)	(297,698)
Net interest income	457,752	417,799	452,456
Fee and commission income	121,404	127,863	131,322
Fee and commission expense	(7,874)	(9,354)	(13,524)
Net fee and commission income	113,530	118,509	117,798
Net trading (loss)/gain	3,913	3,975	4,858
Dividend income	733	2,588	2,195
Net gain arising from investment securities	5,075	11,098	(835)
Other operating income, net	5,684	5,921	17,559
Operating income	586,687	559,860	594,031
Operating expenses	(194,826)	(171,515)	(167,043)
	391,861	388,345	426,988
Impairment losses on:			
Loans and advances to customers	(92,610)	(89,588)	(123,389)
Others	(1,029)	(3,616)	(3,973)
Impairment losses	(93,639)	(93,204)	(127,362)
Share of profits less losses of associates and joint ventures	275	69	161
Profit before tax	298,497	295,210	299,787
Income tax expense	(69,611)	(62,821)	(56,172)
Net profit	228,886	232,389	243,615
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations	51	(839)	593
Others	4	68	208
Subtotal	55	(771)	801
Items that may be reclassified subsequently to profit or loss			
Gains of available-for-sale financial assets arising during the period	27,721	(27,841)	(38,151)
Less: Income tax relating to available-for-sale financial assets	(6,956)	7,055	9,230
Reclassification adjustments included in profit or loss	(1,429)	(3,930)	3,403
Net (gain)/loss on cash flow hedges	10	(150)	470
Exchange difference on translating foreign operations	1,436	5,885	(4,748)
Subtotal	20,782	(18,981)	(29,796)
Other comprehensive income for the year, net of tax	20,837	(19,752)	(28,995)
Total comprehensive income for the year	249,723	212,637	214,620
Net profit attributable to:			
Equity shareholders of the Bank	228,145	231,460	242,264
Non-controlling interests	741	929	1,351
	228,886	232,389	243,615
Total comprehensive income attributable to:			
Equity shareholders of the Bank	248,311	212,418	213,837
Non-controlling interests	1,412	219	783
	249,723	212,637	214,620
Basic and diluted earnings per share (in RMB Yuan)	0.91	0.92	0.96

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 31 MARCH 2017 AND 2018

	For the three months ended 31 March	
	2017	2018
	(Unaudited and unreviewed) (RMB millions, unless otherwise stated)	
Interest income	179,561	199,141
Interest expense	(72,638)	(76,459)
Net Interest income	106,923	122,682
Fee and commission income	41,542	40,872
Fee and commission expense	(2,775)	(2,941)
Net fee and commission income	38,767	37,931
Net trading gain	1,073	2,423
Dividend income	464	69
Net gain arising from investment securities	558	722
Other operating income, net:		
Other operating income	23,761	20,104
Other operating expense	(12,484)	(19,013)
Other operating income, net	11,277	1,091
Operating income	159,038	164,918
Operating expenses	(35,095)	36,233
	123,943	128,685
Impairment losses on:		
Loans and advances to customers	(35,322)	(34,926)
Others	(840)	(3,314)
Impairment losses	(36,162)	(38,240)
Share of (loss)/profits of associates and joint ventures	(8)	48
Profit before tax	87,773	90,493
Income tax expense	(17,542)	(16,417)
Net Profit	70,231	74,076

	For the three months ended 31 March	
	2017	2018
	(Unaudited and unreviewed) (RMB millions, unless otherwise stated)	
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Others	–	(67)
Subtotal	–	(67)
Items that may be reclassified subsequently to profit or loss		
Gains of financial assets measured at fair value in other comprehensive income	–	10,026
Income tax impact relating to financial assets measured at fair value in other comprehensive income	–	(2,563)
Losses of available-for-sale financial assets arising during the period	–	(12,425)
Income tax impact relating to available-for-sale financial assets	–	3,010
Reclassification adjustments included in profit or loss	234	(85)
Net (loss)/gain on cash flow hedges	(115)	(246)
Exchange difference on translating foreign operations	60	(2,660)
Sub-total	(9,236)	4,472
Other comprehensive income for the period, net of tax	(9,236)	(4,405)
Total comprehensive income for the period	60,995	78,481
Net profit attributable to:		
Equity shareholders of the Bank	70,012	73,815
Non-controlling interests	219	261
	70,231	74,076
Total comprehensive income attributable to:		
Equity shareholders of the Bank	60,908	78,309
Non-controlling interests	87	172
	60,995	78,481
Basic and diluted earnings per share (in RMB Yuan)	0.28	0.30

SUMMARY OF THE PROGRAMME

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in "Form of the Notes" and "Terms and Conditions of the Notes" shall have the same meanings in this summary.

Bank	China Construction Bank Corporation 中國建設銀行股份有限公司
Hong Kong Branch	China Construction Bank Corporation Hong Kong Branch 中國建設銀行股份有限公司香港分行
Issuer	The Bank, the Hong Kong Branch or such branch of the Bank as specified in the relevant Pricing Supplement as being the Issuer of a Series of Notes.
Description	Medium Term Note Programme.
Arrangers	China Construction Bank (Asia) Corporation Limited and The Hongkong Shanghai Banking Corporation Limited.
Dealers	China Construction Bank (Asia) Corporation Limited, The Hongkong Shanghai Banking Corporation Limited and any other Dealers appointed in accordance with the Dealer Agreement.
Certain Restrictions	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*" and the relevant Pricing Supplement) including the following restrictions applicable at the date of this Offering Circular. **Notes having a maturity of less than one year** Notes having a maturity of less than one year will, if the proceeds of the issue are received in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in Section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see "*Subscription and Sale*".
Fiscal Agent	The Hongkong and Shanghai Banking Corporation Limited
Registrar and Transfer Agent	The Hongkong and Shanghai Banking Corporation Limited
CMU Lodging and Paying Agent	The Hongkong and Shanghai Banking Corporation Limited

Programme Size	Up to U.S.$15,000,000,000 (or its equivalent in other currencies calculated as described under "*General Description of the Programme*") outstanding at any time. The Bank or the Hong Kong Branch may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
Distribution	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies	Subject to any applicable legal or regulatory restrictions, any other currency agreed between the Issuer and the relevant Dealer.
Maturities	Such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes	The Notes will be issued in bearer or registered form as described in "*Form of the Notes*". Registered Notes will not be exchangeable for Bearer Notes and vice versa.
Fixed Rate Notes	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the Dealer.
Floating Rate Notes	Floating Rate Notes will bear interest at a rate determined: (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (c) on such other basis as may be agreed between the Issuer and the relevant Dealer. The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each series of Floating Rate Notes.

Index Linked Notes	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.
Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes	Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both. Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.
Dual Currency Notes	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.
Zero Coupon Notes	Zero Coupon Notes will be offered and sold at a discount to their nominal amount, or offered and sold at their nominal amount and be redeemed at a premium, and will not bear interest.
Redemption	The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons, or pursuant to a winding-up of the Issuer following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer. The applicable Pricing Supplement may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement. Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "*Certain Restrictions – Notes having a maturity of less than one year*" above.
Denomination of Notes	Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency. See "*Certain Restrictions*" above.

Taxation	All payments of principal and interest in respect of the Notes, Receipts and Coupons will be made without deduction for or on account of withholding taxes imposed by the PRC and, if the Issuer is a branch of the Bank, the jurisdiction where that branch is located, or in each case any political subdivision or any authority therein or thereof having power to tax to which the Issuer becomes subject in respect of payments made by it in respect of the Notes, Receipts and the Coupons, subject as provided in Condition 8. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so deducted.
Events of Default	Events of Default for the Notes are set out in Condition 10.
Cross Acceleration	The terms of the Notes will contain a cross acceleration provision as further described in Condition 10(c).
Status of the Notes	The Notes and the Receipts and the Coupons relating to them will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer, ranking *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Receipts and the Coupons relating to them shall, save for such exceptions as may be provided by applicable legislation, at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, present and future.
Listing	Application has been made to list the Programme by way of debt issues to Professional Investors only on the Hong Kong Stock Exchange. The Notes may also be listed on the Hong Kong Stock Exchange and on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. Notes listed on the Hong Kong Stock Exchange will be traded on the Hong Kong Stock Exchange in a board lot size of at least HK$500,000 (or its equivalent in other currencies). Application has been made to the DFSA for Notes issued under the Programme during the period of 12 months from the date hereof to be admitted to the DFSA Official List and to NASDAQ Dubai for such Notes to be admitted to trading on NASDAQ Dubai.

	Application has been made to the SGX-ST for permission to deal in and quotation for any Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST. If the application to the SGX-ST to list a particular Series of Notes is approved, for so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes, if traded, will be traded on the SGX-ST in a board lot size of at least S$200,000 (or its equivalent in other currencies). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. The approval in-principle from, the admission of any Notes to the Official List of, and the quotation of any Notes on, the SGX-ST, are not to be taken as indications of the merits of the Issuer, the Hong Kong Branch or the Bank, its subsidiaries, its associated companies (if any), the Programme or such Notes. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. Unlisted Notes may also be issued. The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).
Ratings	Tranches of Notes will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, revision, reduction or withdrawal at any time by the assigning rating agency.
Governing Law	The Notes, the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them will be governed by, and shall be construed in accordance with, English law.
Selling Restrictions	There are restrictions on the offer, sale and transfer of the Notes in the United States, the United Kingdom, the European Economic Area, Singapore, Japan, Hong Kong, the PRC, 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 and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes. See "*Subscription and Sale*" and the relevant Pricing Supplement.

United States Selling Restrictions	Regulation S, Category 1 or 2, as specified in the applicable Pricing Supplement. Whether TEFRA C or D rules apply or whether TEFRA is not applicable will be specified in the applicable Pricing Supplement.
Clearing Systems	The CMU Service, Euroclear, Clearstream and/or any other clearing system as specified in the applicable Pricing Supplement. See "*Form of the Notes*".

FORM OF THE NOTES

The Notes of each Series will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached.

BEARER NOTES

Each Tranche of Bearer Notes will be in bearer form and will be initially issued in the form of a Temporary Bearer Global Note or, if so specified in the applicable Pricing Supplement, a Permanent Bearer Global Note which, in either case, will be delivered on or prior to the original issue date of the Tranche to either (i) a common depositary (the "**Common Depositary**") for, Euroclear and Clearstream or (ii) a sub-custodian for the CMU Service.

Whilst any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Bearer Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Bearer Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream and/or the CMU Lodging and Paying Agent and (in the case of a Temporary Bearer Global Note delivered to a Common Depositary for Euroclear and Clearstream) Euroclear and/or Clearstream, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent (as defined in "*Terms and Conditions of the Notes*"). On and after the date (the "**Exchange Date**") which is 40 days after a Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein either for (a) interests in a Permanent Bearer Global Note of the same Series or (b) for definitive Bearer Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Pricing Supplement and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the applicable Pricing Supplement), in each case against certification of beneficial ownership as described above unless such certification has already been given, provided that the purchasers in the United States and certain U.S. persons will not be able to receive definitive Bearer Notes. The CMU Service may require that any such exchange for a Permanent Global Bearer Note is made in whole and not in part and in such event, no such exchange will be effected until all relevant account holders (as set out in a CMU Instrument Position Report or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU Service) have so certified. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Note will be made through Euroclear and/or Clearstream against presentation or surrender (as the case may be) of the Permanent Bearer Global Note without any requirement for certification.

In respect of a Bearer Global Note held through the CMU Service, any payments of principal, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Bearer Global Note are credited (as set out in a CMU Instrument Position Report or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU Service) and, save in the case of final payment, no presentation of the relevant Bearer Global Note shall be required for such purpose.

The applicable Pricing Supplement will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Notes with, where applicable, receipts, interest coupons and talons attached upon either (a) not less than 60 days' written notice (i), in the case of Notes held by a Common Depositary for Euroclear and Clearstream, from Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) to the Principal Paying Agent as described therein or (ii), in the case of Notes held through a sub-custodian for the CMU Service, from the relevant account holders therein to the CMU Lodging and Paying Agent as described therein or (b) only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that (i) an Event of Default (as defined in Condition 10) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream have, or in the case of Notes cleared through the CMU Service, the CMU Service has, been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Bearer Notes represented by the Permanent Bearer Global Note in definitive form and a certificate to such effect signed by two directors of the Issuer is given to the Fiscal Agent. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, (a) in the case of Notes held by a Common Depositary for Euroclear and Clearstream, Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) or, (b) in the case of Notes held through a sub-custodian for the CMU Service, the relevant account holders therein, may give notice to the Principal Paying Agent or, as the case may be, the CMU Lodging and Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent or, as the case may be, the CMU Lodging and Paying Agent.

The following legend will appear on all Bearer Notes which have an original maturity of more than 365 days and on all receipts and interest coupons relating to such Notes:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear, Clearstream or the CMU Service, as the case may be.

REGISTERED NOTES

The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States, will initially be represented by a global note in registered form (a "**Registered Global Note**", together with any Bearer Global Note, the "**Global Notes**"). Prior to expiry of the distribution compliance period (as defined in Regulation S), if any, applicable to each Tranche of Notes, beneficial interests in a Registered Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 and may not be held otherwise than through Euroclear, Clearstream or the CMU Service and such Registered Global Note will bear a legend regarding such restrictions on transfer.

Registered Global Notes will be deposited with a Common Depositary for, and registered in the name of a common nominee of, Euroclear, Clearstream and/or deposited with a sub-custodian for the CMU Service (if applicable), as specified in the applicable Pricing Supplement. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 1) as the registered holder of the Registered Global Notes. None of the Issuer, the Bank, the Hong Kong Branch, the Fiscal Agent, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 7(b)(ii)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that (i) an Event of Default has occurred and is continuing, (ii) the Issuer has or will become subject to adverse tax consequences which would not be suffered where the Notes represented by the Registered Global Notes in definitive form or (iii) the Issuer has been notified that both Euroclear and Clearstream and, in the case of Notes cleared through the CMU Service, the CMU Service have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any case, no successor or alternative clearing system is available. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, (a) in the case of Notes registered in the name of a nominee for a Common Depositary for Euroclear and Clearstream (acting on the instructions of any holder of an interest in such Registered Global Note) and/or, (b) in the case of Notes held through a sub-custodian for the CMU Service, the relevant account holders therein may give notice to the Registrar or the CMU Lodging and Paying Agent, as the case may be, requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than ten days after the date of receipt of the first relevant notice by the Registrar or the CMU Lodging and Paying Agent, as the case may be.

TRANSFER OF INTERESTS

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of Euroclear, Clearstream and the CMU Service, in each case to the extent applicable.

GENERAL

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Notes*"), the Principal Paying Agent or, as the case may be, the CMU Lodging and Paying Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN and, where applicable, a CMU instrument number which are different from the common code, CMU instrument number and ISIN assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act), if any, applicable to the Notes of such Tranche.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear and/or Clearstream or the CMU Service, each person (other than Euroclear and/or Clearstream or the CMU Service) who is for the time being shown in the records of Euroclear or of Clearstream or the CMU Service as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear and/or Clearstream or the CMU Service as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Bank, the Fiscal Agent and their agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purposes the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer, the Bank, the Fiscal Agent and their agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions "**Noteholder**" and "**holder of Notes**" and related expressions shall be construed accordingly. Notwithstanding the above, if a Note (whether in global or definitive form) is held through the CMU Service, any payment that is made in respect of such Note shall be made at the direction of the bearer or the registered holder to the person(s) for whose account(s) interests in such Note are credited as being held through the CMU Service in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time as notified to the CMU Lodging and Paying Agent by the CMU Service in a relevant CMU Instrument Position Report or any other relevant notification by the CMU Service (which notification, in either case, shall be conclusive evidence of the records of the CMU Service as to the identity of any accountholder and the principal amount of any Note credited to its account, save in the case of manifest error) and such payments shall discharge the obligation of the Issuer and the Bank in respect of that payment under such Note.

Any reference herein to Euroclear and/or Clearstream and/or the CMU Service shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 10. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then the Global Note will become void at 8.00 p.m. (Hong Kong time) on such day. At the same time, holders of interests in such Global Note credited to their accounts with Euroclear, Clearstream and/or the

CMU Service, as the case may be, will become entitled to proceed directly against the Issuer and the Bank on the basis of statements of account provided by Euroclear, Clearstream and/or the CMU Service on and subject to the terms of a deed of covenant (the "**Deed of Covenant**") dated 24 November 2017 and executed by the Bank and the Hong Kong Branch.

If the applicable Pricing Supplement specifies any modification to the Terms and Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 5, 6 (except Condition 6(c)), 7, 12 or 14 (insofar as such Notes are not listed or admitted to trade on any stock exchange), they will not necessitate the preparation of a supplement to this Offering Circular. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, a supplement to this Offering Circular will be prepared, if appropriate.

For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Bank shall appoint and maintain a paying agent in Singapore, where such Notes may be presented or surrendered for payment or redemption, in the event that any of the Global Notes representing such Notes is exchanged for definitive Notes. In addition, in the event that any of the Global Notes 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.

FORM OF PRICING SUPPLEMENT

The Pricing Supplement that will be issued in respect of each Tranche of Notes will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue.

[**MiFID II product governance/target market –** [*appropriate target market legend to be included*]]

[**PRIIPs Regulation/Prospectus Directive/PROHIBITION OF SALES TO EEA RETAIL INVESTORS –** The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II[.]/[; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "**Prospectus Directive**")]. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

Pricing Supplement dated [●]

China Construction Bank Corporation 中國建設銀行股份有限公司/
China Construction Bank Corporation Hong Kong Branch 中國建設銀行股份有限公司香港分行/
[*specify other foreign branch*]

Issue of [*Aggregate Nominal Amount of Tranche*] [*Title of Notes*] under
the U.S.$15,000,000,000 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 28 June 2018. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular dated 28 June 2018 [and the supplemental Offering Circular dated [●]]. 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 supplementary Offering Circular dated [●]] 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.

[*The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.*

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 [*original date*]. This Pricing Supplement contains the pricing supplement of the Notes and must be read in conjunction with the Offering Circular dated [*current date*], save in respect of the Conditions which are extracted from the Offering Circular dated [*original date*] and are attached hereto. In particular, investors in the Notes should read the section titled "Risk Factors" contained therein, which apply to the issue of Notes described herein.]

[*The following language applies if the Notes are to be listed on The Stock Exchange of Hong Kong Limited.*

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.]

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Pricing Supplement.]

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination must be £100,000 or its equivalent in any other currency.]

1	Issuer:	China Construction Bank Corporation 中國建設銀行股份有限公司/China Construction Bank Corporation Hong Kong Branch 中國建設銀行股份有限公司香港分行/[*specify other foreign branch as Issuer*]]
2	[(i)] Series Number:	[●]
	[(ii) Tranche Number:	[●]
	(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible.)]	
3	Specified Currency or Currencies:	[●]

4	Aggregate Nominal Amount:	
	(i) Series:	[●]
	(ii) Tranche:	[●]
5	[(i)] Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (in the case of fungible issues only, if applicable)]
	[(ii) Net proceeds:	[●] (*Required only for listed issues*)]
6	(i) Specified Denominations[(1)]:	[●] [(*N.B. If an issuer of Notes is NOT listed on NASDAQ Dubai, the U.S.$100,000 minimum denomination is not required.*)]
	(ii) Calculation Amount[(2)]:	[●]
7	(i) Issue Date:	[●]
	(ii) Interest Commencement Date:	[*Specify*/Issue Date/Not Applicable]
8	Maturity Date:	[*specify date (for Fixed Rate Notes) or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*][(3)] [*If the Maturity Date is less than one year from the Issue Date and either (a) the issue proceeds are received by the Issuer in the United Kingdom, or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, (i) the Notes must have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be sold only to "professional investors" or (ii) another applicable exemption from section 19 of the FSMA must be available.*]
9	Interest Basis:	[[●] per cent. Fixed Rate] [[LIBOR/EURIBOR/HIBOR/CNH HIBOR/*Specify reference rate*] +/-[●] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Other (*Specify*)] (further particulars specified below)
10	Redemption/Payment Basis:	[Redemption at par]

		[Index Linked Redemption]
		[Dual Currency]
		[Partly Paid]
		[Instalment]
		[Other (specify)]
11	Change of Interest Basis or Redemption/Payment Basis:	[*Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis*]
12	Put/Call Options:	[Put Option]
		[Call Option]
		[(further particulars specified below)]
13	Listing:	[Hong Kong/NASDAQ Dubai/Singapore/Other (specify)/None]
	[(i) Listing and Admission to trading:	(*The following language applies if the Notes are to be listed on 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 [●]
	(ii) Estimate of total expenses related to admission to trading:	NASDAQ Dubai [●]]
14	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15	Fixed Rate Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly/other (*specify*)] in arrear]
	(ii) Interest Payment Date(s):	[[●] in each year[(5)] [adjusted in accordance with [*specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"*]/*not adjusted*]

	(iii)	Fixed Coupon Amount[(s)]:	[●] per Calculation Amount(2)
	(iv)	Broken Amount:	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●] [*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)] and the Interest Payment Date(s) to which they relate*](2)(4)
	(v)	Day Count Fraction (Condition 5(j)):	[30/360/Actual/Actual-ISDA/Actual/Actual-ICMA/ Actual/365(Fixed)/(6) *specify other*] *(Day count fraction should be Actual/Actual-ICMA for all fixed rate issues other than those denominated in US dollars, Renminbi or Hong Kong dollars)*
	(vi)	Determination Date(s) (Condition 5(j)):	[Not Applicable/*give details*](7)
	(vii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	[Not Applicable/*give details*]
	(viii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/*give details*]
16		Floating Rate Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Interest Period(s):	[●]
	(ii)	Specified Interest Payment Dates:	[●] *(Not applicable unless different from the Interest Payment Date(s))*
	(iii)	Interest Commencement Date:	[●]
	(iv)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
	(v)	Business Centre(s) (Condition 5(j)):	[Not Applicable/*give details*]

(vi)	Manner in which the Rate of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (*give details*)]
(vii)	Party responsible for calculating Rate(s) of Interest and/or Interest Amount(s) (if not the Calculation Agent):	[●]
(viii)	Screen Rate Determination (Condition 5(b)(iii)(B)):	
	– Reference Rate:	LIBOR/EURIBOR/HIBOR/CNH HIBOR, *Specify reference rate*
	– Interest Determination Date(s):	[*[●] [TARGET] Business Days in [specify city] for [specify currency] prior to [the first day in each Interest Accrual Period/each Interest Payment Date]*]
	– Relevant Screen Page:	*[For example, Reuters LIBOR 01/EURIBOR 01]*
	– Relevant Time:	*[For example, 11.00 a.m. London time/Brussels time]*
	– Relevant Financial Centre:	*[For example London/Euro-zone (where Euro-zone means the region comprised of the countries whose lawful currency is the euro]*
(ix)	ISDA Determination (Condition 5(b)(iii)(A)):	
	– Floating Rate Option:	[●]
	– Designated Maturity:	[●]
	– Reset Date:	[●]
	– ISDA Definitions (if different from those set out in the Conditions):	[●]
(x)	Margin(s):	[+/-][●] per cent. per annum
(xi)	Minimum Rate of Interest:	[●] per cent. per annum
(xii)	Maximum Rate of Interest:	[●] per cent. per annum
(xiii)	Day Count Fraction (Condition 5(j)):	[●]

	(xiv)	Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]
17	Zero Coupon Note Provisions		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Amortisation Yield (Condition 6(b)):	[●] per cent. per annum
	(ii)	Day Count Fraction (Condition 5(j)):	[●]
	(iii)	Any other formula/basis of determining amount payable:	[Applicable/Not Applicable]
18	Index-Linked Interest Note Provisions		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Index/Formula:	[*Give or annex details*]
	(ii)	Party responsible for calculating the Rate(s) of Exchange (if not the Calculation Agent):	[●]
	(iii)	Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable:	[●]
	(iv)	Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[●]
	(v)	Interest Determination Date(s):	[●]
	(vi)	Interest Accrual Period(s):	[●]
	(vii)	Specified Interest Payment Dates:	[●] *(Not applicable unless different from the Interest Payment Date(s))*

	(viii)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Other (*give details*)]
	(ix)	Business Centre(s):	[●]
	(x)	Minimum Rate of Interest:	[●] per cent. per annum
	(xi)	Maximum Rate of Interest:	[●] per cent. per annum
	(xii)	Day Count Fraction (Condition 5(j)):	[●]
19	Dual Currency Note Provisions		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Rate of Exchange/Method of calculating Rate of Exchange:	[*Give details*]
	(ii)	Party responsible for calculating the Rate(s) of Exchange (if not the Calculation Agent):	[●]
	(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[●]
	(iv)	Person at whose option Specified Currency(ies) is/are payable:	[●]
	(v)	Day Count Fraction (Condition 5(j)):	[●]

PROVISIONS RELATING TO REDEMPTION

20	Call Option:		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Optional Redemption Date(s):	[●]
	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount

	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[●] per Calculation Amount [●]
	(b) Maximum Redemption Amount:	[●] per Calculation Amount [●]
	(iv) Notice period:	[●]
21	Put Option:	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) Notice period:	[●]
22	Final Redemption Amount of each Note:	[●] per Calculation Amount
23	Early Redemption 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:	Bearer Notes: [*Delete as appropriate*] [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice]

		[Permanent Global Note exchangeable for Definitive Notes on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note][(8)] [Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.] Registered Notes: [Registered Notes may not be exchanged for Bearer Notes. Global Certificate 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/*Give details.* *Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub-paragraph 16(v) and 18(ix) relate*]
26	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. If yes, *give details*]
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/*give details*]
28	Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:	[Not Applicable/*give details*]
29	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
30	Other terms or special conditions:	[Not Applicable/*give details*][(9)]

DISTRIBUTION

31	(i) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii) Date of Subscription Agreement:	[●]
	(iii) Stabilising Manager(s) (if any):	[Not Applicable/*give name*]
32	If non-syndicated, name of relevant Dealer:	[Not Applicable/*give name and address*]
33	U.S. Selling Restrictions:	Reg. S Category [1/2]; [TEFRA C/TEFRA D/TEFRA Not Applicable]
34	Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable] *(If the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no KID will be prepared, "Applicable" should be specified.)*
35	Additional selling restrictions:	[Not Applicable/*give details*]

YIELD

36	Indication of yield:	[●]

OPERATIONAL INFORMATION

37	ISIN Code:	[●]
38	Common Code:	[●]
39	CMU Instrument Number:	[●]
40	Legal Entity Identifier	[●]
41	Any clearing system(s) other than Euroclear/Clearstream and the CMU Service and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
42	Delivery:	Delivery [against/free of] payment
43	Additional Paying Agent(s) (if any):	[●]
44	Ratings:	[●]

GENERAL

45	The aggregate nominal amount of Notes issued has been translated into US dollars at the rate of [●], producing a sum of (for Notes not denominated in US dollars):	[Not Applicable/US$[●]]
46	In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong:	[Not Applicable]
47	In the case of Bearer Notes, specify the location of the office of the Fiscal Agent if other than London:	[Not Applicable]
48	Private Bank Rebate/Commission:	[Applicable/Not Applicable]
49	(i) [Date of [Board] approval for issuance of Notes obtained:]	[●] *(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes)*
	(ii) Date of any regulatory approval for the issuance of the Notes:	[NDRC Registration Certificate dated [●]/Not Applicable/*specify other applicable regulatory approvals*]
50	Estimate of total expenses related to admission to trading:	[●] (*Required for NASDAQ Dubai listings only*)

[**USE OF PROCEEDS**

Give details if different from the "*Use of Proceeds*" section in the Offering Circular.]

[**LISTING APPLICATION**

This Pricing Supplement comprises the final terms required to list the issue of the Notes described herein pursuant to the U.S.$15,000,000,000 Medium Term Note Programme of China Construction Bank Corporation 中國建設銀行股份有限公司 and 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 any Tranche of Notes, the Managers or Dealer(s) (if any) named as the Stabilising Manager(s) (or person(s) 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 of the series at a level higher than that which might otherwise prevail for a limited period after the issue date of the relevant Tranche of Notes. 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**

[Except as disclosed in this document, there/There][(10)] has been no significant change in the financial or trading position of the Issuer or of the Group since [●] and no material adverse change in the financial position or prospects of the Issuer or of the Group since [●].]

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, and the quotation of the Notes on, 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.]

[The following signature block is to be signed if the Issuer is not the Hong Kong Branch.]

[Signed on behalf of China Construction Bank Corporation [, Branch]:

By: ____________________________

Duly authorised]

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:

By: ____________________________

Duly authorised]

Notes:

(1) Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies). If the specified denomination is expressed to be €100,000 or its equivalent and multiples of a lower principal amount (for example €1,000), insert the additional wording set out in the Guidance Note published by ICMA in November 2006 (or its replacement from time to time) as follows: "€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000. No notes in definitive form will be issued with a denomination above €199,000".

(2) For Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest [CNY0.01 with CNY0.05 or above rounded upwards/HK$0.01 with HK$0.005 or above rounded upwards]."

(3) Note that for Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification it will be necessary to use the second option here.

(4) Only relevant where corporate (or similar) authorisation is required for the particular tranche of Notes.

(5) Note that for certain Renminbi or Hong Kong dollar denominated Fixed Rate Notes the Interest Payment Dates are subject to modification and the following words should be added: "provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day."

(6) Applicable to Renminbi and Hong Kong dollar denominated Fixed Rate Notes.

(7) Only to be completed for an issue where the Day Count Fraction is Actual/Actual-ICMA.

(8) If the Global Note is exchangeable for definitives at the option of the holder, the Notes shall be tradable only in amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) provided in paragraph 6 and multiples thereof.

(9) If full terms and conditions are to be used, please add the following here: "The full text of the Conditions which apply to the Notes [and which will be endorsed on the Notes in definitive form] are set out in [the Annex hereto], which Conditions replace in their entirety those appearing in the Offering Circular for the purposes of these Notes and such Conditions will prevail over any other provision to the contrary."

The first set of bracketed words is to be deleted where there is a permanent global Note instead of Notes in definitive form. The full Conditions should be attached to and form part of the Pricing Supplement.

(10) If any change is disclosed in the Pricing Supplement, it may require approval by the Stock Exchange(s). Consideration should be given as to whether or not such disclosure should be made by means of a supplemental Offering Circular rather than in a Pricing Supplement.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Pricing Supplement, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) or the Global Certificate representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of the Pricing Supplement or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the relevant Pricing Supplements. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to "Notes" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are part of a Series (as defined below) of Notes issued by the issuer specified hereon (the "**Issuer**") and are issued pursuant to a fiscal agency agreement (as amended, restated or supplemented as at the Issue Date, the "**Fiscal Agency Agreement**") dated 24 November 2017 which has been entered into in relation to the Notes between China Construction Bank Corporation (the "**Bank**") (on behalf of itself and on behalf of any of its branches other than the Hong Kong Branch (as defined below)), China Construction Bank Corporation Hong Kong Branch (the "**Hong Kong Branch**"), The Hongkong and Shanghai Banking Corporation Limited as fiscal agent, CMU lodging and paying agent and the other agents named in it and with the benefit of a Deed of Covenant (as amended, restated or supplemented as at the Issue Date, the "**Deed of Covenant**") dated 24 November 2017 executed by the Bank (on behalf of itself and on behalf of any of its branches other than the Hong Kong Branch) and the Hong Kong Branch in relation to the Notes. The fiscal agent, the CMU lodging and paying agent, the other paying agents, the registrar, the transfer agent(s) and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Fiscal Agent**", the "**CMU Lodging and Paying Agent**", the "**Paying Agents**" (which expression shall include the Fiscal Agent and the CMU Lodging and Paying Agent), the "**Registrar**", the "**Transfer Agents**" (which expression shall include the Registrar) and the "**Calculation Agent(s)**" (such Fiscal Agent, CMU Lodging and Paying Agent, Paying Agents, Registrar and Transfer Agent(s) being together referred to as the "**Agents**"). For the purposes of these terms and conditions (the "**Conditions**"), all references to the Fiscal Agent shall, with respect to a Series of Notes to be held in the CMU, be deemed to be a reference to the CMU Lodging and Paying Agent and all such references shall be construed accordingly. Copies of the Fiscal Agency Agreement and the Deed of Covenant are available for inspection during usual business hours at the specified offices of the Paying Agents.

The Noteholders (as defined below), the holders of the interest coupons (the "**Coupons**") relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "**Talons**") (the "**Couponholders**") and the holders of the receipts for the payment of instalments of principal (the "**Receipts**") relating to Notes in bearer form of which the principal is payable in instalments are entitled to the benefit of and are deemed to have notice of all the provisions of the Fiscal Agency Agreement applicable to them.

As used in these Conditions, "**Tranche**" means Notes which are identical in all respects.

If specified hereon that the Issuer is the Hong Kong Branch or such other branch of the Bank, notwithstanding that the Issuer is not a separate and independent legal person of the Bank, any obligations of the Bank under these Conditions shall be construed subject to, and in accordance with, applicable law.

1 Form, Denomination and Title

The Notes are issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**") in each case in the Specified Denomination(s) shown hereon.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note (together with an Index Linked Interest Note, an "**Index Linked Note**"), an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest Basis and Redemption/Payment Basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

Registered Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Fiscal Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, "**Noteholder**" means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is registered (as the case may be), "**holder**" (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

In the case of Notes represented by a Global Note or Global Certificate, interest shall be calculated in respect of any period by applying the Rate of Interest to the total aggregate outstanding nominal amount of the Notes represented by such Global Note or Global Certificate.

2 No Exchange of Notes and Transfers of Registered Notes

(a) **No Exchange of Notes**: Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.

(b) **Transfer of Registered Notes**: Subject to Condition 2(f) (*Closed Periods*), one or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals that have executed the form of transfer. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 5 to the Fiscal Agency Agreement). The regulations may be changed by the Issuer, with the prior written approval of the Registrar and, to the extent reasonably expected to be prejudicial to the interests of the Noteholders, the Noteholders. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(c) **Exercise of Options or Partial Redemption in Respect of Registered Notes**: In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. New Certificates shall only be issued against surrender of the existing Certificates to a Registrar or any other Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(d) **Delivery of New Certificates**: Each new Certificate to be issued pursuant to Conditions 2(b) or 2(c) shall be available for delivery within three business days of receipt of a duly completed form of transfer or Exercise Notice (as defined in Condition 6(e)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Registrar or any other Transfer Agent (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "business day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Registrar or the relevant other Transfer Agent (as the case may be).

(e) **Transfers Free of Charge**: Transfers of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and/or security and/or pre-funding as the Issuer, the Registrar or the relevant other Transfer Agent may require) in respect of taxes or charges.

(f) **Closed Periods**: No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on (and including) the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days ending on (and including) any date on which Notes may be redeemed by the Issuer at its option pursuant to Condition 6 or (iii) during the period of seven days ending on (and including) any Record Date.

3 Status

The Notes and the Receipts and the Coupons relating to them constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Receipts and the Coupons relating to them shall, save for such exceptions as may be provided by applicable legislation, at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, present and future.

4 Other Covenants

Where the NDRC Circular and/or the PBOC Circular applies to the Tranche of Notes to be issued, each of the Issuer and/or the Bank undertakes to provide or cause to be provided a notification of the requisite information and documents in connection with such Tranche of Notes to the NDRC, PBOC and/or SAFE within the prescribed timeframe after the relevant Issue Date in accordance with the NDRC Circular and/or the PBOC Circular.

In these Conditions:

"**NDRC**" means the National Development and Reform Commission of the PRC or its local counterparts;

"**NDRC Circular**" means 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 and which came into effect on 14 September 2015, and any implementation rules as issued by the NDRC from time to time;

"**PBOC**" means the People's Bank of China;

"**PBOC Circular**" means the Macro-Prudential Management of Cross-Border Financing in Full Aperture (《中國人民銀行關於全口徑跨境融資宏觀審慎管理有關事宜的通知》) issued by the PBOC and which came into effect on 12 January 2017, and any implementation rules as issued by the PBOC from time to time; and

"**SAFE**" means the State Administration of Foreign Exchange or its local counterparts.

5 Interest and other Calculations

(a) **Interest on Fixed Rate Notes**: Each Fixed Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h).

(b) **Interest on Floating Rate Notes and Index Linked Interest Notes**:

(i) ***Interest Payment Dates***: Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined by the Calculation Agent in accordance with Condition 5(h). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, "Interest Payment Date" shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) ***Business Day Convention***: If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) ***Rate of Interest for Floating Rate Notes***: The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined by the Calculation Agent in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin, if any. For the purposes of this sub-paragraph (A), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified hereon;

(y) the Designated Maturity is a period specified hereon; and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

(x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR, Brussels time in the case of EURIBOR or Hong Kong time in the case of HIBOR) or 11.15 a.m. (Hong Kong time) or if, at or around that time it is notified that the fixing will be published at 2.30 p.m. (Hong Kong time), then as of 2.30 p.m. (in the case of CNH HIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than LIBOR, EURIBOR, HIBOR or CNH HIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon;

(y) if the Relevant Screen Page is not available or if sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks or, if the Reference Rate is HIBOR or CNH HIBOR, the principal Hong Kong office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate and, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) or, if the Reference Rate is CNH HIBOR, at approximately 11.15 a.m. (Hong Kong time) or if, at or around that time it is notified that the fixing will be published at 2.30 p.m. (Hong Kong time), then as of 2.30 p.m. on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

(z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) or, if the

Reference Rate is CNH HIBOR, at approximately 11.15 a.m. (Hong Kong time) or if, at or around that time it is notified that the fixing will be published at 2.30 p.m. (Hong Kong time), then as of 2.30 p.m. on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market or, if the Reference Rate is HIBOR or CNH HIBOR, the Hong Kong inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) or, if the Reference Rate is CNH HIBOR, at approximately 11.15 a.m. (Hong Kong time) or if, at or around that time it is notified that the fixing will be published at 2.30 p.m. (Hong Kong time), then as of 2.30 p.m. on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market or, if the Reference Rate is HIBOR or CNH HIBOR, the Hong Kong inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(iv) ***Rate of Interest for Index Linked Interest Notes***: The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined by the Calculation Agent in the manner specified hereon and interest will accrue by reference to an index or formula as specified hereon.

(c) **Zero Coupon Notes**: Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).

(d) **Dual Currency Notes**: In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined by the Calculation Agent in the manner specified hereon.

(e) **Partly Paid Notes**: In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon.

(f) **Accrual of Interest**: Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(g) **Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding**:

(i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.

(ii) If any Maximum Rate of Interest, Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "unit" means the lowest amount of such currency that is available as legal tender in the country of such currency.

(h) **Calculations**: The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts**: The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the

Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Fiscal Agent, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition 5 but no publication of the Rate of Interest or the Interest Amount so calculated need be made. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties and the Noteholders.

(j) ***Definitions***: In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Business Day**" means:

(i) in the case of Notes denominated in a currency other than euro and Renminbi, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or

(ii) in the case of Notes denominated in euro, a day on which the TARGET System is operating (a "**TARGET Business Day**"); and/or

(iii) in the case of Notes denominated in Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks in Hong Kong are generally open for business and settlement of Renminbi payments in Hong Kong; and/or

(iv) in the case of Notes denominated in a currency and/or one or more Business Centres specified hereon, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

"**Calculation Amount**" means the amount by reference to which the Interest Amount, Final Redemption Amount, Early Redemption Amount and Optional Redemption Amount are calculated as specified in the Final Terms.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the "**Calculation Period**"):

(i) if "Actual/Actual" or "Actual/Actual – ISDA" is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if "Actual/365 (Fixed)" is specified hereon, the actual number of days in the Calculation Period divided by 365;

(iii) if "Actual/365 (Sterling)" is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if "Actual/360" is specified hereon, the actual number of days in the Calculation Period divided by 360;

(v) if "30/360", "360/360" or "Bond Basis" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30.

(vi) if "30E/360" or "Eurobond Basis" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D_2 will be 30.

(vii) if "30E/360 (ISDA)" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30.

(viii) if "Actual/Actual – ICMA" is specified hereon,

(a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of

(x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(b) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year,

where:

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

"**Determination Date**" means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s).

"**Euro-zone**" means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

"**Interest Accrual Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

"**Interest Amount**" means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified hereon.

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling, Hong Kong dollars or Renminbi other than where the Specified Currency is Renminbi and the Reference Rate is CNH HIBOR or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is not Sterling, euro, Hong Kong dollars, Renminbi or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro or (iv) the day falling two Business Days in Hong Kong prior to the first day of such Interest Accrual Period if the Specified Currency is Renminbi and the Reference Rate is CNH HIBOR provided that in this definition, "Business Day" shall mean a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in London or Hong Kong (as the case may be).

"**Interest Period**" means 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 unless otherwise specified hereon.

"**Interest Period Date**" means each Interest Payment Date unless otherwise specified hereon.

"**ISDA Definitions**" means the 2006 ISDA Definitions, as amended and supplemented and published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon.

"**Rate of Interest**" means the rate of interest payable from time to time in respect of the Notes and that is either specified or calculated in accordance with the provisions hereon.

"**Reference Banks**" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market and, in the case of a determination of HIBOR, the principal Hong Kong office of four major banks in the Hong Kong inter-bank market and, in the case of a determination of CNH HIBOR, the principal Hong Kong office of four major banks dealing in Chinese Yuan in the Hong Kong inter-bank market, in each case selected by the Calculation Agent or as specified hereon.

"**Reference Rate**" means the rate specified as such hereon.

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified hereon or such other page, section, caption, column or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate.

"**Specified Currency**" means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated.

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

(k) **Calculation Agent**: The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for it or them hereon and for so long as any Note is outstanding (as defined in the Fiscal Agency Agreement). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or, if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6 Redemption, Purchase and Options

(a) **Redemption by Instalments and Final Redemption**:

(i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

(ii) Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided, is its nominal amount) or, in the case of a Note falling within Condition 6(a)(i), its final Instalment Amount.

(b) **Early Redemption**:

(i) ***Zero Coupon Notes***:

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c), Condition 6(d) or Condition 6(e) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.

(B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c), Condition 6(d) or Condition 6(e) (as applicable) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

(ii) ***Other Notes***: The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c) or Condition 6(d) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.

(c) **Redemption for Taxation Reasons**: The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Note) or at any time (if this Note is neither a Floating Rate Note nor an Index Linked Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption), if (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 8) or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(c), the Issuer shall deliver to the Fiscal Agent a certificate signed by two authorised signatories of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

(d) **Redemption at the Option of the Issuer**: If Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem all or, if so provided, some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)), together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place and in such manner as may be fair and reasonable in the circumstances, taking account of prevailing market practices, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

(e) **Redemption at the Option of Noteholders**: If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)), together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any other Transfer Agent at its specified office, together with a duly completed option exercise notice (an "Exercise Notice") in the form obtainable from any Paying Agent, the Registrar or any other Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Fiscal Agency Agreement) without the prior consent of the Issuer.

(f) **Partly Paid Notes**: Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition 6 and the provisions specified hereon.

(g) **Purchases**: The Issuer, the Bank and its Subsidiaries may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price. Such Notes may, at the option of the Issuer, be held, reissued, resold or surrendered to the Fiscal Agent for cancellation.

(h) **Cancellation**: All Notes purchased by or on behalf of the Issuer, the Bank or any of its Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Fiscal Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

7 Payments and Talons

(a) **Bearer Notes**: Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(ii)), as the case may be:

(i) in the case of Notes denominated in a currency other than Renminbi, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a bank; and

(ii) in the case of Notes denominated in Renminbi, by transfer to a Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong.

In this Condition 7, "bank" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

(b) **Registered Notes**:

(i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in Condition 7(b)(iii) below.

(ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifth (in the case of Notes denominated in Renminbi) and fifteenth (in the case of Notes denominated in a currency other than Renminbi) day before the due date for payment thereof (the "Record Date") and in the manner provided in Condition 7(b)(iii) below.

(iii) Payments of principal or interest, as the case may be, on each Registered Note shall be made:

(x) in the case of a currency other than Renminbi, in the relevant currency by cheque drawn on a bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank; and

(y) in the case of Renminbi, by transfer to the registered account of the Noteholder.

In this Condition 7(b)(iii), "registered account" means the Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth business day before the due date for payment.

So long as the Notes are represented by the Global Certificate, each payment in respect of the Global Certificate will be made to, or to the order of, the person shown as the holder of the Notes in the Register at the close of business (of the relevant clearing system) on the Clearing System Business Day immediately prior to the due date for such payment, where "Clearing System Business Day" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.

Payment of interest or principal by the CMU Lodging and Paying Agent to the person for whose account a relevant interest in the Global Certificate is credited as being held by the CMU Service at the relevant time as notified to the CMU Lodging and Paying Agent by the CMU Service in a relevant CMU Instrument Position Report (as defined in the relevant CMU rules) or any other relevant notification by the CMU Service shall discharge the obligations of the Issuer in respect of that payment.

(c) **Payments in the United States**: Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) **Payments subject to Fiscal Laws**: All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in Hong Kong or any other place of payment, but without prejudice to the provisions of Condition 8 and any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "Code") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) **Appointment of Agents**: The Fiscal Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrar and the Transfer Agents initially appointed by the Issuer and their respective specified offices are listed below. The Fiscal Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrar and the Transfer Agents appointed under the Fiscal Agency Agreement and any Calculation Agent(s) appointed in respect of any Notes act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, the CMU Lodging and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, in each case in accordance with the Fiscal Agency Agreement, provided that the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Notes outside the United Kingdom, (iii) a Transfer Agent in relation to Registered Notes, (iv) a CMU Lodging and Paying Agent in relation to Notes accepted for clearance through the CMU, (v) one or more Calculation Agent(s) where the Conditions so require, (vi) a Paying Agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that the Notes are issued in definitive form, for so long as the Notes are listed on the Singapore Exchange Securities Trading Limited or any successor thereto (the "SGX-ST") and the rules of the SGX-ST so require and (vii) such other agents as may be required by any other stock exchange on which the Notes may be listed.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in Condition 7(c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(f) **Unmatured Coupons and Receipts and unexchanged Talons**:

(i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Dual Currency Notes or Index Linked Notes), such Notes should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

(ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Note or Index Linked Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.

(iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.

(v) Where any Bearer Note that provides that the relevant unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) **Talons**: On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

(h) **Non-Business Days**: If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 7, "business day" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in Hong Kong and the relevant place of presentation (if presentation and/or surrender of such Note, Receipt or Coupon is required) in such jurisdictions as shall be specified as "Financial Centres" hereon and:

(i) (in the case of a payment in a currency other than euro or Renminbi) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

(ii) (in the case of a payment in Renminbi) on which commercial banks and foreign exchange markets in Hong Kong are open for business and settlement of Renminbi payments; or

(iii) (in the case of a payment in euro) which is a TARGET Business Day.

8 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes, the Receipts and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within a Tax Jurisdiction or any political subdivision or any authority therein or thereof having power to tax to which the Issuer becomes subject in respect of payments made by it in respect of the Notes, Receipts and the Coupons, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

(a) **Other connection**: to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of his having some connection with the relevant Tax Jurisdiction other than the mere holding of the Note, Receipt or Coupon; or

(b) **Lawful avoidance of withholding**: to, or to a third party on behalf of, a holder who would not be liable for or subject to such withholding or deduction by making a declaration of identity, non-residence or other similar claim for exemption to the relevant tax authority if, after having been requested to make such a declaration or claim, such holder fails to do so within any applicable period prescribed by such relevant tax authority; or

(c) **Presentation more than 30 days after the Relevant Date**: presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day.

As used in these Conditions:

(i) "**Relevant Date**" in respect of any Note, Receipt or Coupon means whichever is the later of (a) the date on which payment in question first becomes due and (b) if the full amount payable has not been paid on or prior to such due date, the date on which the full amount has been paid and notice to that effect has been given to the Noteholders; and

(ii) "**Tax Jurisdiction**" means (A) the PRC and, (B) if the Issuer is a branch of the Bank, the jurisdiction where that branch is located, or in each case any political subdivision or any authority therein or thereof having power to tax.

References in these Conditions to (i) "**principal**" shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) "**interest**" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) "**principal**" and/or "**interest**" shall be deemed to include any additional amounts that may be payable under this Condition 8.

For the avoidance of doubt, the Issuer's obligation to pay additional amounts in respect of taxes, duties, assessments and other governmental charges will not apply to (a) any estate, inheritance, gift, sales, transfer, personal property or any similar tax, duty, assessment or other governmental charge or (b) any tax, duty, assessment or other governmental charge which is payable otherwise than by deduction or withholding from payments of principal of, or interest on the Notes, the Receipts or the Coupons; provided that the Issuer shall pay all stamp or other taxes, duties, assessments or other governmental charges, if any, which may be imposed by the Tax Jurisdiction or any political subdivision thereof or any taxing authority thereof or therein, with respect to the Agency Agreement or as a consequence of the issuance of the Notes, the Receipts or the Coupons.

9 Prescription

Claims against the Issuer for payment in respect of the Notes, Receipts and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10 Events of Default

If any of the following events (each an "**Event of Default**") occurs and is continuing, any Noteholder may give notice to the Issuer at the specified office of the Fiscal Agent that any Note held by it is and shall immediately become, due and payable at the Early Redemption Amount of such Note together with accrued interest (if any) to the date of payment without further formality:

(a) **Non-Payment**: The Issuer fails to pay the principal of or any interest on any of the Notes when due and such failure continues for a period of 30 days; or

(b) **Breach of Other Obligations**: The Issuer does not perform or comply with any one or more of its other obligations in the Notes which default continues for a period of 45 days after written notice of such default shall have been given to the Issuer by the Fiscal Agent at its specified office by any Noteholder; or

(c) **Cross-Acceleration**: Any other present or future Public External Indebtedness of the Bank or any of its Subsidiaries becomes due and payable prior to its stated maturity by reason of any default, event of default or the like (howsoever described) in respect of the terms thereof, or any such Public External Indebtedness is not paid when due or, as the case may be, within any applicable grace period, provided that the aggregate amount of the relevant Public External Indebtedness in respect of which one or more of the events mentioned above in this Condition 10(c) have occurred equals or exceeds US$25,000,000 or its equivalent (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank of the day of which this paragraph operates); or

(d) **Insolvency**: The Bank or any of its Material Subsidiaries is insolvent or bankrupt or unable to pay its debts, stops or suspends payment of all or a material part of its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all or a material part of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or a material part of the debts of the Bank or any of its Material Subsidiaries; or

(e) **Winding-up**: An order is made or an effective resolution passed for the winding-up or dissolution or administration of the Bank or any of its Material Subsidiaries, or the Bank ceases to carry on all or a material part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Noteholders, or (ii) in the case of a Material Subsidiary of the Bank, whereby the undertaking and assets of the Material Subsidiary are transferred to or otherwise vested in the Bank or another of its Subsidiaries; or

(f) **Illegality**: It is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Notes.

In these Conditions:

"**Material Subsidiary**" means a Subsidiary of the Bank whose total assets or total revenue as at the date at which its latest audited financial statements were prepared or, as the case may be, for the financial period to which these audited financial statements relate, account for 5 per cent. or more of the consolidated assets or consolidated revenue of the Bank as at such date or for such period. If a Material Subsidiary transfers all of its assets and business to another Subsidiary of the Bank, the transferee shall become a Material Subsidiary and the transferor shall cease to be a Material Subsidiary on completion of such transfer.

"**Public External Indebtedness**" means any indebtedness of the Bank (or, for the purposes of Condition 10, any Subsidiary), or any guarantee or indemnity by the Bank of indebtedness, for money borrowed which, (i) is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is issued outside the People's Republic of China (for the purposes hereof not including the Hong Kong and Macau Special Administrative Regions or Taiwan) ("**PRC**") and is, or is capable of being listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market) outside the PRC (without regard, however, to whether or not such instruments are sold through public offerings or private placements); and (ii) has an original maturity of more than 365 days.

"**Subsidiary**" means any entity whose financial statements at any time are required by law or in accordance with generally accepted accounting principles to be fully consolidated with those of the Bank.

None of the Agents shall be required to take any steps to ascertain whether any Event of Default has occurred and none of them shall be responsible or liable to the Noteholders, the Issuer or any other person for any loss arising from any failure to do so.

11 Meetings of Noteholders, Modification, Waiver and Substitution

(a) **Meetings of Noteholders**: The Fiscal Agency Agreement contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing more than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum Rate of Interest, Instalment Amount or Redemption Amount, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, or (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum shall be two or more persons holding or representing not less than 66⅔ per cent., or at any adjourned meeting not less than 25 per cent., in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Fiscal Agency Agreement provides that a resolution in writing signed by or on behalf of the Noteholders of not less than 90 per cent. in nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Pricing Supplement in relation to such Series.

(b) **Modification of Fiscal Agency Agreement**: The Bank and the Issuer shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Fiscal Agency Agreement, if:

(i) to do so could not be expected to be prejudicial to the interests of the Noteholders; or

(ii) such modification is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law.

12 Replacement of Notes, Certificates, Receipts, Coupons and Talons

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Fiscal Agent (in the case of Bearer Notes, Receipts, Coupons or Talons) and the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, inter alia, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

13 Further Issues

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities having the same terms and conditions as the Notes (except for the first payment of interest and if applicable, the timing for notification to the NDRC and/or SAFE and save that for the avoidance of doubt, references in these Conditions to "**Issue Date**" shall be the first issue date of the Notes) and so that the same shall be consolidated and form a single series with such Notes, and references in these Conditions to "**Notes**" shall be construed accordingly.

14 Notices

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in Hong Kong or, so long as Notes are listed on the SGX-ST, published on the website of the SGX-ST www.sgx.com. If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Asia (which is expected to be the Asian Wall Street Journal). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition 14.

So long as the Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held on behalf of (i) Euroclear or Clearstream or any other clearing system (except as provided in (ii) below), notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or (ii) the CMU, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU on the second business day preceding the date of despatch of such notice as holding interests in the relevant Global Note or Global Certificate, except that if the Notes are listed on the SGX-ST, and the rules of the SGX-ST so require, notice will in any event also be published on the website of the SGX-ST.

15 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

16 Currency Indemnity

Any amount received or recovered in a currency other than the currency in which payment under the relevant Note, Coupon or Receipt is due (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Issuer or otherwise) by any Noteholder or Couponholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer, as the case may be, to the extent of the amount in the currency of payment under the relevant Note, Coupon or Receipt that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If the amount received or recovered is less than the amount expressed to be due to the recipient under any Note, Coupon or Receipt, the Issuer shall indemnify it against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it shall be sufficient for the Noteholder or Couponholder, as the case may be, to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder or Couponholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note, Coupon or Receipt or any other judgment or order.

17 Governing Law and Jurisdiction

(a) **Governing Law**: The Notes, the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) **Jurisdiction**: The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Receipts, Coupons or Talons and accordingly any legal action or proceedings arising out of or in connection with any Notes, Receipts, Coupons or Talons ("Proceedings") may be brought in such courts. The Issuer irrevocably submits to the exclusive jurisdiction of the courts of Hong Kong and waives any objection to the Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

(c) **Waiver of Immunity**: The Issuer further irrevocably agrees that no immunity (to the extent that it may now or hereafter exist, whether on the grounds of sovereignty or otherwise) from any Proceedings or from execution of judgment shall be claimed by or on behalf of it or with respect to its assets, any such immunity being irrevocably waived by the Issuer, and the Issuer irrevocably consents generally in respect of any such Proceedings to the giving of any relief or the issue of any process in connection with any such Proceedings including, without limitation, the making, enforcement or execution against any property whatsoever of any order or judgment which may be made or given in such Proceedings.

USE OF PROCEEDS

Unless otherwise specified in the Pricing Supplement, the net proceeds of each issue of the Notes will be applied by the Issuer for its funding and general corporate purposes.

RISK FACTORS

Investors should carefully consider, together with all other information contained in this Offering Circular, the risks and uncertainties described below. The business, financial condition or results of operations of the Issuer, the Bank and the Group may be adversely affected by any of these risks. The risks described below are not the only ones relevant to the Issuer, the Bank or the Notes. The Issuer and the Bank believe the risks described below represent the principal risks inherent when considering an investment in the Notes. Additional risks and uncertainties not presently known to the Issuer or the Bank, or which the Issuer or the Bank currently deems immaterial, may also have an adverse effect on an investment in the Notes. All of these factors are contingencies which may or may not occur and the Issuer and the Bank are not in a position to express a view on the likelihood of any such contingency occurring.

The Issuer does not represent that the statements below regarding the risk factors of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.

This Offering Circular also contains forward-looking statements that involve risks and uncertainties. The Bank's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the considerations described below and elsewhere in this Offering Circular.

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 3.9 per cent. in 2018, following estimated growth of 3.7 per cent. in 2017, there are a number of uncertainties ahead. In 2017, there has been 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 Pound, an increase in exchange rates between the Pound 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 2017, 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 9.13 per cent., 10.11 per cent., 7.08 per cent., 6.38 per cent. and 3.38 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 2017, domestic corporate real estate loans amounted to RMB414,867 million, representing 3.22 per cent. of the Group's gross loans and advances to customers, and its corresponding NPL ratio was 2.23 per cent. As at 31 December 2017, domestic personal residential mortgages amounted to RMB4,213,067 million, representing 32.65 per cent. of the Group's gross loans and advances to customers and its corresponding NPL ratio was 0.24 per cent. For these purposes, "**domestic**" loans refers to loans made to borrowers in the following geographical segments as set out in the 2017 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. 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 2017, the Group's gross loans and advances to customers were RMB12,903,441 million representing an increase of 9.75 per cent. from 31 December 2016; its NPL ratio as at 31 December 2017 was 1.49 per cent., representing a decrease of 0.03 percentage points as compared to the corresponding ratio as at 31 December 2016. As at 31 December 2017, the NPL ratio for domestic corporate loans was 2.58 per cent., a decrease of 0.02 percentage points from 31 December 2016, and the NPL ratio for personal loans and advances was 0.42 per cent., a decrease of 0.08 percentage points from 31 December 2016. The NPL ratio for overseas entities and subsidiaries was 0.39 per cent., representing a decrease by 0.07 percentage points from 31 December 2016.

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 2017, 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 RMB3,885,329 million, RMB2,123,492 million, RMB5,539,863 million and RMB1,354,757 million, respectively, accounting for 30.11 per cent., 16.46 per cent., 42.93 per cent. and 10.50 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 from 21 December 2005 and amended in December 2008, 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 2017, the amount of the Group's NPLs was RMB192,291 million and the NPL ratio was 1.49 per cent., representing a decrease of 0.03 percentage points as compared to the corresponding ratio as at 31 December 2016. As at 31 December 2017, the NPL ratio for domestic corporate loans was 2.58 per cent., a decrease of 0.02 percentage points from 31 December 2016, and the NPL ratio for personal loans and advances was 0.42 per cent., a decrease of 0.08 percentage points from 31 December 2016. The NPL ratio for overseas entities and subsidiaries as at 31 December 2017 was 0.39 per cent., representing a decrease by 0.07 percentage points from 31 December 2016. The NPL ratio for credit card loans as at 31 December 2017 was 0.89 per cent., representing a decrease by 0.09 percentage points from 31 December 2016.

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 2017, the Group's allowance for impairment losses on loans was RMB328,968 million, the ratio of its allowance for impairment losses to total loans extended to customers was 2.55 per cent., and the ratio of the Group's allowance for impairment losses to NPLs was 171.08 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 2017, the Group had 37 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, Malaysia and Poland and maintained wholly-owned operating subsidiaries including CCB Asia, CCB London, CCB Russia, CCB Europe, CCB New Zealand, CCB Brasil and CCB Malaysia and held 60 per cent. of the total share capital of CCB Indonesia. 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 2017, the accumulated gap of various maturities of the Group was RMB1,795,827 million, an increase of RMB206,173 million as compared to 31 December 2016. 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 2017, the balance of the Group's credit commitments was RMB2,673,845 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 and amended in July 2014 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 CBIRC. 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.

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 the giving or 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 2017, the Bank had a total of 14,920 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 "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 2017, the Group's core capital adequacy ratio was 12.38 per cent. and the capital adequacy ratio was 15.40 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 2017. As a G-SIB, the Bank is required to satisfy heightened capital adequacy ratios pursuant to Basel III. As at 31 December 2017, the Bank's core capital adequacy ratio was 12.31 per cent. and the capital adequacy ratio was 15.11 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 U.S.$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 CBIRC 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 CBIRC, 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 2017 and 2018 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 2017 and 2018 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 2017 and 2018 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 2017, net interest income represented 76.17 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 Arrangers, the Dealers or any of their respective directors, employees, representatives, affiliates or advisers

Certain facts and statistics in this 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 Arrangers, the Dealers 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

The Financial Institutions (Resolution) Ordinance may adversely affect the Notes

On 7 July 2017, the Financial Institutions (Resolution) Ordinance (Cap. 628) of Hong Kong (the "**FIRO**") came into operation. The FIRO provides for, among other things, the establishment of a resolution regime for authorised institutions and other within scope financial institutions in Hong Kong which may be designated by the relevant resolution authorities, which may include the Bank to the extent it conducts licensed activities in Hong Kong. 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 authorised institution or within scope financial institution in Hong Kong. In particular, the relevant resolution authority is 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 cancel, write off, modify, convert or replace all or a part of the Notes or the principal amount of, or interest on, the Notes, and powers to amend or alter the contractual provisions of the Notes, all of which may adversely affect the value of the Notes, and the holders thereof may suffer a loss of some or all of their investment as a result. Holders of Notes may become subject to and bound by the FIRO. The implementation of FIRO remains untested and certain detail relating to FIRO will be set out through secondary legislation and supporting rules. Therefore, the Bank is unable to assess the full impact of FIRO on the financial system generally, the Bank's counterparties, the Bank, any of its consolidated subsidiaries, its operations and/or its financial position.

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

This Offering Circular incorporates the most recently published unaudited but reviewed interim consolidated financial statements of the Bank published from time to time after the date of this Offering Circular in each case together with any review reports prepared in connection therewith, as well as the most recently published unaudited and unreviewed quarterly financial information, published subsequent to the most recently published consolidated financial statements of the Bank. The Bank publishes its consolidated quarterly interim reports in respect of the three months ended 31 March and 30 September of each financial year. A copy of the quarterly interim reports can be found on the website of the Hong Kong Stock Exchange.

The quarterly interim financial information have not been and will not be audited or reviewed by the Bank's independent auditors and were and will be prepared in accordance with IAS 34. The quarterly interim financial information 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 quarterly interim financial information 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.

Notes may not be a suitable investment for all investors

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement to this Offering Circular or any Pricing Supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

- understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Certain Series of Notes may be complex financial instruments. Sophisticated investors generally do not purchase complex financial instruments as standalone investments but rather purchase such complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to the their overall portfolios. A potential investor should not invest in such Notes unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how such Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

The Notes are subordinated to all secured debt of each of the Issuer and the Bank

Each tranche of Notes will be unsecured and will rank at least equally with all other unsecured and unsubordinated indebtedness (except for creditors whose claims are preferred by laws and rank ahead of the holders of the Notes) that each of the Issuer and the Bank has issued or may issue. Payments under the Notes are effectively subordinated to all secured debt of each of the Issuer and the Bank to the extent of the value of the assets securing such debt.

As a result of such security interests given to the Issuer's and the Bank's secured lenders, in the event of a bankruptcy, liquidation, dissolution, reorganisation or similar proceeding involving the Issuer and the Bank, the affected assets of the Issuer and the Bank may not be used to pay the Noteholders until after:

- all secured claims against the affected entity have been fully paid; and

- if the affected entity is a subsidiary of the Bank, all other claims against such subsidiary, including trade payables, have been fully paid.

In the event that the Issuer (where the Issuer is the Hong Kong Branch or other such branch of the Bank) failed to fully perform its obligations under the Notes, performance by the Bank of such obligations may be subject to registration or verification of the PRC government authorities

According to the Law of the People's Republic of China on Commercial Banks (中華人民共和國商業銀行法) and the circular issued by the PBOC named "Reply on the Issues Regarding the Civil Liabilities of the Branches of Commercial Banks" (關於對商業銀行分支機構民事責任問題的覆函), in the event that a branch of a commercial bank fails to fully perform the obligations to the extent of the assets of the branch, such commercial bank shall fulfil such obligations to the extent that the branch has failed to perform them.

Therefore, in the event the Issuer (where the Issuer is the Hong Kong Branch or other such branch of the Bank) is unable to or does not perform its obligations under the Notes, the Bank will assume all obligations of the Issuer with respect to the payments under the Notes. The remittance of funds outside the PRC by the Bank in order to perform these obligations may be subject to registration or verification of the SAFE.

There could be conflicts of interest arising out of the different roles played by the Bank and its subsidiaries, and the Bank's other activities may affect the value of the Notes

The Bank's subsidiary is appointed as an Arranger and Dealer for the Programme. The Bank or its subsidiaries may also issue other competing financial products which may affect the value of the Notes. Investors should also note that potential and actual conflicts of interest may arise from the different roles played by the Bank and its subsidiaries in connection with the Notes and the economic interests in each role may be adverse to the investors' interests in the Notes. Although the Bank has internal control policies and procedures to minimise any potential conflict of interest, the Bank owes no duty to investors to avoid such conflicts.

Investors shall be aware of the effect of change of law

The Terms and Conditions are based on English law. No assurance can be given as to the impact of any possible judicial decision or change to English law or the laws as specified in the Pricing Supplement, or administrative practices after the date of this Offering Circular.

Credit Ratings may not reflect all risks and any credit rating of the Notes may be downgraded or withdrawn

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market and additional factors discussed above, and other factors that may affect the value of the Notes. As at the date of this Offering Circular, the Bank has been assigned a rating of A1 with stable outlook by Moody's. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Each Tranche of Notes may be rated or unrated, as specified in the applicable Pricing Supplement. The rating represents the opinion of the relevant rating agency and its assessment of the ability of the Issuer to perform their respective obligations under the Notes, and credit risks in determining the likelihood that payments will be made when due under the Notes. A rating is not a recommendation to buy, sell or hold securities. The rating can be lowered or withdrawn at any time. The Issuer is not obligated to inform holders of the Notes if a rating is lowered or withdrawn. A reduction or withdrawal of a rating may adversely affect the market price of the Notes.

Investors shall pay attention to any modification and waivers

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes may be amended, modified, or varied in relation to any Series of Notes by the terms of the relevant Pricing Supplement in relation to such Series. The Terms and Conditions of the Notes also provide that the Issuer may permit a modification of, or a waiver or authorisation of any breach or proposed breach of or a failure to comply with, the Fiscal Agency Agreement, if to do so could not reasonably be expected to be prejudicial to the interests of the Noteholders.

The Terms and Conditions also provide that the Issuer may permit or agree to (i) any modification of any of the provisions of the Fiscal Agency Agreement that is of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Fiscal Agency Agreement) and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Fiscal Agency Agreement, that is in the opinion of the parties to the Fiscal Agency Agreement, not materially prejudicial to the interests of the Noteholders.

The Notes may be represented by Global Notes and holders of a beneficial interest in a Global Note must rely on the procedures of the relevant Clearing System(s)

Notes issued under the Programme may be represented by one or more Global Notes. Such Global Notes will be deposited with a common depositary for Euroclear and Clearstream or lodged with the CMU (each of Euroclear, Clearstream and the CMU, a Clearing System). Except in the circumstances described in the relevant Global Note, investors will not be entitled to receive Definitive Notes. The relevant Clearing System(s) will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by one or more Global Notes, investors will be able to trade their beneficial interests only through the Clearing Systems. While the Notes are represented by one or more Global Notes, the Issuer will discharge its payment obligations under the Notes by making payments to the common depositary for Euroclear and Clearstream or, as the case may be, to the relevant paying agent, in the case of the CMU, for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes. Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System(s) to appoint appropriate proxies.

Noteholders should be aware that Definitive Notes which have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade

Notes may be issued with a minimum denomination. The Pricing Supplement of a Tranche of Notes may provide that, for so long as the Notes are represented by a Global Note and the relevant Clearing System(s) so permit, the Notes will be tradable in nominal amounts (i) equal to, or integral multiples of, the minimum denomination, and (ii) the minimum denomination plus integral multiples of an amount lower than the minimum denomination. In relation to any issue of Notes in registered form, definitive Certificates will only be issued if the relevant Clearing System(s) is/are closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announce(s) an intention to permanently cease business. The Pricing Supplement may provide that, if Definitive Notes are issued, such Notes will be issued in respect of all holdings of Notes equal to or greater than the minimum denomination. However, Noteholders should be aware that Definitive Notes that have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade. Definitive Notes will in no circumstances be issued to any person holding Notes in an amount lower than the minimum denomination and such Notes will be cancelled and holders will have no rights against the Issuer (including rights to receive principal or interest or to vote) in respect of such Notes.

There are risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

Notes subject to optional redemption by the Issuer

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes will generally not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor would generally not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index Linked Notes and Dual Currency Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each a Relevant Factor). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- the market price of such Notes may be volatile;
- they may receive no interest;
- the payment of principal or interest may occur at a different time or in a different currency than expected;
- the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero;
- a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable will likely be magnified; and
- the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Partly-paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Risks related to Notes which are linked to "benchmarks"

The London Interbank Offered Rate ("**LIBOR**"), the Euro Interbank Offered Rate ("**EURIBOR**") and other interest rate or other types of rates and indices which are deemed to be "benchmarks" are the subject of ongoing national and international regulatory reform. Following the implementation of any such potential reforms, the manner of administration of benchmarks may change, with the result that they may perform differently than in the past, or benchmarks could be eliminated entirely, or there could be other consequences which cannot be predicted. For example, on 27 July 2017, the UK Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the "**FCA Announcement**"). The FCA Announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. The potential elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the terms and conditions, or result in other consequences, in respect of any Notes linked to such benchmark (including but not limited to Floating Rate Notes whose interest rates are linked to LIBOR). Any such consequence could have a material adverse effect on the value of and return on any such Notes.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of such Notes are typically more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then-prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then-prevailing rates on its Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

If the Issuer does not satisfy its obligations under the Notes, Noteholders' remedies will be limited

Payment of principal of the Notes may be accelerated only in the event of certain events involving the Issuer's bankruptcy, winding-up or dissolution or similar events or otherwise if certain conditions have been satisfied. See "*Terms and Conditions of the Notes – Events of Default*".

Investment in the Notes is subject to risks related to the market generally

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk.

An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Notes.

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest (where applicable) on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the Investor's Currency) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency equivalent value of the principal payable on the Notes, and/or (iii) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest and/or principal than expected, or no interest or principal.

Interest rate risks

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments for it, (ii) the Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Investors should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

Gains on the transfer of the Notes may become subject to income taxes under PRC tax laws

Under the PRC Enterprise Income Tax Law which took effect on 1 January 2008 and was later amended on 24 February 2017 and its implementation rules which took effect on 1 January 2008, any gain realised on the transfer of the Notes by non-resident enterprise holders may be subject to enterprise income tax if such gain is regarded as income derived from sources within the PRC. However, there remains uncertainty as to whether the gain realised from the transfer of the Notes would be treated as income derived from sources within the PRC and be subject to PRC tax. This will depend on how the PRC tax authorities interpret, apply or enforce the PRC Enterprise Income Tax Law and its implementation rules. According to the arrangement between the PRC and Hong Kong for the avoidance of double taxation, residents of Hong Kong, including enterprise holders and individual holders, will not be subject to PRC tax on any capital gains derived from a sale or exchange of the Notes.

Therefore, if non-resident enterprise holders are required to pay PRC income tax on gains on the transfer of the Notes (such enterprise income tax is currently levied at the rate of 10 per cent. of the gross proceeds, unless there is an applicable tax treaty between PRC and the jurisdiction in which such non-resident enterprise holders of the Notes reside that reduces or exempts the relevant tax), the value of their investment in the Notes may be materially and adversely affected.

RISKS RELATING TO RENMINBI-DENOMINATED NOTES

Notes denominated in RMB (the RMB Notes) may be issued under the Programme. RMB Notes contain particular risks for potential investors, including:

Renminbi is not freely convertible; there are significant restrictions on remittance of Renminbi into or out of the PRC which may adversely affect the liquidity of RMB Notes

Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar, despite significant reduction over the years by the PRC government of control over trade transactions involving import and export of goods and services as well as other frequent routine foreign exchange transaction. These transactions are known as current account items. Currently, participating banks in various countries, including Singapore, Hong Kong and Taiwan have been permitted to engage in the settlement of RMB trade transactions. However, remittance of Renminbi by foreign investors into the PRC for purposes such as capital contributions, known as capital account items, is generally only permitted upon obtaining specific approvals from the relevant authorities on a case-by-case basis and subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into the PRC for settlement of capital account items are developing gradually.

On 7 April 2011, SAFE promulgated the "Circular on Issues Concerning the Capital Account Items in connection with Cross-Border Renminbi" (the "**SAFE Circular**"), which became effective on 1 May 2011. According to the SAFE Circular, in the event that foreign investors intend to use Renminbi (including offshore Renminbi and onshore Renminbi held in the capital accounts of non-PRC residents) to make contribution to an onshore enterprise or make payment for the transfer of equity interest of an onshore enterprise by a PRC resident, such onshore enterprise shall be required to submit the prior written consent of the relevant Ministry of Commerce (MOFCOM) to the relevant local branch of SAFE of such onshore enterprise and register for a foreign invested enterprise status. Further, the SAFE Circular clarifies that foreign debts borrowed, and foreign guarantee provided, by an onshore entity (including a financial institution) in Renminbi shall, in principle, be regulated under the current PRC foreign debt and foreign guarantee regime.

On 13 October 2011, the PBOC promulgated the "Administrative Measures on Renminbi Settlement of Foreign Direct Investment" (外商直接投資人民幣結算業務管理辦法) (the PBOC RMB FDI Measures) as part of the implementation of the PBOC's detailed foreign direct investment (FDI) accounts administration system. The system covers almost all aspects in relation to FDI, including capital injections, payments for the acquisition of PRC domestic enterprises, repatriation of dividends and other distributions, as well as Renminbi denominated cross-border loans. Under the PBOC RMB FDI Measures, special approval for FDI and shareholder loans from the PBOC, which was previously required, is no longer necessary. In some cases however, post-event filing with the PBOC is still necessary. On 14 June 2012, the PBOC further issued the implementing rules for the PBOC RMB FDI Measures, which provides more detailed rules relating to cross-border Renminbi direct investments and settlement. On 5 July 2013, the PBOC promulgated the Circular on Policies related to Simplifying and Improving Cross-border Renminbi Business Procedures (關於簡化跨境人民幣業務流程和完善有關政策的通知) (the 2013 PBOC Circular), which sought to improve the efficiency of the cross-border Renminbi settlement process. For example, where automatic fund remittance occurs, the bank can debit the amount into the relevant account first and subsequently verify the relevant transaction. PBOC further issued the Circular on the Relevant Issues on Renminbi Settlement of Investment in Onshore Financial Institutions by Foreign Investors (關於境外投資者投資境內金融機構人民幣結算有關事項的通知) on 23 September 2013, which provides further details for using Renminbi to invest in a financial institution domiciled in the PRC.

On 3 December 2013, the MOFCOM promulgated the "Circular on Issues in relation to Cross-border Renminbi Foreign Direct Investment" (商務部關於跨境人民幣直接投資有關問題的公告) (the MOFCOM Circular), which became effective on 1 January 2014, to further facilitate FDI by simplifying and streamlining the applicable regulatory framework. Pursuant to the MOFCOM Circular, written approval from the appropriate office of MOFCOM and/or its local counterparts specifying "Renminbi Foreign Direct Investment" and the amount of capital contribution is required for each FDI. Unlike previous MOFCOM regulations on FDI, the MOFCOM Circular has also removed the approval requirement for foreign investors who intend to change the currency of their existing capital contribution from a foreign currency to Renminbi. In addition, the MOFCOM Circular clearly prohibits FDI funds from being used for any investments in securities and financial derivatives (except for investments in PRC listed companies by strategic investors) or for entrustment loans in the PRC.

The reforms which are being introduced and will be introduced in the Shanghai Free Trade Zone (the Shanghai FTZ) aim to upgrade cross-border trade, liberalise foreign exchange control, improve convenient cross-border use of Renminbi and promote the internationalisation of Renminbi. However, given the infancy stage of the Shanghai FTZ, how the reforms will be implemented and whether (and if so when) the reforms will be rolled out throughout China remain uncertain.

To support the development of the Shanghai FTZ, the Shanghai Head Office of the PBOC issued the Circular on Supporting the Expanded Cross-border Utilisation of Renminbi in the Shanghai FTZ (關於支持中國(上海)自由貿易試驗區擴大人民幣跨境使用的通知) (the PBOC Shanghai FTZ Circular) on 20 February 2014, which allows banks in Shanghai to settle FDI based on a foreign investor's instruction. In respect of FDI in industries that are not on the "negative list" of the Shanghai FTZ, the MOFCOM approval previously required is replaced by a filing. However, the application of the Shanghai FTZ Circular is limited to the Shanghai FTZ.

As the SAFE Circular, the PBOC RMB FDI Measures, the MOFCOM Circular and the PBOC Shanghai FTZ Circular are relatively new circulars, they will be subject to interpretation and application by the relevant authorities in the PRC.

Although starting from 1 October 2016, the Renminbi will be added to the Special Drawing Rights basket created by the International Monetary Fund, there is no assurance that the PRC government will continue to liberalise control over cross-border remittances of RMB in the future or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC. In the event that funds cannot be repatriated outside the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the Issuer to source Renminbi to finance its obligations under RMB Notes.

There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of RMB Notes and the Issuer's ability to source Renminbi outside the PRC to service such RMB Notes

As a result of the restrictions imposed by the PRC government on cross border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. Currently, licensed banks in Singapore and Hong Kong may offer limited Renminbi denominated banking services to Singapore residents, Hong Kong residents and specified business customers. The PBOC has also established Renminbi clearing and settlement mechanism for participating banks in various countries, through settlement agreements on the clearing of Renminbi business (the Settlement Agreements) with financial institutions in a number of financial centres and cities (each, a Renminbi Clearing Bank) and these Renminbi Clearing Banks have been permitted to engage in the settlement of Renminbi trade transactions.

However, the current size of Renminbi denominated financial assets outside the PRC is limited. Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC. The relevant RMB Clearing Bank only has access to onshore liquidity support from the PBOC for the purpose of squaring open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations relating to cross border trade settlement. The relevant RMB Clearing Bank is not obliged to square for participating banks any open positions as a result of other foreign exchange transactions or conversion services and the participating banks will need to source Renminbi from outside the PRC to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the settlement agreements will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of the Renminbi Notes. To the extent the Issuer is required to source Renminbi outside the PRC to service the Renminbi Notes, there is no assurance that the Issuer will be able to source such Renminbi on satisfactory terms, if at all.

Investment in RMB Notes is subject to exchange rate risks

The value of Renminbi against the U.S. dollar and other foreign currencies fluctuates from time to time and is affected by changes in the PRC and international political and economic conditions and by many other factors. In August 2015, the PBOC implemented changes to the way it calculates the midpoint against the U.S. Dollar to take into account market-maker quotes before announcing the daily midpoint. This change, among others that may be implemented, may increase the volatility in the value of the Renminbi against other currencies. All payments of interest and principal with respect to RMB Notes will be made in Renminbi unless otherwise specified. As a result, the value of these Renminbi payments in U.S. dollar terms may vary with the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against the U.S. dollar or other foreign currencies, the value of investment in U.S. dollar or other applicable foreign currency terms will decline.

An investment in RMB Notes is subject to interest rate risks

The PRC government has gradually liberalised the regulation of interest rates in recent years. Further liberalisation may increase interest rate volatility. The RMB Notes may carry a fixed interest rate. Consequently, the trading price of such RMB Notes will vary with fluctuations in interest rates. If a holder of RMB Notes tries to sell any RMB Notes before their maturity, they may receive an offer that is less than the amount invested.

Payments in respect of RMB Notes will only be made to investors in the manner specified in the terms and conditions of the relevant Notes

Investors may be required to provide certifications and other information (including Renminbi account information) in order to be allowed to receive payments in Renminbi in accordance with the Renminbi clearing and settlement system for participating banks in Hong Kong. All Renminbi payments to investors in respect of the Renminbi Notes will be made solely (i) for so long as the Renminbi Notes are represented by global certificates held with the common depositary for Euroclear and Clearstream or any alternative clearing system, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing Euroclear and/or Clearstream rules and procedures, or (ii) for so long as the Renminbi Notes are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and regulations. Other than described in the Conditions, the Issuer cannot be required to make payment by any other means (including in any other currency or in bank notes, by cheque or draft or by transfer to a bank account in the PRC).

CAPITALISATION

The following table sets forth the Bank's capitalisation and indebtedness as at 31 December 2017.

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 Offering Circular.

	As at 31 December 2017 (audited) (RMB in millions)
Debt Borrowings(1)	20,328,556
Total debt	20,328,556
Equity	
Share capital	250,011
Other equity instruments – Preference Shares	79,636
Capital reserve	135,225
General reserve	259,680
Retained earnings	886,921
Other reserves(2)	168,287
Minority interest	16,067
Total equity	1,795,827
Total capitalisation(3)	22,124,383

Notes:

(1) Borrowings 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 2018 1Q Report on 26 April 2018. 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 debt and total equity.

Save as disclosed above, there has not been any material adverse change in the Bank's capitalisation and indebtedness since 31 December 2017.

DESCRIPTION OF THE HONG KONG BRANCH

BUSINESS ACTIVITIES

The Hong Kong Branch was established in 1995. It was the first branch of the Bank outside Mainland China. Today the Hong Kong Branch, 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 2017, its amount of gross loans and advances was HK$165,181 million. As at the same date, its amount of total deposits was HK$252,157 million, and its amount of total assets was HK$546,990 million. In the year ended 31 December 2017, it generated HK$12,069 million of interest income and HK$361 million of fee and commission income.

The Hong Kong Branch offers a wide range of corporate and commercial banking products and services in Hong Kong. The Hong Kong Branch 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 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 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 and CCBA. CCBA receives fees from the Hong Kong Branch 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 may adversely affect the Notes*" on page 78 for further information.

DESCRIPTION OF THE BANK

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. As at 31 December 2017, the Bank had 250,010,977,486 shares outstanding. 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. In August 2014, the Bank completed the acquisition of Banco Industrial e Comercial S.A. ("**BIC**") in Brazil with its shareholding in BIC increased to 99.05 per cent. in December 2015. In 2015, BIC was delisted from the exchange and renamed China Construction Bank (Brasil) Banco Múltiplo S/A ("**CCB Brasil**"). As at 31 December 2017, the Bank held 100 per cent. of the equity shares of 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. China Construction Bank (Malaysia) Berhad ("**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. PT Bank China Construction Bank Indonesia Tbk was officially inaugurated in February 2017 and the Warsaw Branch of CCB Europe, CCB Malaysia and CCB Australia Perth Branch officially commenced operations in 2017. As at 31 December 2017, the Group had 37 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, Malaysia and Poland, and maintained 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**"), CCB Europe, China Construction Bank (New Zealand) Limited ("**CCB New Zealand**"), CCB Brasil and China Construction Bank (Malaysia) Berhad ("**CCB Malaysia**") and held 60 per cent. of the total share capital of PT Bank China Construction Bank Indonesia Tbk ("**CCB Indonesia**").

As at 31 December 2017, the Group's total assets, total liabilities and total equity were RMB22,124,383 million (including gross loans and advances to customers of RMB12,903,441 million), RMB20,328,556 million (including total deposits from customers of RMB16,363,754 million) and RMB1,795,827 million, respectively. For the year ended 31 December 2017, the Group's net interest income was RMB452,456 million, representing an increase of 8.30 per cent. over the same period in 2016 and the profit before tax was RMB299,787 million, representing an increase of 1.55 per cent. over the same period in 2016. The NPL ratio of the Group as at 31 December 2017 was 1.49 per cent., representing a decrease of 0.03 percentage points as compared to the corresponding ratio as at 31 December 2016. As at 31 December 2017, the NPL ratio for domestic corporate loans was 2.58 per cent., a decrease of 0.02 percentage points from 31 December 2016, and the NPL ratio for personal loans and advances was 0.42 per cent., a decrease of 0.08 percentage points from 31 December 2016. As at 31 December 2017, the NPL ratio for overseas entities and subsidiaries was 0.39 per cent., representing a decrease by 0.07 percentage points from 31 December 2016. As at 31 December 2017, the Group's total capital ratio was 15.50 per cent. and common equity tier one ratio was 13.09 per cent., representing an increase of 0.56 percentage points and 0.11 percentage points, respectively, as compared to the corresponding ratios as at 31 December 2016. In 2017, 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 2016 and the decrease of unqualified subordinated debt securities that could be included in capital.

In 2017, 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 2017, the Group received numerous awards from various domestic and international institutions including the "Best Bank in China 2017" from Asiamoney, the "Best Digital Bank in China 2017" and "Best Large-Scale Retail Bank 2017" from The Asian Banker, the "Best Bank Transformation 2017" from Global Finance, the "Asian Risk Management Awards for Excellence 2017" from 21st Century Business Herald, the "Best Financial Innovation Award 2017" from The Chinese Banker magazine. The Group ranked second in terms of the UK magazine The Banker's "Top 1000 World Banks" in 2017, ranked 28th in the "Fortune Global 500" of the US magazine Fortune in 2017 and ranked third in "Best China Brands in 2017" (the best ranking in financial industry) by Interbrand. 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

In 2017, China's banking industry as a whole remained sound with steady growth in assets and liabilities. At 31 December 2017, the total assets of China's banking financial institutions were RMB252 trillion, up by 8.7 per cent. year on year. The total liabilities were RMB233 trillion, up by 8.4 per cent. year on year. The capital adequacy ratio of commercial banks was 13.65 per cent.. The quality of credit assets remained stable. The NPLs of commercial banks were RMB1.71 trillion, with an NPL ratio of 1.74 per cent..

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 2017, the Bank had provided banking services to over 4.78 million corporate customers and over 375 million personal banking customers. As at 31 December 2017, the number of private banking customers with financial assets above RMB10 million had increased by 15.24 per cent. over the previous year, and the amount of such private banking customers' financial assets under management with the Bank increased by 19.57 per cent. as compared to 31 December 2016. As at 31 December 2017, the number of personal online banking customers and corporate online banking customers increased by 14.35 per cent. and 24.04 per cent., respectively as compared to 31 December 2016.

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 2017, the Bank had a total of 14,890 operating outlets in the PRC, including its head office, 37 tier-one branches, 341 tier-two branches, 13,297 sub-branches, 1,213 outlets under sub-branches and a specialised credit card centre at the head office. As at 31 December 2017, the Bank had 306 specialised private banking entities. As at 31 December 2017, there were 97,007 ATMs with cash services in operation. As at 31 December 2017, there were 29,047 self-service banks in operation, an increase of 1,175 self-service banks, or 4.22 per cent. as compared to 31 December 2016. 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 and Implementing Fintech Strategy

To be in line with the Bank's objective of establishing an "innovative bank", the Bank continuously improves 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. In the year ended 31 December 2017, the Bank completed over 1,500 product innovation projects and over 2,400 innovative product duplication projects.

The Group also deepened the application of the new generation core banking system, and strived to unleash the value creation ability of big data. In 2017, it achieved enterprise-level management of business needs, component-based research and development of business functions, and consistent management of system quality. It built a big data platform and implemented more than 430 big data application projects.

For the year end ended 31 December 2017, the Group's net income from fees and commissions, which is partially generated from the Bank's innovations in products and services, was RMB117,798 million, which accounted for 19.83 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. Tian Guoli, 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 2015, 2016 and 2017, the Group's return on average assets were 1.30 per cent., 1.18 per cent. and 1.13 per cent., respectively, and its return on average equity was 17.27 per cent., 15.44 per cent. and 14.80 per cent., respectively. 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,	Year ended 31 December 2015		Year ended 31 December 2016		Year ended 31 December 2017	
except percentages)	Amount	% of total	Amount	% of total	Amount	% of total
Corporate banking	108,184	36.24	98,329	33.31	82,724	27.59
Personal banking	115,184	38.59	129,269	43.79	137,736	45.95
Treasury business	70,388	23.58	66,008	22.36	54,617	18.22
Other businesses.	4,741	1.59	1,604	0.54	24,710	8.24
Profit before tax	298,497	100.00	295,210	100.00	299,787	100.00

CORPORATE BANKING

Overview

For the years ended 31 December 2015, 2016 and 2017, the Group's corporate banking operations represented 36.24 per cent., 33.31 per cent. and 27.59 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 2017, the Group had RMB6,443,524 million of domestic corporate loans and advances, representing 49.94 per cent. of the Group's gross loans and advances to customers, RMB122,495 million of domestic discounted bills outstanding, representing 0.95 per cent. of the Group's gross loans and advances to customers, and RMB8,700,872 million of domestic corporate deposits, representing 53.17 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 2017, the balance of domestic corporate loans and advances amounted to RMB6,443,524 million, representing an increase of 9.87 per cent. compared to 31 December 2016. The Group's corporate loan products mainly comprise medium to long-term loans and short-term loans. As at 31 December 2017, the Group's domestic medium to long-term loans and short-term loans amounted to RMB4,393,251 million and RMB2,050,273 million, representing 34.05 per cent. and 15.89 per cent., respectively, of the Group's gross loans and advances to customers.

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 2017, loans to infrastructure sectors amounted to RMB3,357,453 million, representing an increase of RMB461,297 million compared to 31 December 2016.

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 2017, the Group had 288 credit factories for small enterprises. As at 31 December 2017, according to the classification criteria for small and medium-sized enterprises as well as the CBRC's requirements, loans to small-and micro-sized enterprises amounted to RMB1,610,582 million, an increase of RMB168,690 million or 11.70 per cent. as compared to 31 December 2016, and the number of credit customers for small-and micro-sized enterprises reached 605,014, an increase of 296,091 as compared to 31 December 2016.

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 2017, the Group had outstanding domestic discounted bills of RMB122,495 million, a decrease of 75.26 per cent. compared to 31 December 2016.

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 2017, the Group's domestic corporate deposits amounted to RMB8,700,872 million, an increase of 8.65 per cent. compared to 31 December 2016.

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 for the year ended 31 December 2017 was RMB30,739 million, which is a slight decrease of 6.96 per cent. compared to 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.

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.

In 2017, the Bank successfully held the third edition of "CCB Cup" of "Internet Plus" campus innovation and entrepreneurship competition in China, and became the sole winner in the bidding for payment platform projects of Peking University and Tsinghua University, and secured 720 new "Yinxiaotong" (bank-university connect) university clients and "Yinyitong" (bank-hospital connect) hospital clients. By incorporating technological innovations into financial services and platform building, the Bank introduced a number of innovative offerings, including "Dangfeiyun" (cloud-based party membership fee payment platform), "Huifeiyun" (cloud-based membership fee payment platform) and "Electronic Gongdexiang" (donation box).

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.

In 2017, the Bank focused on product innovation in international business, took initiative to explore the potential of "Blockchain + Trade Finance" technology, and became the first to apply blockchain technology to domestic letters of credit, forfeiting and international factoring on a cross-bank and cross-border basis. The cumulative volume of the Bank's blockchain transactions amounted to RMB1.6 billion, involving 20 domestic and overseas institutions. Based on the "Cross-border e+" platform, the Bank launched the "Cross-Border Rapid Loans" service to provide totally online, fast process loans to small and micro import and export enterprises. Learning from the advanced international practices, the Bank launched an innovative "Bulk Commodity Non-recourse Financing" business.

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 2017, the Bank's assets under custody amounted to RMB11.54 trillion, representing an increase of 24.72 per cent. from 31 December 2016. As at 31 December 2017, insurance assets under custody totalled RMB3.56 trillion, an increase of 38.24 per cent. from 31 December 2016.

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.

In 2017, innovations were made in certain of the Bank's cash management products, including "Yudao (禹道) – Smart Win Cash Management" in which the SWIFT-AMH module was first adopted to meet the customers' cash management needs, including cross-border account enquiry, receipt and payment and centralised fund management. As at 31 December 2017, the Bank had 7.94 million corporate RMB settlement accounts, an increase of 1.22 million from 31 December 2016, while its active cash management customers increased by 500,000 to 1.63 million.

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 2017, the Group's corporate online banking customers reached 6.03 million, representing an increase of 24.04 per cent. compared to 31 December 2016 and mobile phone banking customers reached 266.38 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 2017, the Group's domestic personal deposits rose to RMB7,078,489 million, an increase of 5.46 per cent. compared to 31 December 2016. The Group's profit before tax derived from personal banking for the years ended 31 December 2015, 2016 and 2017 amounted to RMB115,184 million, RMB129,269 million and RMB137,736 million, respectively, representing 38.59 per cent., 43.79 per cent. and 45.94 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. The Bank enhanced its capability to attract deposits through highly effective products and services, maintaining the steady growth of personal deposits. As at 31 December 2017, domestic personal deposits of the Bank was RMB7,105,813 million, an increase of 2.58 per cent. from 31 December 2016.

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 2017, the total domestic personal loans of the Bank amounted to RMB5,193,853 million, representing an increase of 19.72 per cent. from 31 December 2016. As at 31 December 2017, the NPL ratio for domestic personal loans and advances was 0.42 per cent., a decrease of 0.08 percentage points from 31 December 2016.

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 2017, the Group's domestic personal residential mortgage loans rose by 17.50 per cent. from 31 December 2016 to RMB4,213,067 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 2017, 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. In 2017, Sino-German Bausparkasse achieved steady business development, and the sales of housing savings products increased to RMB18,337 million.

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 2017, the Bank had domestic personal consumer loans of RMB192,652 million, representing 1.49 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 2017, the Bank had issued approximately 106.93 million credit cards and 898 million debit cards. For the year ended 31 December 2017, the Group's fee and commission income from bank card fees increased to RMB42,242 million from RMB37,649 million for the same period in 2016, representing an increase of 12.20 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 2017, the Bank had issued approximately 106.93 million credit cards. The total spending amount from the Bank's credit cards was RMB2,618,912 million for the year ended 31 December 2017, compared to RMB2,399,868 million for the corresponding period in 2016. As at 31 December 2017, the Bank's credit card loan balance reached RMB563,613 million.

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.

In addition, in 2017, the Bank accelerated innovation and transformation of its credit card business, with a better operating structure and a strong brand, further enhancing its market competitiveness. The Bank vigorously intensified promotion among young people with the launch of six youth-oriented products, including Tencent Game Card, Global Hot Purchase Card, JOY Card, Tongcheng Long Card, JinJiang Long Card and "Transformer 5" Credit Card. With increased promotion of its mobile payment applications, including Long Pay, Cloud Quick Pass, and ApplePay, the Bank successfully launched two promotion-based products, namely "Long Card Saturday" and "Travel around the World". The innovation of consumer loan products expanded to various consumer service areas, including automobile, home renovation, travel, education, stores and restaurants, with its instalment product system fully covering all market segments, and the innovation and promotion of revolving credit businesses including cash withdrawals and transfers was also enhanced. Based on the development of its "smart customer services", self-service channels were used more in credit card customer service. To further enhance service quality, the Bank became the first in the industry to adopt grade-based early warning model in managing customer complaints.

Debit cards

In 2017, the Bank continued to strengthen 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. With the focus on Long Pay and the payment and settlement ecosystem, the Bank gradually established its comprehensive service model with the combination of "scenario-based payment + financial services + marketing services", by leveraging on its financial IC cards, development of its account system, and integration of its online and offline service.

As at 31 December 2017, the Bank issued 898 million debit cards in aggregate, representing an increase of 67 million cards from 31 December 2016. Total spending through the Bank's debit cards amounted to RMB15.40 trillion in the year ended 31 December 2017, representing an increase of 43.39 per cent. over the same period in 2016. As at 31 December 2017, the Bank issued 491 million financial IC debit cards in total, representing an increase of 78 million over 31 December 2016.

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. The Bank has developed its "trump product" – family trust business by coordinating efforts between the parent company and subsidiaries, and continuously improved the "Golden Housekeeper" business. The Bank diversified its value-added services in three major areas, namely exclusive private banking services, professional consultation and cross-border services. As at 31 December 2017, the number of private banking customers with financial assets above RMB10 million grew by 15.24 per cent. and the total amount of customers' assets increased by 19.57 per cent. as compared to 31 December 2016.

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 co-operation 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. The Bank has proactively improved its IT system and strengthened electronic channel expansion and product innovation in provident housing funds, in order to provide comprehensive and high-quality housing reform financial services. As at 31 December 2017, the Bank's personal provident housing fund loans amounted to RMB2,048,992 million, and its housing fund deposits amounted to RMB727,641 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 2017, the Bank had 4.78 million corporate customers and 375 million personal customers. The number of private banking customers with financial assets above RMB10 million increased by 15.24 per cent. and the total amount of customers' financial assets increased by 19.57 per cent., compared with 2016.

As at 31 December 2017, 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 2017, 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 2017, the Bank's personal online banking service had 270.73 million individual customers, representing an increase of 14.35 per cent. compared to 31 December 2016. For the year ended 31 December 2017, the electronic banking service fees earned by the Bank was RMB9,341 million compared to RMB7,584 million from the same period in 2016. For the year ended 31 December 2017, the transaction volume for personal online banking was RMB36.35 trillion.

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 RMB54,617 million for the year ended 31 December 2017, representing 18.22 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. The Bank has actively responded to market fluctuations, taken initiatives to broaden the financing and investment channels, and managed its RMB and foreign currency positions in a centralised manner to safeguard the Bank's liquidity.

As at 31 December 2017, the Group's deposits and placements with banks and non-bank financial institutions amounted to RMB500,238 million, representing 2.26 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 RMB1,720,634 million, representing 8.46 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 2017, 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 8.99 per cent., 11.16 per cent., 29.93 per cent. and 49.92 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. As at 31 December 2017, the number of personal precious metal trading and commodity trading customers exceeded 30 million, an increase of 6.77 million over the end of last year.

In compliance with the state policy to provide financial support for targeted poverty alleviation, the Bank issued poverty alleviation bonds, launched innovative projects such as e.ccb.com rural-urban connection and targeted poverty alleviation platform, and delivered all-round online and offline financial services to people in poverty stricken areas. In order to effectively address financing difficulties for customers engaged in international trade, the Bank launched a series of products, including conversion of overseas loans to debt securities, cross-border e+, cross-border financing and securities connection, and global financing for financial leasing, incorporating a host of innovation in business processes and risk mitigations. The Bank also introduced new services, such as “Bond Connect”, direct top-up for IC cards and Subways Go Easy, and simplified the financial service processes and enhanced customer experience by means of technology development and interconnectivity.

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.

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 Solutions), 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. For the year ended 31 December 2017, the underwriting volume of debt securities of the Bank for non-financial enterprises amounted to RMB400,095 million, making it the top underwriter in the market for the seventh consecutive year.

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. NAMeS, the Bank's new asset management system, went live to form an integrated end-to-end automated framework. The Bank also launched its innovative "Qianyuan" poverty alleviation wealth management product, and launched its robo-advisor services. For the years ended 31 December 2016 and 2017, the Bank issued 6,556 and 12,679 batches of wealth management products with a total amount of RMB7,240,808 million and RMB7,947,669 million, respectively. As at 31 December 2017, the Bank's outstanding balance from wealth management products was RMB2,085,256 million compared to RMB2,125,109 million as at 31 December 2016.

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 2017, the Group had 37 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, Malaysia and Poland, and maintained wholly-owned operating subsidiaries including CCB Asia, CCB London, CCB Russia, CCB Europe, CCB New Zealand, CCB Brasil and CCB Malaysia and held 60 per cent. of the total share capital of CCB Indonesia.

As at 31 December 2017, the total assets of the Group's overseas entities were RMB1,726,043 million, representing an increase of 3.58 per cent. from 31 December 2016. For the year ended 31 December 2017, the Group's net profit of the Group's overseas entities was RMB7,196 million, representing an increase of 69.46 per cent. over the same period in 2016. 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. PT Bank China Construction Bank Indonesia Tbk was officially inaugurated in February 2017 and the Warsaw Branch of CCB Europe, CCB Malaysia and CCB Australia Perth Branch officially commenced operations in 2017.

MAJOR SUBSIDIARIES

In 2009, the Bank established the equity investment and strategy cooperation department to coordinate and manage its subsidiaries. According to the 2017 Annual Report, major subsidiaries of the Bank as at 31 December 2017 are set out below:

Name of subsidiary	Principal activities
CCB Financial Asset Investment Corporation Limited	Investment
CCB Brasil Financial Holding – Investimentos e Participações Ltda	Investment
CCB Financial Leasing Corporation Limited	Financial leasing
CCB Life Insurance Company Limited	Insurance
CCB Trust Corporation Limited	Trust business
CCB Pension Management Corporation Limited	Pension Management
China Construction Bank (London) Limited	Commercial banking
China Construction Bank (Europe) S.A	Commercial banking
Sino-German Bausparkasse Corporation Limited	House savings bank
PT Bank China Construction Bank Indonesia, Tbk	Commercial Banking
China Construction Bank (Malaysia) Berhad	Commercial Banking
China Construction Bank (New Zealand) Limited	Commercial banking
China Construction Bank (Russia) Limited Liability Company	Commercial banking
Golden Fountain Finance Limited	Investment
CCB Principal Asset Management Corporation Limited	Fund management services
CCB International Group Holdings Limited	Investment
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 2017, 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**") CCB Property & Casualty Insurance Co., Ltd ("**CCB Property & Casualty**") and CCB Financial Asset Investment Co., Ltd. ("**CCB Investment**").

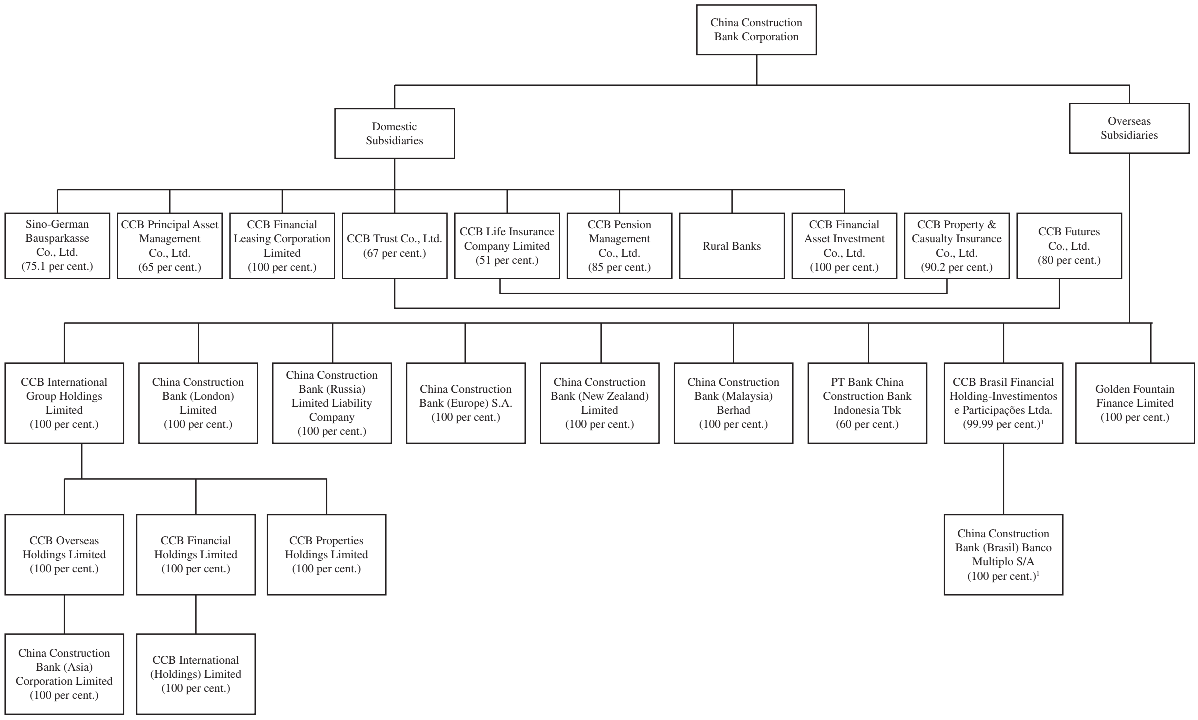
The Group set up several banking entities providing professional and differentiated services in specific industries and regions, including Sino-German Bausparkasse and 27 rural banks. In 2013, Sino-German Bausparkasse developed its housing credit business and achieved significant results in selling housing savings products. As at 31 December 2017, total assets of Sino-German Bausparkasse were RMB28,797 million. As at 31 December 2017, the 27 rural banks established to provide efficient financial services for "agriculture, farmers and rural areas" as well as small and micro enterprises in county regions, had total assets in operation of RMB18,197 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 2017, total assets of CCB Pension were RMB2,484 million.

As at 31 December 2017, the total assets of the integrated operation subsidiaries were RMB441,931 million, up 19.14 per cent. from 31 December 2016. For these purposes, integrated operation subsidiaries refer to the following subsidiaries as set out in the Group 2017 Annual Report: CCB Principal Asset Management, CCB Financial Leasing, CCB Trust, CCB Life, CCB Property & Casualty, CCB Futures, CCB International, CCB Pension, CCB Investment, Sino-German Bausparkasse and 27 rural banks. Net profit of the integrated operation subsidiaries for the year ended 31 December 2017 was RMB6,499 million, an increase of 22.86 per cent. over the same period in 2016.

Organisational Structure

The following chart shows the Bank's group structure as at 31 December 2017:



Note:

(1) As at 31 December 2017, the Bank held 100 per cent. of the total share capital of China Construction Bank (Brasil) Banco Múltiplo S/A, and held 100 per cent. of its total issued voting share.

Recent Developments

On 23 February 2018, the Bank announced the appointment of Mr. Huang Zhiling as secretary to the Board of the Bank.

On 11 April 2018, the Bank announced that Mr. Guo You ceased to serve as chairman of the board of supervisors and shareholder representative supervisor of the Bank by reason of his age.

On 17 May 2018, the Bank announced the resignations of Mr. Li Xiukun, Mr. Jin Yanmin and Mr. Li Zhenyu as employee representative supervisors of the Bank, effective from 17 May 2018, and the appointments of Mr. Lu Kegui, Mr. Cheng Yuanguo and Mr. Wang Yi as employee representative supervisors of the Bank, effective from 17 May 2018.

On 26 April 2018, the Bank published its unaudited and unreviewed consolidated quarterly financial results of the Group as at and for the three months ended 31 March 2017 and 2018, which are included in this Offering Circular. As at 31 March 2018, the Group's total assets, total liabilities and total equity were RMB22,848,740 million, RMB20,995,124 million and RMB1,853,616 million, respectively. For the three months ended 31 March 2018, the Group's net interest income was RMB122,682 million, representing an increase of 14.74 per cent. over the same period in 2017, and net profit was RMB74,076 million, representing an increase of 5.47 per cent. over the same period in 2017. The NPL ratio of the Group as at 31 March 2018 was 1.49 per cent., remaining unchanged as compared to the NPL ratio as at 31 December 2017. As at 31 March 2018, the Group's total capital ratio was 15.63 per cent., representing an increase of 0.13 per cent. as compared to the corresponding ratio as at 31 December 2017.

RISK MANAGEMENT AND INTERNAL CONTROL

OVERVIEW

In 2017, 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 and country 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 operational risk and information technology risk management. Other specialised departments are responsible for other respective risks.

The Bank places high priority on the risk management of subsidiaries, monitors their adherence to the risk appetite and conducts overall risk assessment of subsidiaries on a regular basis. The subsidiaries comply with the risk management requirements of the parent bank through their corporate governance mechanisms, establishing and improving the comprehensive risk management system.

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 2017, the Group focused on credit risk prevention and mitigation, improved on its fundamental credit management capability and optimised its risk management accountability system, due to the complex and ever-changing operating environment and challenging risks.

Promoting structural adjustment of the credit portfolio

The Bank improved its economic transformation by aligning its efforts with key national strategies. It focused on supporting the development of the housing rental businesses, consumer financial services, inclusive financial services, advanced manufacturing industries and modern service industries, and continued to consolidate its traditional advantages in the infrastructure sector. The Group also reinforced its green credit strategy and raised lending criteria for high risk customer groups in addition to its efforts in strengthening risk control by industries.

Reinforcing risk management and control in key areas

The Bank also focused on improving its risk identification and enhanced its pre-lending due diligence, thereby improving loan approval efficiency and quality. At the same time, the Bank also improved on its post-lending decision making mechanisms, reinforced post-lending inspection and supervision, promoted the intensive management of collaterals, strengthened IT systems and big data applications, and integrated the credit risk monitoring of the Group's on-and off-balance sheet businesses, domestic and overseas operations, businesses of the parent company and subsidiaries, as well as loans and similar businesses.

Strengthening risk control over credit granting

The Bank endeavoured to improve its risk management and control capability and level, and made certain adjustments to the authorisation mechanism for credit approval, such as through refining the rules and processes for evaluation, rating and comprehensive credit line and approval. The Bank established a differentiated and specialised credit facility approval and authorisation system depending on the type of key business lines and emerging sectors, so as to further optimise the credit structure. With optimisation of performance assessment and supervision system as well as intensified supervision and inspections, the Group reinforced the consolidated credit management, and enhanced control of credit approval risk in key areas.

Enhancing risk measurement capabilities

The Bank fully integrated its existing early-warning systems to build a group-level platform for comprehensive risk monitoring and early-warning. It optimised and rolled out rating and risk limit models for large and medium-sized enterprises, and launched new scorecard model for individual customers, further enhancing its ability of risk prioritisation and customer selection. The Bank also rolled out the risk rating and limit models as well as the default identification function for overseas customers, which laid a foundation for data accumulation, rating monitoring and model optimisation of overseas customers. The Bank also conducted stress testing on the macroeconomic risks and the real estate sector, among other areas, to enhance the capability of systemic risk prevention and control.

Strengthening the operation and value management of non-performing assets

The Group adjusted the structure and clarified the strategies for non-performing assets operation, and carried forward innovation in NPLs disposal channels. It set the ultimate goal of maximising the recovery value with classified and categorised operational targets. The Group improved the closing rates and recovery rate of batch transfers in the process of pushing forward refined management, leading to a remarkable rise in the cash recovery from written-off assets.

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 2017, the total outstanding loans provided by the Group to its largest single borrower represented 4.27 per cent. of its total capital after deduction, and the total outstanding loans to its 10 largest clients represented 13.90 per cent. of its total capital after deduction.

Concentration of loans

	As at 31 December		
	2017	**2016**	**2015**
Proportion of loans to the single largest customer (per cent.)	4.27	4.03	5.67
Proportion of loans to the ten largest customers (per cent.)	13.90	13.37	14.46

Concentration of Borrowers

As at 31 December 2017, the Bank's ten largest single borrowers as at the date indicated are as follows:

		As at 31 December 2017	
	Industry	**Amount**	**Per cent. of total loans**
		(In millions of RMB, except percentages)	
Customer A	Transportation, storage and postal services	85,591	0.66
Customer B	Transportation, storage and postal services	32,084	0.25
Customer C	Finance	28,000	0.22
Customer D	Transportation, storage and postal services	22,665	0.18
Customer E	Transportation, storage and postal services	22,103	0.17
Customer F	Transportation, storage and postal services	18,604	0.14
Customer G	Transportation, storage and postal services	18,149	0.14
Customer H	Transportation, storage and postal services	18,105	0.14
Customer I	Transportation, storage and postal services	17,620	0.14
Customer J	Transportation, storage and postal services	15,492	0.12
Total		278,413	2.16

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.

The Bank's goal with respect to liquidity risk management is to ensure timely payment and settlement. In 2017, the Bank adhered to the stable and prudent principle in its liquidity risk management, and put in place various measures to effectively manage the source and use of funds and ensure security in payment and settlement across the Bank, including intensive market monitoring, effective position management through its new generation core banking system, improved methods of liquidity stress testing, centralised use of RMB and foreign currency funds and increased guidance over liquidity risk management of subsidiaries.

The Group conducts 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:

	As at 31 December			
	Regulatory standard	2017	2016	2015
	(per cent.)			
Liquidity ratio[1] RMB	≥25	43.53	44.21	44.17
Liquidity ratio[1] Foreign currency . . .	≥25	74.52	40.81	59.84
Loan-to-deposit ratio[2] RMB.		70.73	68.17	69.80

Notes:

(1) The liquidity ratio is equal to current assets divided by current 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 2017:

No.		Amount before conversion	Amount after conversion
		(RMB million yuan, except for percentage)	
	Qualified high-quality liquid assets		
1 . . .	Qualified high-quality liquid assets		3,881,374.26
	Cash outflow		
2 . . .	Retail deposits, deposits from small corporate clients, including:	7,544,548.52	657,049.29
3 . . .	Stable deposits	1,946,820.02	97,276.44
4 . . .	Less stable deposits	5,597,728.50	559,772.85

No.		Amount before conversion	Amount after conversion
		(RMB million yuan, except for percentage)	
5 . . .	Unsecured wholesale financing, including:	9,061,665.95	3,085,240.67
6 . . .	Deposits from depositors with business connection (excluding correspondence business)	5,980,485.65	1,485,219.49
7 . . .	Deposits from depositors without business connection (all counterparties)	2,979,932.64	1,498,773.52
8 . . .	Unsecured debts	101,247.66	101,247.66
9 . . .	Financing secured by mortgage/pledge	–	–
10 . .	Other items, including	1,941,977.76	257,658.58
11 . .	Cash outflow related to derivatives and other collaterals	69,792.22	69,792.22
12 . .	Cash outflow related to loss of financing under debt instruments secured by mortgage/pledge	5,299.09	5,299.09
13 . .	Credit facilities and liquidity facilities	1,866,844.44	182,567.27
14 . .	Other contractual financing obligations	42.02	–
15 . .	Contingent financing obligations	2,190,716.73	311,862.03
16 . .	**Expected total cash outflow**		4,311,810.57
	Cash inflow		
17 . .	Borrowings secured by mortgage/pledge (including reverse repurchase and borrowing of securities)	184,483.85	183,468.38
18 . .	Cash inflow from payments under normal performance of contracts	1,346,608.43	872,643.35
19 . .	Other cash inflow	71,107.03	70,775.90
20 . .	**Expected total cash inflow**	1,602,199.31	1,126,887.63
	Adjusted value		
21 . .	Qualified high-quality liquid assets		3,881,374.26
22 . .	**Net cash out flow**		3,184,922.94
23 . .	**Liquidity coverage ratio (%)**(1)		121.99%

Note:

(1) The monthly average liquidity coverage ratio 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 2017, the aggregate maturity gaps of the Group was RMB1,795,827 million, up RMB206,173 million as compared to the end of the last year. Although the Group had a negative gap for repayment on demand of RMB9,626,699 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 2017, the Group improved the management and control over its market risks and trading risks by focusing on six aspects, including trading products, trading businesses, trading processes, trading systems, counterparties and traders, and prevented cross risk contagion. Furthermore, the Group was focused on creating a global risk information analysis system, and it also improved market risk monitoring and the mechanisms that provided early-warnings. In addition, it reinforced limit management, and strengthened risk management and control over credit bonds, derivatives, precious metal business, overseas institutions and subsidiaries. The Group's process management mechanisms over financial market trading activities were upgraded, which allowed automatic tracking and monitoring of key risk areas such as product quotations and exposures.

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 2017 and 2016 is as follows:

	2017				2016			
	As at 31 December	Average	Maximum	Minimum	As at 31 December	Average	Maximum	Minimum
	(In millions of RMB)							
Risk valuation of trading portfolio	112	167	252	105	106	157	265	91
– Interest rate risk	59	87	148	50	61	52	144	20
– Foreign exchange risk	90	117	226	70	97	156	253	64
– Commodity risk	1	8	21	–	6	13	60	–

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 2017, the Bank closely monitored the changes in external interest rate environment, and continuously reinforced monitoring and risk prediction. The Bank dynamically adjusted the product portfolio and term structure of assets and liabilities, therefore ensuring that net interest income increased and net interest margin was kept at a stable level. In addition, the Bank continued to optimise interest rate risk and pricing management system and improved its risk measurement, product operations and pricing management capabilities, thus maintaining the overall interest rate risk within management target.

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 2017 and 2016 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 2017	(46,727)	46,727	50,694	(50,694)
As at 31 December 2016	(48,500)	48,500	43,566	(43,566)

Foreign Exchange Risk Management

Foreign exchange rate risk is the risk of impact of adverse movements 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 mitigates its exchange rate risk by matching its assets and liabilities, controls its exchange rate risk by setting limits, hedges its exchange rate risk by using derivative financial instruments and transfers its exchange rate risk by reasonable product pricing.

In 2017, the Group optimised the methods for measuring currency options, and continued to develop new system functions, enabling the automatic measurement of the data for gold futures. The Bank conducted stress testing on foreign exchange risk under the Financial Sector Assessment Programme required by the PBOC and the CBRC, based on sensitive analysis of valuation gains or losses on the foreign currency exposures, which indicated that the overall risk was under control. The Group also closely takes note of the RMB exchange rate market changes, although RMB appreciation only had a small impact on the Group due to its small exposure.

Currency concentrations

The Group's currency concentrations as at 31 December 2017 and 2016 are set out below:

	As at 31 December 2017				As at 31 December 2016			
	U.S.$ (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total	U.S.$ (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
	(In millions of RMB)							
Spot assets	1,285,315	415,267	383,769	2,084,351	1,306,232	327,955	264,686	1,898,873
Spot liabilities	(1,151,780)	(453,711)	(326,808)	(1,932,299)	(1,087,356)	(351,161)	(227,688)	(1,666,205)
Forward purchases	2,737,947	178,350	247,059	3,163,356	2,621,532	98,488	230,706	2,950,726
Forward sales	(2,794,336)	(105,881)	(280,868)	(3,181,085)	(2,824,058)	(39,253)	(261,184)	(3,124,495)
Net options position	(72,996)	–	–	(72,996)	(4,012)	–	–	(4,012)
Net long options	4,150	34,025	23,152	61,327	12,338	36,029	6,520	54,887

As at 31 December 2017, the net exposure of foreign exchange rate risk of the Group was RMB61,327 million, an increase of RMB6,440 million as compared to 31 December 2016, mainly due to the increase of profits from foreign currencies.

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 2017, the Group made operational risk management an important focus in its business lines to improve its internal management standards as well as meet external regulatory requirements. The Group undertook an analysis on loss events arising from operational risks by focusing on regulatory penalties and legal cases, and consequently adopted various measures to control risks. In order to ensure adequate supervision, checks and balances between different positions across the Bank, the Bank also reassessed and adjusted positions and roles across the Bank. The Group selected key areas to conduct operational risk self-assessment, actively identified possible operational risk, and improved internal controls accordingly. It increased and optimised system functions to enhance the IT level of operational risk management, timely followed regulatory changes and analysed the new standardised approach and its implications. The Group launched emergency planning and drills for key businesses in the new generation core banking system and improved its capability in response to business disruptions.

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. The Group's objective for 2017 was to improve its mechanism for AML, counter-terrorism financing and anti-tax evasion. It also strengthened its AML compliance management, which resulted in an improvement in its fundamental management standard.

To enable the monitoring and analysis of suspicious transactions to be centrally managed at the tier-one level branches and to ensure that data can be entered into at the head office level, the Group focused on centralising its AML operations and building up a professional team of employees. The Group also employed big data analysis and constant monitoring to detect money laundering traces. It strengthened compliance management of financial sanctions, improved sanction compliance policies and procedures, and established effective management of customers and business activities in key areas. In compliance with the requirements of the common reporting standard set by the Group, the Group completed the due diligence processes and system upgrades for new accounts and existing accounts for high-net-worth individuals.

Reputational 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 2017, the Group continued to improve its reputational risk management system and mechanism, strengthen the consolidated reputational risk management, and enhance the overall reputational risk management across the Group. The Group worked on enhancing its competence in professional reputational risk management, improving its reputational risk assessment system, and also built a preliminary model of reputational risk for capital stress testing. It strengthened its efforts in reputational risk analysis, early warning and contingency planning, innovated channels for promoting "the Voice" of CCB, and improved the ability to respond to and guide public opinions. It intensified trainings on reputational risk management and media literacy, raising risk awareness across the Bank. The Group achieved steady improvement in its reputational risk management and effectively safeguarded its positive corporate image and reputation during 2017.

Country Risk Management

Country risk is the risk of insolvency of or repudiation by borrowers or debtors in a country or a region to meet their repayment obligations to the Bank, or the risk of losses to the commercial presence of the Bank or other losses to the Bank in a country or a region, due to economic, political, social changes or events in this country or region. Country risk mainly includes seven categories, i.e. transfer risk, sovereign risk, contagion risk, currency risk, macroeconomic risk, political risk and indirect country risk.

The Bank managed country risk in a unified and cooperative manner with clearly delineated roles and responsibilities for all parties involved, and it strictly followed regulatory requirements. In 2017, the Bank strengthened the limit management as part of its efforts to improve its country risk management rules and policies. It reinforced the monitoring, early warning and emergency response mechanisms, closely monitored country risk exposures with on-going monitoring and reporting, and enhanced its competence in mitigating country risk. It optimised country risk assessment framework, expanded the scope of risk assessment report, and conducted internal rating of country risk, which provided solid support for the implementation of major national strategies such as “the Belt and Road”.

Consolidated Management

Consolidated management is the comprehensive 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 2017, the Bank proactively implemented the latest requirements of the CBRC for consolidated management, which thereby enhanced the Group’s consolidated management system and improved the planning and coordination, in order to prevent cross-border and cross-industry risks at the group level and strengthen its consolidated management standard.

The Bank implemented the Board’s requirement to strengthen consolidated management, and increased the frequency of reporting to the Board by half-year reports and quarterly communications. It formulated guidelines to deepen consolidated management to optimise the Group’s management mechanism. It reminded the subsidiaries to develop annual work plans for their board of directors, and clarified that their board of directors should be accountable for the major decisions. The Group further improved and assessed its comprehensive risk management systems and policies, and regularly monitored and analysed the risk positions of its subsidiaries. It also formulated the annual market risk policies and limit scheme and industry-specific limit schemes covering subsidiaries, to further enhance limits monitoring and control across the Group.

Further, the Bank geared its IT systems towards consolidated management, and strengthened the data quality management for regulatory reporting. It continued to improve the general ledger system of the Group, which was expanded to cover more accounting information of consolidated entities. In addition, it optimised the IT systems for internal transactions, and raised the accuracy of automated data capturing for internal transactions. It rolled out the “New Generation” system to its overseas operations, and quickened its paces in building and launching its overseas data and reporting systems.

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. The internal audit department reports to the board of directors and the audit committee, as well as to the board of supervisors and senior management.

In 2017, consistent with the changes in the economic and financial situation and the focus on risk prevention and control in key businesses, the internal audit department organised 36 categories of systematic audit projects, including audits on the management of major businesses at 19 domestic tier-one branches and overseas institutions, dynamic audit investigation on the fundamental management of credit businesses, audits on secured loan business, financial institutional business, financial market business at certain branches, capital adequacy ratio management, and audit in relation to global systemically important bank. Meanwhile, it enhanced supervision and follow-up of rectifications, performed in-depth analysis on the underlying causes of identified issues, so as to drive the improvements in management mechanisms, business processes and internal management, and effectively promote the stable and healthy development of the Bank's operation and management.

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 supervising the effectiveness of the internal control system. 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.

In 2017, the Bank further enhanced the internal control and refined the assessment of internal control. For example, through reviewing the non-compliance cases in the recent two years, regulatory inspections, key issues identified by internal audit and external audit, the Bank comprehensively established the problem database. According to the key non-compliance domains and processes directed to by the problem database, the Bank amended the self-evaluation indicators of internal control, and improved the pertinence and effectiveness of the self-evaluation indicators.

The Board and the audit committee assess the effectiveness of the internal control and examine the report of internal control annually. As at 31 December 2017, there was no material deficiency in the internal control of financial reporting of the Bank, and no material deficiency was detected in the internal control of non-financial report. The Board held that the Bank conducted effective internal control of financial reporting covering all the major aspects, in compliance with the requirements regarding the standard system of enterprise internal control and other relevant regulations.

PricewaterhouseCoopers Zhong Tian LLP audited the internal control of the Bank, and the audit opinion of internal control issued by it was in line with the Bank's assessment of conclusion on the effectiveness of internal control of the financial report. The disclosure of material deficiencies of internal control of the non-financial report in the audit report of internal control also was in line with the disclosure of the assessment report of internal control of the Bank.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

GENERAL

As of the date of this Offering Circular, the Bank's board of directors is comprised of 15 members. There are five independent non-executive directors, six 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. Tian Guoli 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 of 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 2017, 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. Save as disclosed above, as at 31 December 2017, 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. According to the announcement of the Bank dated 17 May 2018, Mr. Lu Kegui, Mr. Cheng Yuanguo and Mr. Wang Yi, the supervisors of the Bank, indirectly held 18,989 H-shares, 15,863 H-shares and 13,023 H-shares of the Bank respectively, by participating in the employee stock incentive plan before they were appointed as supervisors.

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 Offering Circular.

Name	Position
Tian Guoli	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
Feng Bing	Non-executive director
Zhu Hailin	Non-executive director

Name	Position
Wu Min	Non-executive director
Zhang Qi	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
Murray Horn	Independent non-executive director
Sir Malcolm Christopher McCarthy	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.

Tian Guoli

Chairman, executive director

Mr. Tian has served as the chairman of the Board and an executive director since October 2017, and concurrently as chairman of Sino-German Bausparkasse since March 2018. Mr. Tian currently also serves as the chairman of China Banking Association, and is a member of the Expert Committee for the 13th Five-Year Plan for Economic and Social Development of China and the Monetary Policy Committee of the People's Bank of China and the chairman of the board of directors of Asian Financial Cooperation Association. From May 2013 to August 2017, Mr. Tian served as the chairman of the board of directors of Bank of China and the chairman of the board of directors and a non-executive director of Bank of China Hong Kong (Holdings) Limited. From December 2010 to April 2013, Mr. Tian served as the vice chairman of the board of directors and the general manager of China CITIC Group. During this period, Mr. Tian also served as the chairman of the board of directors and a non-executive director of China CITIC Bank. From April 1999 to December 2010, Mr. Tian served successively as an executive vice president and the president of China Cinda Asset Management Company, and the chairman of the board of directors of China Cinda Asset Management Co., Ltd.. From July 1983 to April 1999, Mr. Tian held various positions at the Bank, including sub-branch general manager, deputy branch general manager, department general manager of the Bank's Head Office, and the assistant president of the Bank. Mr. Tian is a senior economist and received a Bachelor's Degree in Economics from Hubei Institute of Finance and Economics in 1983.

Wang Zuji

Vice chairman, executive director, president

Mr. Wang has served as the vice chairman, an executive director and the president since July 2015. Mr. Wang currently also serves as the vice chairman of China's National Association of Financial Market Institutional Investors. From September 2012 to May 2015, Mr. Wang was the vice chairman of the China Insurance Regulatory Commission. From January 2008 to September 2012, Mr. Wang was the vice governor of the People's Government of Jilin Province. From April 2006 to January 2008, Mr. Wang was assistant of the governor of the People's Government of Jilin Province, a director of the Development and Reform Commission of People's Government of Jilin Province and concurrently a 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 the People's Government of Jilin Province and the director-general of the 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 the People's Government of Jilin Province. From January 2004 to February 2005, Mr. Wang was a director of the Comprehensive Planning Department of the China Development Bank. From March 2003 to January 2004, Mr. Wang was a director of the Business Development Department of the China Development Bank. From January 2000 to March 2003, Mr. Wang was the president of the Changchun Branch of the China

Development Bank. From January 1997 to January 2000, Mr. Wang was the deputy director of Loan Department II (North-east Loan Department) of the 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 an executive director since August 2015 and an 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 the chief financial officer of the Bank from December 2009 to March 2011 and from September 2013 to June 2014. He served as an executive vice chairman of the Bank's asset and liability committee from March 2006 to April 2006, the general manager of the Bank's restructuring office from May 2005 to March 2006, the general manager of the Zhejiang Branch of the Bank from June 2003 to May 2005, and acted as the head of the Zhejiang Branch of the Bank from April 2003 to June 2003. Mr. Pang served consecutively as the deputy general manager of the treasury and planning department, the deputy general manager of the planning and finance department, and the general manager of the 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 an executive director since August 2015 and concurrently as the chairman of CCB Life since May 2013. Mr. Zhang has served as an executive vice president of the Bank since April 2013. Mr. Zhang served as a member of the senior management of the Bank from December 2010 to April 2013. Mr. Zhang was the general manager of the group clients department (banking business department) and the deputy general manager of the Beijing Branch of the Bank from October 2006 to December 2010, the 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, the 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), the general manager of the Three Gorges Branch of the Bank from September 1998 to June 2000, and the 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 a director since September 2015. Mr. Li had served as a non-executive director of Industrial and Commercial Bank of China Limited from December 2008 to March 2015. He previously served as assistant of the representative of the Beijing Representative Office of the Bank of Credit and Commerce International, deputy representative of the BNP Paribas China Representative Office, a consultant of the International Banking Department of Banco Bilbao Vizcaya Argentaria, the deputy director of the Research Centre of China Technology Trust and Investment Company, the general manager of the Research Department of China Sci-Tech Securities, and a 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 a 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 a director since July 2015. Ms. Hao served as the deputy director of the Non-bank Financial Institutions Department of the CBRC, and concurrently the deputy director and inspector of the Banking Supervision Department I of the CBRC, from April 2003 to July 2015. Ms. Hao was consecutively the 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.

Feng Bing
Non-executive director

Ms. Feng has served as a director since July 2017. Ms. Feng has served as the deputy director of the Payment Center of the National Treasury of the Ministry of Finance from September 2015 to August 2017 (deputy director-general level). From August 1988 to September 2015, Ms. Feng served successively as cadre, officer, chief officer, deputy division-chief, division-chief of the Tax Department of the Ministry of Finance. Ms. Feng graduated from Renmin University of China with a bachelor's degree in finance in 1988, and obtained her master's degree in finance from Renmin University of China in 2001. Ms. Feng is currently an employee of Huijin, the Bank's substantial shareholder.

Zhu Hailin
Non-executive director

Mr. Zhu has served as a director since July 2017. Mr. Zhu has served as the deputy director of the National Accountant Assessment & Certification Centre of the Ministry of Finance from July 2012 to August 2017 (deputy director-general level). From August 1992 to June 2012, Mr. Zhu served successively as cadre, chief officer, deputy division-chief, division-chief of the Accounting Department of the Ministry of Finance. Mr. Zhu is an expert of a special grant by PRC government, a certified public accountant (a non-practicing member), an associate researcher, and is a part-time post-graduate tutor. Mr. Zhu graduated from Jiangxi Finance and Economics College with a master's degree in accounting in 1992. He graduated from the accounting major of the Research Institute for Fiscal Science of Ministry of Finance with a Ph.D. degree in management in 2000. Mr. Zhu is currently an employee of Huijin, the Bank's substantial shareholder.

Wu Min
Non-executive director

Mr. Wu has served as director since July 2017. Mr. Wu served as the vice president of Chongqing Daily Press Group from December 2011 to August 2017, the president of the Contemporary Financial Research Journal from March 2017 to August 2017 and the chairman of Chongqing CQDaily Printing Co., Ltd from July 2015 to February 2017. Mr. Wu served as the chairman of Chongqing Press New Fashion Media Co., Ltd from March 2015 to December 2016. From October 2006 to November 2011, Mr. Wu was the deputy head of Qianjiang District of Chongqing City (deputy director-general level) and a director of Administration Committee of Zhengyang Industrial Park of Chongqing City. From July 1991 to September 2006, Mr. Wu served successively as cadre, deputy division-chief, division-chief and general manager of the Compliance Department of the Anhui Branch of Bank of China Limited. From 2008 to 2011, Mr. Wu was a government lawyer of Chongqing City. From 1999 to 2002, Mr. Wu was a lawyer of Anhui Quanzhen Law Office. Mr. Wu is a researcher, a senior economist, a Doctor of Law and a doctoral tutor. Mr. Wu graduated from Anhui University with a bachelor's degree and a master's degree in law in 1991 and 2002 respectively. Mr. Wu also obtained his Ph.D. degree in civil and commercial law from Southwest University of Political Science & Law in 2006 and conducted sociology study at sociology post-doctoral mobile station of Chinese Academy of Social Science from 2009 to 2012. Mr. Wu is currently an employee of Huijin, the Bank's substantial shareholder.

Zhang Qi

Non-executive director

Mr. Zhang has served as a director since July 2017. Mr. Zhang has served as a non-executive director of Bank of China Limited from July 2011 to June 2017. Mr. Zhang served successively in the Central Expenditure Division One and Comprehensive Division of the Budget Department and Ministers' Office of the General Administration Department of the Ministry of Finance as well as the Operation Department of China Investment Corporation, serving as deputy division-chief, division-chief and senior manager from 2001 to 2011. Mr. Zhang studied in the Investment Department and Finance Department of Dongbei University of Finance & Economics from 1991 to 2001 and obtained his bachelor's degree, master's degree and Ph.D. degree in economics in 1995, 1998 and 2001 respectively. Mr. Zhang is currently a doctoral supervisor at China Northeast University of Finance and Economics. Mr. Zhang is currently an employee of Huijin, the Bank's substantial shareholder.

Anita Fung Yuen Mei

Independent non-executive director

Ms. Fung has served as a director since October 2016. Ms. Fung served as the group general manager of HSBC Holdings plc from May 2008 to February 2015. Ms. Fung served consecutively as the 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 the 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 a 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 a non-executive director of Hang Seng Bank Limited from November 2011 to January 2014. Ms. Fung currently serves as an 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 the Airport Authority Hong Kong, The West Kowloon Cultural District Authority and the Court of the Hong Kong University of Science and Technology. Ms. Fung obtained a master's degree in applied financing from Macquarie University of Australia in 1995. Ms. Fung was appointed as a 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 a 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 the managing director and the 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 the managing director and chief administrative officer of China International Capital Corporation (Beijing) from January 1999 to July 2001. He served concurrently as a vice president and the 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 a director of the Bank since October 2013. Mr. Chung currently serves as an independent non-executive director of China Unicom (Hong Kong) Limited, Miramar Hotel and Investment Company, Limited, Glorious Sun Enterprises Limited, China Overseas Grand Oceans Group Limited, China Everbright Limited, Jinmao (China) Investments Holding Limited and China Railway Group Limited. Mr. Chung served as an independent non-executive director of China Everbright Bank from 2006 to 2012. Formerly, he served in various companies and public institutions, consecutively as the chairman of the Council of the City University of Hong Kong, the 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, an executive director of the Land Fund Advisory Committee of Hong Kong Special Administrative Region Government, and an 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.

Murray Horn
Independent non-executive director

Mr. Murray Horn has served as a 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 the managing director of ANZ Bank in New Zealand and a 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.

Sir Malcolm Christopher McCarthy
Independent non-executive director

Sir McCarthy has served as a director of the Bank since August 2017. Sir McCarthy served as independent non-executive director of Industrial and Commercial Bank of China Limited from December 2009 to October 2016. Sir McCarthy worked first as an economist before joining the UK Department of Trade and Industry where he held various posts from economic adviser to undersecretary. Sir McCarthy subsequently worked as a senior executive of Barclays Bank in London, Japan and then North America. Sir McCarthy served as Chairman and Chief Executive of the Office of Gas and Electricity Markets, Chairman of the Financial Services Authority, non-executive director of HM Treasury, Chairman of the board of directors of J.C. Flowers & Co. UK Ltd, a non-executive director of NIBC Holding N.V., NIBC Bank N.V., OneSavings Bank plc, Castle Trust Capital plc and Intercontinental Exchange ("**ICE**"), and Trustee of the Said Business School of Oxford University. Currently Sir McCarthy serves as a director of the three ICE wholly owned subsidiaries of ICE Futures Europe, ICE Trade Vault and ICE Clear Netherlands, a Trustee of the IFRS Foundation, and the Chairman in the United Kingdom of Promontory Financial Group. Sir McCarthy is an Honorary Fellow of Merton College, an Honorary Doctorate of the University of Stirling and the Cass Business School, and a Freeman of the City of London. Sir McCarthy has a Master of Arts in History at Merton College of Oxford University, PhD in Economics of Stirling University, and Master at the Graduate School of Business of Stanford University.

Supervisors

Name	Position
Liu Jin	Shareholder representative supervisor
Li Xiaoling	Shareholder representative supervisor
Lu Kegui	Employee representative supervisor
Cheng Yuanguo	Employee representative supervisor
Wang Yi	Employee representative supervisor
Bai Jianjun	External supervisor

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Liu Jin
Shareholder representative supervisor

Ms. Liu has served as a shareholder representative supervisor of the Bank since September 2004. Ms. Liu has served as the general manager of the public relations & corporate culture department of the Bank since July 2014. Ms. Liu served as the 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 a shareholder representative supervisor of the Bank since June 2013. Ms. Li served as a 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.

Lu Kegui

Employee representative supervisor

Mr. Lu has served as a supervisor since May 2018. Mr. Lu has served as the general manager of the asset preservation and operation centre of the Bank from April 2017. From September 2013 to April 2017, Mr. Lu served as the director of the Tianjin audit department of the Bank. From April 2011 to September 2013, Mr. Lu served as president of Heilongjiang Branch of the Bank. From February 2011 to April 2011, Mr. Lu served as the head of Heilongjiang Branch of the Bank. From July 2008 to February 2011, Mr. Lu served as general manager of the fund settlement department of the Bank. From August 2000 to July 2008, Mr. Lu served as general manager of the accounting department of the Bank. From January 1998 to August 2000, Mr. Lu served as deputy general manager of the planning and finance department of the Bank and of the finance and accounting department of the Bank from September 1995 to January 1998. From July 1988 to September 1995, Mr. Lu successively served as deputy division-chief and division-chief of the finance and accounting department as well as other positions of the Bank. Mr. Lu is a senior accountant and is a recipient of a special grant awarded by the PRC Government. Mr. Lu graduated from Hubei Institute of Finance and Economics and obtained his bachelor's degree in infrastructure finance and credit in 1982.

Cheng Yuanguo

Employee representative supervisor

Mr. Cheng has served as a supervisor since May 2018, the general manager of corporate business department of the Bank since February 2017, and chairman of CCB Trust since August 2017. From August 2014 to February 2017, Mr. Cheng served as the president of Heibei Branch of the Bank; from March 2011 to July 2014, Mr. Cheng served as the general manager of the group clients department (banking business department) of the Bank and concurrently served as director of CCB International (Holdings) Limited from September 2010 to October 2015. From May 2005 to March 2011, Mr. Cheng served as the deputy general manager of the group clients department (banking business department) of the Bank; from September 2001 to May 2005, Mr. Cheng served as the deputy general manager of the banking business department of the Bank. Between February 1995 to September 2001, Mr. Cheng successively served as deputy manager of the banking business and finance and accounting department of the Bank; deputy manager of the treasury department of the Bank; manager of the finance and accounting department of the Bank, manager of the planning and finance department as well as other positions of the Bank. Mr. Cheng is a senior accountant and obtained his bachelor's degree in infrastructure finance and credit from China Northeast University of Finance and Economics in 1986.

Wang Yi

Employee representative supervisor

Mr. Wang has served as a supervisor since May 2018. Mr. Wang has served as the general manager of the housing finance and personal credit department of the Bank since November 2013. From November 2009 to November 2013, Mr. Wang served as deputy general manager of the personal savings and investment department of the Bank (equivalent to the department general manager of the head office of the Bank); from December 2008 to November 2009, Mr. Wang served as deputy general manager of the personal savings and investment department of the Bank; from June 2005 to December 2008, Mr. Wang served as the deputy general manager of the personal finance department of the Bank. From July 2001 to June 2005, Mr. Wang served as the assistant general manager of the personal banking department of the Bank. From January 1992 to July 2001, Mr. Wang worked in the Qingdao Branch of the Bank, serving successively as deputy division-chief of the computer management division, deputy division-chief of the retail business division and division-chief of the electronic banking department as well as other positions. Mr. Wang is a senior engineer, and graduated from Shangdong University with a bachelor's degree in computer mathematics in 1984. Mr. Wang also obtained a master's degree of business administration for senior management in 2010.

Bai Jianjun
External supervisor

Mr. Bai has served as a supervisor of the Bank since June 2013. Mr. Bai is currently a professor and doctoral supervisor at the Law School of Peking University, a 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
Huang Yi	Executive vice president
Zhang Lilin	Executive vice president
Zhu Kepeng	Chief disciplinary officer
Liao Lin	Chief risk officer
Xu Yiming	Chief financial officer
Huang Zhiling	Secretary to the board

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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*".

Huang Yi
Executive vice president

Mr. Huang has served as an 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 a director of the legal 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, an assistant inspector of Legal Affairs Department (also working as deputy director of Department of Finance of Sichuan Province during this period) and an assistant inspector of Banking Management Department of the PBOC. He was the 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.

Zhang Lilin
Executive vice president

Mr. Zhang has served as executive vice president of the Bank since September 2017. Mr. Zhang was president (general manager) of the Asset Management Department of the Agricultural Bank of China from August 2014 to May 2017. Mr. Zhang was general manager of the Credit Card Center of the Agricultural Bank of China from September 2012 to August 2014, and head of the Credit Card Center of the Agricultural Bank of China and deputy general manager of the Shanghai Branch of the Agricultural Bank of China from June to September 2012, deputy general manager of the Shanghai Branch of the Agricultural Bank of China from April 2009 to June 2012, general manager of the Hong Kong Branch of the Agricultural Bank of China from December 2006 to April 2009, general manager of the Hong Kong Branch and assistant general manager and concurrently general manager of the Banking Business Department of the Shanghai Branch of the Agricultural Bank of China from November to December 2006, assistant general manager and concurrently general manager of the Banking Business Department of the Shanghai Branch of the Agricultural Bank of China from April 2005 to November 2006, assistant general manager of the Shanghai Branch of the Agricultural Bank of China from January to April 2005. Mr. Zhang worked in Hongkou Sub-branch, Risk Supervision Division, Retail Banking Division, Personal Banking Division, Executive Office of the Shanghai Branch of the Agricultural Bank of China from July 1997 to January 2005. Mr. Zhang is a senior economist. Mr. Zhang obtained a PhD degree in economics in foreign economic thought history from Fudan University in July 1997.

Zhu Kepeng
Chief disciplinary officer

Mr. Zhu has served as the chief disciplinary officer of the Bank since July 2015. Mr. Zhu consecutively served as the general manager (at provincial branch level) of the human resources department of the Bank of Communications Co., Ltd. from October 2012 to July 2015, general manager of the Chongqing branch of the Bank of Communications Co., Ltd. from March 2010 to October 2012, general manager of the board of directors office of the Bank of Communications Co., Ltd. from December 2004 to March 2010 and deputy general manager (in charge) of the legal compliance department of the Bank of Communications Co., Ltd. from December 2004 to June 2005, and deputy general manager (in charge) of the 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 the chief risk officer of the Bank since March 2017. Mr. Liao served as the general manager of the Beijing Branch of the Bank from May 2015 to March 2017. From September 2013 to May 2015, he was the head and general manager of the Hubei Branch of the Bank. From March 2011 to September 2013, he was the head and general manager of the Ningxia Branch of the Bank. He was deputy general manager of the 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 the chief financial officer of the Bank since June 2014. Mr. Xu served as the general manager of the asset and liability management department of the Bank from August 2005 to July 2014, deputy general manager of the 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.

Huang Zhiling
Secretary to the board

Mr. Huang has served as the secretary to the Board since February 2018. Mr. Huang had previously served as the chief economist of the Bank since September 2013 and served as the chief risk officer of the Bank from February 2011 to September 2013. He served as the general manager of the Risk Management Department of the Bank from April 2006 to February 2011. From August 1999 to April 2006, Mr. Huang worked consecutively as the director of the president office, director of the asset disposal decision-making committee office and director of the asset disposal review committee of China Cinda Asset Management Corporation. From June 1997 to August 1999, he was Deputy General Office Manager of the Bank. From November 1994 to June 1997, he worked consecutively in the Policy Research Office (Investment Research) of the Bank as deputy manager of the Department, the assistant to the director (Bureau Chief) and the deputy director (Deputy Bureau Chief). Mr. Huang is a researcher. He obtained his Ph.D. degree in finance from the Shaanxi Institute of Finance and Economics in 1991.

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 a 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

As at 31 December 2017, the Bank had a total of 329,810 ordinary shareholders, of which 45,638 were holders of H-shares and 284,172 were holders of A-shares. As at 28 February 2018, the Bank had a total of 344,007 ordinary shareholders, of which 43,696 were holders of H-shares and 300,311 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 interfere with 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 2017, Huijin held approximately 57.11 per cent. of the shares of the Bank, and indirectly held 0.20 per cent. of the shares of the Bank through its subsidiary, Central Huijin Asset Management Co., Ltd.

As at 31 December 2017, 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.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear, Clearstream or CMU (together, the "**Clearing Systems**") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer, the Hong Kong Branch and the Bank believes to be reliable, but none of the Issuer, the Hong Kong Branch, the Bank or any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None the Issuer, the Hong Kong Branch, the Bank or any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to, or payments made on account of, such beneficial ownership interests.

BOOK-ENTRY SYSTEMS

Euroclear and Clearstream

Euroclear and Clearstream each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

CMU

The CMU Service is a central depositary service provided by the Central Moneymarkets Unit of the HKMA for the safe custody and electronic trading between the members of this service ("**CMU Members**") of capital markets instruments ("**CMU Instruments**") which are specified in the CMU Reference Manual as capable of being held within the CMU Service. The CMU Service is only available to CMU Instruments issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the services is open to all members of the Hong Kong Capital Markets Association, authorised institutions under the Banking Ordinance and other domestic and overseas financial institutions at the discretion of the HKMA. Compared to clearing services provided by Euroclear and Clearstream, the standard custody and clearing service provided by the CMU Service is limited. In particular (and unlike the European clearing systems), the HKMA does not as part of this service provide any facilities for the dissemination to the relevant CMU Members of payments (of interest or principal) under, or notices pursuant to the notice provisions of, the CMU Instruments. Instead, the HKMA advises the lodging CMU Member (or a designated paying agent) of the identities of the CMU Members to whose accounts payments in respect of the relevant CMU Instruments are credited, whereupon the lodging CMU Member (or the designated paying agent) will make the necessary payments of interest or principal or send notices directly to the relevant CMU Members. Similarly, the HKMA will not obtain certificates of non-U.S. beneficial ownership from CMU Members or provide any such certificates on behalf of CMU Members. The CMU Lodging and Paying Agent will collect such certificates from the relevant CMU Members identified from an instrument position report obtained by request from the HKMA for this purpose.

An investor holding an interest in the Notes through an account with either Euroclear or Clearstream will hold that interest through the respective accounts which Euroclear and Clearstream each have with the CMU Service.

TRANSFERS OF NOTES REPRESENTED BY REGISTERED GLOBAL NOTES

Transfers of any interests in Notes represented by a Registered Global Note within Euroclear, Clearstream and the CMU Service will be effected in accordance with the customary rules and operating procedures of the relevant Clearing System. Euroclear, Clearstream and the CMU Service have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among accountholders of Euroclear, Clearstream and the CMU Service. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Hong Kong Branch, the Bank, the Paying Agents, the Registrar and the Dealers will be responsible for any performance by Euroclear, Clearstream or the CMU Service or their respective accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

REGULATION AND SUPERVISION IN THE PRC

The banking industry is heavily regulated in the PRC, with CBRC and PBOC acting as the principal regulatory authorities. CBIRC is primarily responsible for supervising and regulating banking and insurance institutions, and PBOC, as the central bank of the PRC, is primarily responsible for formulating and implementing monetary policies. The applicable laws and regulations governing activities in the PRC's banking industry consist principally of the PRC PBOC Law, the PRC Commercial Banking Law, the Law of PRC on Supervision and Administration of Banking Sector, and the rules and regulations promulgated thereunder.

PRINCIPAL REGULATORS

Prior to April 2003, PBOC acted as both the PRC's central bank and the principal supervisor and regulator of the banking industry in the PRC. In April 2003, CBRC was established to serve as the primary banking industry regulator and it assumed the majority of bank regulatory functions from PBOC. PBOC retained its role as the central bank but now has a smaller role in the regulation of banking institutions. In April 2018, CBRC and China Insurance Regulatory Commission were merged as China Banking and Insurance Regulatory Commission ("**CBIRC**"), covering the regulation of banking and insurance sectors in the PRC. In this Offering Circular, we still use the term of "**CBRC**" in the context of regulations, rules and actions issued or taken by CBRC before April 2018.

CBIRC

Functions and Powers

CBIRC is the primary supervisory authority responsible for the regulation of banking institutions operating in the PRC, including branches and representative offices established by foreign financial institutions in the banking sector in the PRC.

According to the Law of PRC on Supervision and Administration of Banking Sector, the main responsibilities of CBIRC in relation to banking regulation include:

(1) formulating and promulgating rules and regulations governing banking institutions and their business activities;

(2) reviewing and approving the establishment, change, dissolution and business scope of banking institutions, as well as granting banking licences for commercial banks, their branches and subsidiaries, branches and representative offices of foreign banks in the PRC;

(3) regulating the business activities of banking institutions, including the products and services they offer;

(4) setting qualification requirements for, and approving or overseeing the nomination of, directors and senior management personnel of banking institutions;

(5) setting guidelines and standards for internal controls, risk exposure and corporate governance of, and disclosure requirements for, banking institutions;

(6) conducting on-site inspection and off-site surveillance of the business activities and risk exposure status of banking institutions;

(7) monitoring the financial condition of banking institutions, including establishing standards or requirements for capital adequacy, asset quality and other financial metrics;

(8) imposing corrective and punitive measures for violations of applicable banking regulations;

(9) formulating prudential regulation principles of banking sector in accordance with laws and administrative regulations;

(10) working with authorities (including the PBOC and the MOF);

(11) to establish emergency disposal mechanisms and to deal with any emergencies in the banking sector;

(12) guiding and conducting surveillance on the activities of banking self-disciplinary organisations; and

(13) carrying out international communication and cooperation activities related to supervisions of the banking sector.

Examination and Supervision

CBIRC, through its head office in Beijing and offices in each province, provincial-level municipality and autonomous region, monitors the operations of commercial banks and their branches through on-site inspections and off-site surveillance. On-site inspections generally include visiting the banks' premises, interviewing bank employees, senior management and directors, as well as reviewing documents and materials maintained by the banks. CBIRC also conducts off-site surveillance by reviewing financial and other reports regularly submitted by the banks. Off-site surveillance generally includes the surveillance of banks' business activities and risk exposure status to evaluate and analyse the operational risk of the banks. If a banking institution is not in compliance with a regulation, CBIRC has the power to issue corrective and punitive measures, including imposition of fines, suspension of certain business activities, restrictions on distributions of dividends and other income and asset transfers, closure of the institution and other penalties.

PBOC

As the central bank of the PRC, PBOC is responsible for formulating and implementing monetary policies and maintaining the stability of the financial markets. According to the PRC PBOC Law, PBOC is empowered to:

(1) Drafting and enforcing relevant laws, rules and regulations that are related to fulfilling its functions;

(2) Formulating and implementing monetary policy in accordance with law;

(3) Issuing the Renminbi and administering its circulation;

(4) Regulating the inter-bank lending market and the inter-bank bond market;

(5) Implementing foreign exchange management, supervising inter-bank foreign exchange market;

(6) Supervising and regulating gold market;

(7) Holding and managing the state foreign exchange and gold reserves;

(8) Managing the State treasury as fiscal agent;

(9) Making payment and settlement rules in collaboration with relevant departments and ensuring normal operation of the payment and settlement systems;

(10) Providing guidance to anti-money laundering work in the financial sector and monitoring money-laundering related suspicious fund movement;

(11) Developing statistics system for the financial industry and responsible for the consolidation of financial statistics as well as the conduct of economic analysis and forecast; and

(12) Participating in international financial activities at the capacity of the central bank.

OTHER REGULATORY AUTHORITIES

In addition to CBIRC and PBOC, commercial banks in the PRC are also subject to the supervision and regulation by other regulatory authorities including, among others, SAFE, CSRC and CIRC. For example, in conducting foreign exchange business, banks are subject to the regulation of SAFE; in dealing with securities-related matters such as distributing securities investment funds or acting as the custodians of investment assets of securities institutional investors, banks are subject to the regulation of CSRC; and in conducting bancassurance business, banks are subject to the regulation of CIRC.

REGULATIONS REGARDING CAPITAL ADEQUACY

Capital Adequacy Guidelines

In March 2004, CBRC implemented capital adequacy guidelines applicable to all commercial banks in the PRC. The guidelines, Measures for the Management of Capital Adequacy Ratios of Commercial Bank (the "**Capital Adequacy Measures**"), provided for a phase-in period whereby all domestic banks must have met minimum capital adequacy ratios by 1 January 2007. On 3 July 2007, CBRC amended the Capital Adequacy Measures issued in March 2004 to set forth new and more stringent capital adequacy guidelines which must be complied with from 3 July 2007.

In June 2012, the CBRC issued the Administrative Measures on the Capital of Commercial Banks (Trial) (the "**2012 Administrative Measures**") regulating capital adequacy ratios (CAR) of PRC commercial banks. The 2012 Administrative Measures, which are intended to reflect the Basel III regulatory capital requirements, set out minimum CAR requirements for commercial banks and provide detailed guidelines on the calculation of "capital" and "risk-weighted assets". The overall CAR requirements are 11.5 per cent. for systematically important commercial banks and 10.5 per cent. for other commercial banks. Commercial banks in the PRC are required to have a CAR of not less than 8 per cent., Tier 1 CAR of not less than 6 per cent. and Core Tier 1 CAR of not less than 5 per cent. The CARs are calculated in accordance with the 2012 Administrative Measures as follows:

$$\text{Capital Adequacy Ratio} = \frac{\text{Total Capital - deductions from corresponding capital instruments}}{\text{Risk-weighted Assets}} \times 100 \text{ per cent.}$$

$$\text{Tier 1 Capital Adequacy Ratio} = \frac{\text{Tier 1 Capital - deductions from corresponding capital instruments}}{\text{Risk-weighted Assets}} \times 100 \text{ per cent.}$$

$$\text{Core Tier 1 Capital Adequacy Ratio} = \frac{\text{Core Tier 1 Capital - deductions from corresponding capital instruments}}{\text{Risk-weighted Assets}} \times 100 \text{ per cent.}$$

In 29 November 2012, the CBRC further released the Guiding Opinion on Commercial Banks' Innovation on Capital Instruments (the "**2012 Guiding Opinions**"), setting out the general principles of the innovation of capital instruments of commercial banks and criteria of qualified capital instruments.

TAXATION

The statements herein regarding taxation are based on the laws in force as at the date of this document and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers or certain professional investors) may be subject to special rules. Investors should consult their own tax advisers regarding the tax consequences of an investment in the Notes.

PRC

The following summary describes the principal PRC tax consequences of ownership of the Notes by beneficial owners who, or which, are not residents of mainland China for PRC tax purposes. These beneficial owners are referred to as non-PRC Noteholders in this section. In considering whether to invest in the Notes, potential purchasers should consult their individual tax advisors with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction.

Pursuant to the Enterprise Income Tax Law effective on 1 January 2008 and amended on 24 February 2017 and the PRC Individual Income Tax Law, as amended on 30 June 2011, and their implementation regulations, an income tax is imposed on payment of interest by way of withholding in respect of debt securities, issued by PRC enterprises to non-resident Noteholders, including non-resident enterprises and non-resident individuals.

On 23 March 2016, the Ministry of Finance and the State Administration of Taxation ("**SAT**") issued the Circular of Full Implementation of Business Tax to VAT Reform (《關於全面推開營業稅改徵增值稅試點的通知》) (Caishui [2016] No. 36, "**Circular 36**") which confirms that business tax was replaced by VAT from 1 May 2016. Since then, the income derived from the provision of financial services which attracted business tax will be entirely replaced by, and subject to, VAT.

According to Circular 36, the entities and individuals providing the services within China shall be subject to VAT. The services are treated as being provided within China where either the service provider or the service recipient is located in China, but where the services are sold by offshore entities or individuals to onshore entities or individuals and such services purely take place outside the PRC, they should not be deemed as services sold within the territory of China. The services subject to VAT include the provision of financial services such as the provision of loans. It is further clarified under Circular 36 that the "loans" refers to the activity of lending capital for another's use and receiving the interest income thereon. Based on the definition of "loans" under Circular 36, the issuance of Notes is likely to be treated as the holders of the Notes providing loans to the Issuer.

(I) In the event that the Issuer is the Bank's head office (the "CCB Head Office")

In the event that the Issuer is CCB Head Office, CCB Head Office will be subject to withholding PRC income tax on the payment of interest of the Notes to non-resident Noteholders. The current rates of such income tax are 20 per cent. (for non-resident individuals) and 10 per cent. (for non-resident enterprises) of the gross amount of the interest, in each case, unless a lower rate is available under an applicable tax treaty. For example, the tax so charged on interests paid on the Notes to non-resident Noteholders who, or which are residents of Hong Kong (including enterprise holders and individual holders) as defined under the arrangement between the mainland China and Hong Kong for purpose of the avoidance of double taxation will be 7 per cent. of the gross amount of the interest pursuant to such arrangement. Further, given that the CCB Head Office is located in the PRC, the holders of the Notes would be regarded as providing the financial services within China and consequently, the holders of the Notes shall be subject to VAT at the rate of 6 per cent. when receiving the interest payments under the Notes. In addition, the holders of the Notes shall be subject to the local levies at approximately 12 per cent. of the VAT payment and consequently, the combined rate of VAT and local levies would be around 6.72 per cent. Given that the Issuer pays interest income to Noteholders who are located outside of the PRC, the Issuer, acting as the obligatory withholder in accordance with applicable law, shall withhold VAT and local levies from the payment of interest income to Noteholders who are located outside of the PRC. The Issuer has agreed to pay additional amounts to holders of the Notes so that holders of the Notes would receive the full amount of the scheduled payment, as further set out in the "*Terms and Conditions of the Notes*".

Under the Enterprise Income Tax Law and its implementation rules, any gains realised on the transfer of the Notes by holders who are deemed as non-resident enterprises may be subject to PRC enterprise income tax if such gains are regarded as income derived from sources within the PRC. There remains uncertainty as to whether the gains realised on the transfer of the Notes would be treated as incomes derived from sources within the PRC and be subject to PRC enterprise income tax. If such gains are subject to PRC income tax, the 10 per cent. enterprise income tax rate and 20 per cent. individual income tax rate will apply respectively unless there is an applicable tax treaty or arrangement that reduces or exempts such income tax. The taxable income will be the balance of the total income obtained from the transfer of the Notes minus all costs and expenses that are permitted under PRC tax laws to be deducted from the income. According to an arrangement between the mainland China and Hong Kong for avoidance of double taxation, Noteholders who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from PRC income tax on capital gains derived from a sale or exchange of the Notes.

(II) In the event that the Issuer is the Hong Kong Branch or other overseas branch of the Bank

In the event that the Issuer is the Hong Kong Branch or other offshore branch of the Bank, the Issuer is not obliged to withhold PRC income tax at the rate up to 10 per cent. (for non-resident enterprises) or 20 per cent. (for non-resident individuals) on the payments of interest made by it to non-resident Noteholders provided that the payments are made outside of the territory of PRC. However, this is subject to the interpretation by the PRC tax authorities. If the PRC tax authorities take an interpretation that the interest on the Notes payable by the Issuer is treated as income sourced from the PRC, a withholding tax may be imposed on such interest and the Issuer will pay additional amounts to holders of the Notes so that holders of the Notes would receive the full amount of the scheduled payment, as further set out in the Terms and Conditions.

In the case of issuance of Notes by the Hong Kong Branch or other offshore branch of the Bank, Circular 36 does not apply if the provision of loans by individuals or entities located outside the PRC takes place outside the PRC. Neither the Hong Kong Branch or other offshore branch of the Bank nor the holders of the Notes are located in the PRC and if the provision of loans takes place outside the PRC, then no VAT is payable on interest payments under the Notes. This is, however, subject to the interpretation of Circular 36 by the relevant authority.

If CCB Head Office shall perform the obligation of paying interest of the Notes in the event and only when the Issuer fails to perform its obligations of paying the interest of the Notes, CCB Head Office will be obliged to withhold PRC income tax at a rate of 10 per cent. (for non-resident enterprises) or 20 per cent. (for non-resident individuals) (unless a lower rate is available under an applicable tax treaty) and PRC VAT tax and local levies at the rate of 6.72 per cent. of the interest component of the amount payable by CCB Head Office to the Noteholders if the PRC tax authority views such component as an interest income arising within the territory of the PRC.

Non-resident Noteholders will not be subject to the PRC tax on any capital gains derived from a sale or exchange of Notes consummated outside the PRC between non-resident Noteholders, except however, if such capital gains are determined as income sourced in China, accordingly such capital gains would be subject to the rate of 10 per cent. (for non-resident enterprises) or 20 per cent. (for non-resident individuals) of PRC withholding tax unless there is a lower tax rate applicable. According to an arrangement between the mainland China and Hong Kong for the avoidance of double taxation, Noteholders who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from PRC income tax on capital gains derived from a sale or exchange of the Notes. There is uncertainty as to whether gains realized on the transfer of the Notes by individual holders who are not PRC citizens or residents will be treated as income sourced within the PRC which as a result will be subject to PRC individual income tax.

Where a holder of the Notes who is an entity or individual located outside of the PRC resells the Notes to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically VAT prescribed under Circular 36 does not apply and the Issuer does not have the obligation to withhold the VAT or the local levies. However, there is uncertainty as to the applicability of VAT if either the seller or buyer of Notes is located inside the PRC.

Circular 36 has been issued quite recently, the above statements on VAT may be subject to further change upon the issuance of further clarification rules and/or different interpretation by the competent tax authority. There is uncertainty as to the application of Circular 36.

Pursuant to the EIT Law and the VAT reform detailed above, the Issuer shall withhold EIT, (should such tax apply) from the payments of interest in respect of the Notes for any non-PRC-resident Noteholder and the Issuer shall withhold VAT (should such tax apply) from the payments of interest in respect of the Notes for any Noteholders located outside of the PRC. However, in the event that the Issuer is required to make such a deduction or withholding (whether by way of EIT or VAT otherwise), the Issuer has agreed to pay such additional amounts as will result in receipt by the Noteholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required. For more information, see "*Terms and Conditions of the Notes – Condition 8 (Taxation)*".

No PRC stamp duty will be chargeable upon the issue or transfer (for so long as the register of Noteholders is maintained outside the PRC) of a Note.

HONG KONG

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Under the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the "**Inland Revenue Ordinance**"), as it is currently applied in the Inland Revenue Department, interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(i) interest on the Notes is derived from Hong Kong and is received by or accrues to a corporation, other than a financial institution, carrying on a trade, profession or business in Hong Kong; or

(ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business; or

(iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(iv) interest on the Notes is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the Inland Revenue Ordinance).

Where the Hong Kong Branch is the Issuer, pursuant to the Exemption from Profits Tax (Interest Income) Order, interest income accruing to a person other than a financial institution on deposits (denominated in any currency and whether or not the deposit is evidenced by a certificate of deposit) placed with, inter alia, a financial institution in Hong Kong (within the meaning of section 2 of the Banking Ordinance) are exempt from the payment of Hong Kong profits tax. Provided no prospectus with respect to the issue of Notes is registered under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, the issue of Notes by the Issuer is expected to constitute a deposit to which the above exemption from payment will apply.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal or redemption of Notes will be subject to profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the Inland Revenue Ordinance) from the sale, disposal or other redemption of Notes will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a corporation, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source, unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed.

Stamp Duty

Stamp duty will not be payable on the issue of Bearer Notes by the Issuer, provided either:

(i) such Bearer Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) such Bearer Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong).

If stamp duty is payable it is payable by the Issuer on the issue of Bearer Notes at a rate of 3 per cent. of the market value of the Bearer Notes at the time of issue.

No stamp duty will be payable on any subsequent transfer of Bearer Notes. No stamp duty is payable on the issue of Registered Notes.

Stamp duty may be payable on any transfer of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfers of Registered Notes, provided that either:

(i) the Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) the Registered Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong).

If stamp duty is payable in respect of the transfer of Registered Notes it will be payable at the rate of 0.2 per cent. (of which 0.1 per cent. is payable by the seller and 0.1 per cent. is payable by the purchaser) normally by reference to the consideration or its value. If, in the case of either the sale or purchase of such Registered Notes, stamp duty is not paid, both the seller and the purchaser may be liable jointly and severally to pay any unpaid stamp duty and also any penalties for late payment. If stamp duty is not paid on or before the due date (two days after the sale or purchase if effected in Hong Kong or 30 days if effected elsewhere) a penalty of up to ten times the duty payable may be imposed. In addition, stamp duty is payable at the fixed rate of HK$5.00 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

UNITED STATES FATCA TAX PROVISIONS

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a foreign financial institution (as defined by FATCA) may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the People's Republic of China) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, such withholding would not apply prior to 1 January 2019 and Notes issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional Notes (as described under "*Terms and Conditions of the Notes – Further Issues*") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in Notes.

PRC CURRENCY CONTROLS

REMITTANCE OF RENMINBI INTO AND OUTSIDE THE PRC

Renminbi is not a freely convertible currency. The remittance of Renminbi into and outside the PRC is subject to controls imposed under PRC law.

CURRENT ACCOUNT ITEMS

Under PRC foreign exchange control regulations, current account items refer to any transaction for international receipts and payments involving goods, services, earnings and other frequent transfers.

Since July 2009, the PRC has commenced a pilot scheme pursuant to which Renminbi may be used for settlement of imports and exports of goods between approved pilot enterprises in five designated cities in the PRC including Shanghai, Guangzhou, Dongguan, Shenzhen and Zhuhai, and enterprises in designated offshore jurisdictions including Hong Kong and Macau. In June 2010, 27 July 2011 and February 2012 respectively, the PRC government promulgated the Circular on Issues concerning the Expansion of the Scope of the Pilot Programme of Renminbi Settlement of Cross-Border Trades, the Circular on Expanding the Regions of Cross-border Trade Renminbi Settlement and the Notice on Matters Relevant to the Administration of Enterprises Engaged in Renminbi Settlement of Export Trade in Goods, Circulars with regard to the expansion of designated cities and offshore jurisdictions implementing the pilot Renminbi settlement scheme for cross-border trades. Pursuant to these circulars (i) Renminbi settlement of imports and exports of goods and of services and other current account items became permissible, (ii) the list of designated pilot districts was expanded to cover 20 provinces and cities, (iii) the restriction on designated offshore districts has been uplifted, and (iv) any enterprise qualified for the export and import business is permitted to use Renminbi as settlement currency for exports of goods, provided that the relevant provincial government has submitted to PBOC and five other PRC authorities (the "**Six Authorities**") a list of key enterprises subject to supervision and the Six Authorities have verified and signed off such list (the "**Supervision List**"). On 12 June 2012, the PBOC issued a notice stating that the Six Authorities had jointly verified and announced a Supervision List and as a result any enterprise qualified for the export and import business is permitted to use Renminbi as settlement currency for exports.

As new regulations, the circulars will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying the circulars and impose conditions for settlement of current account items. Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the use of Renminbi for payment of transactions categorised as current account items, then such settlement will need to be made subject to the specific requirements or restrictions set out in such rules.

CAPITAL ACCOUNT ITEMS

Under PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of the relevant PRC authorities.

Settlements for capital account items are generally required to be made in foreign currencies. For instance, foreign investors (including any Hong Kong investors) are generally required to make any capital contribution to foreign invested enterprises in a foreign currency in accordance with the terms set out in the relevant joint venture contracts and/or articles of association as approved by the relevant authorities. Foreign invested enterprises or any other relevant PRC parties are also generally required to make capital item payments including proceeds from liquidation, transfer of shares, reduction of capital, interest and principal repayment to foreign investors in a foreign currency. That said, the relevant PRC authorities may approve a foreign entity to make a capital contribution or a shareholder's loan to a foreign invested enterprise with Renminbi lawfully obtained by it outside the PRC and for the foreign invested enterprise to service interest and principal repayment to its foreign investor outside the PRC in Renminbi on a trial basis. The foreign invested enterprise may also be required to complete a registration and verification process with the relevant PRC authorities before such Renminbi remittances.

On 7 April 2011, SAFE promulgated the SAFE Circular, which became effective on 1 May 2011. According to the SAFE Circular, in the event that foreign investors intend to use Renminbi (including offshore Renminbi and onshore Renminbi held in the capital accounts of non-PRC residents) to make contribution to an onshore enterprise or make payment for the transfer of equity interest of an onshore enterprise by a PRC resident, such onshore enterprise shall be required to submit the prior written consent of the relevant MOFCOM to the relevant local branches of SAFE of such onshore enterprise and register for a foreign invested enterprise status. Further, the SAFE Circular clarifies that the foreign debts borrowed, and the foreign guarantee provided, by an onshore entity (including a financial institution) in Renminbi shall, in principle, be regulated under the current PRC foreign debt and foreign guarantee regime.

On 12 October 2011, MOFCOM promulgated the Notice on Issues concerning Cross-border Direct Investment in RMB (the 2011 MOFCOM Notice). In accordance with the 2011 MOFCOM Notice, MOFCOM and its local counterparts are authorised to approve RMB FDI in accordance with existing PRC laws and regulations regarding foreign investment, with the following exceptions which require the preliminary approval by the provincial counterpart of MOFCOM and the consent of MOFCOM: (i) RMB FDI with the capital contribution in Renminbi of RMB300 million or more; (ii) RMB FDI in financing guarantee, financing lease, micro financing or auction industries; (iii) RMB FDI in foreign invested investment companies, venture capital or equity investment enterprises; or (iv) RMB FDI in cement, iron & steel, electrolytic aluminium, shipbuilding or other policy sensitive sectors. In addition, RMB FDI in real estate sector is allowed following the existing rules and regulations of foreign investment in real estate, although Renminbi foreign debt remains unavailable to foreign invested real estate enterprises. The proceeds of RMB FDI may not be used towards investment in securities, financial derivatives or entrustment loans in the PRC, except for investments in PRC domestic listed companies through private placements or share transfers by agreement under the PRC strategic investment regime.

On 13 October 2011, the PBOC promulgated the PBOC FDI Measures as amended in May 2015, pursuant to which, PBOC special approval for RMB FDI and shareholder loans which was required by an earlier circular of PBOC is no longer necessary. The PBOC RMB FDI Measures provide that, among others, foreign invested enterprises are required to conduct registrations with the local branch of PBOC within ten working days after obtaining the business licenses for the purpose of Renminbi settlement, and a foreign investor is allowed to open Renminbi special accounts for designated usage in relation to making equity investment in a PRC enterprise or receiving Renminbi proceeds from distribution (dividends or otherwise) by its PRC subsidiaries. The PBOC RMB FDI Measures also state that the foreign debt quota of a foreign invested enterprise constitutes its Renminbi debt and foreign currency debt from its offshore shareholders, offshore affiliates and offshore financial institutions, and a foreign invested enterprise may open a Renminbi account to receive its Renminbi proceeds borrowed offshore by submitting the Renminbi loan contract to the commercial bank and make repayments of principal of and interest on such debt in Renminbi by submitting certain documents as required to the commercial bank.

On 19 November 2012, SAFE promulgated the SAFE Circular on DI, which became effective on 17 December 2012 and was later amended on 4 May 2015. According to the SAFE Circular on DI, SAFE removes or adjusts certain administrative licensing items with regard to foreign exchange administration over direct investments to promote investment, including, but not limited to, the abrogation of SAFE approval for opening of and payment into foreign exchange accounts under direct investment accounts, the abrogation of SAFE approval for reinvestment with legal income generated within the PRC of foreign investors, the simplification of the administration of foreign exchange reinvestments by foreign investment companies, and the abrogation of SAFE approval for purchase and external payment of foreign exchange under direct investment accounts.

On 3 December 2013, the MOFCOM promulgated the MOFCOM Circular, which became effective on 1 January 2014, to further facilitate FDI by simplifying and streamlining the applicable regulatory framework. The MOFCOM Circular replaced the 2011 MOFCOM Notice. Pursuant to the MOFCOM Circular, written approval from the appropriate office of MOFCOM and/or its local counterparts specifying "Renminbi Foreign Direct Investment" and the amount of capital contribution is required for each FDI. Compared with the 2011 MOFCOM Notice, the MOFCOM Circular no longer contains the requirements for central level MOFCOM approvals for investments of RMB300 million or above, or in certain industries, such as financial guarantee, financial leasing, microcredit, auction, foreign invested investment companies, venture capital and equity investment vehicles, cement, iron and steel, electrolyse aluminium, ship building and other industries under the state macroregulation. Unlike the 2011 MOFCOM Notice, the MOFCOM Circular has also removed the approval requirement for foreign investors who intend to change the currency of their existing capital contribution from a foreign currency to Renminbi. In addition, the MOFCOM Circular also clearly prohibits FDI funds from being used for any investments in securities and financial derivatives (except for investments in PRC listed companies by strategic investors) or for entrustment loans in the PRC.

As new regulations, such circulars will be subject to interpretation and application by the relevant PRC authorities. There is no assurance that approval of such remittances, borrowing or provision of external guarantee in Renminbi will continue to be granted or will not be revoked in the future. Further, since the remittance of Renminbi by way of investment or loans are now categorised as capital account items, such remittances will need to be made subject to the specific requirements or restrictions set out in the relevant SAFE rules. If any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

SUBSCRIPTION AND SALE

DEALER AGREEMENT

Subject to the terms and on the conditions contained in the dealer agreement dated 28 June 2018 (such Dealer Agreement as modified and/or supplemented and/or restated from time to time, the "**Dealer Agreement**") made between the Bank, the Hong Kong Branch, the Arrangers and the Permanent Dealers, the Notes will be offered on a continuous basis by the Issuer to the Permanent Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are severally underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer will reimburse the Arrangers for certain of their expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme. The commissions in respect of an issue of Notes on a syndicated basis will be stated in the relevant subscription agreement.

The Issuer will indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

The Arrangers, the Dealers or any of their respective affiliates may have performed certain banking and advisory services for the Issuer and/or its affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the Issuer and/or its affiliates in the ordinary course of the Issuer's or their business.

The Dealers or certain of their respective affiliates may purchase the Notes and be allocated the Notes for asset management and/or proprietary purposes but not with a view to distribution.

In connection with each tranche of Notes issued under the Programme, the Dealers or certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. Further, the Dealers and/or their respective affiliates may place orders, receive allocations and purchase Notes for their own account (without a view to distributing such Notes) and such orders and/or allocations of the Notes may be material. Such entities may hold or sell such Notes or purchase further Notes for their own account in the secondary market or deal in any other securities of the Issuer, and therefore, they may offer or sell the Notes or other securities otherwise than in connection with the offering. Accordingly, references herein to the Notes being "offered" should be read as including any offering of the Notes to the Issuer, the Bank, the Hong Kong Branch, the Arrangers, the Dealers and/or their respective affiliates for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any legal or regulatory obligation to do so.

UNITED STATES

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:

(a) The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States (or, in certain circumstances, to, or for the account or benefit of, U.S. persons) except in certain transactions exempt from the registration requirements of the Securities Act.

(b) Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Bearer Notes will be issued in accordance with the provisions of U.S. Treasury Regulation or section 1.163 – 5(c)(2)(i)(D), unless the relevant Pricing Supplement specifies that Notes will be issued in accordance with the provision of U.S. Treasury Regulation or section 1.163 – 5(c)(2)(i)(C). The applicable Pricing Supplement will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

(c) In connection with any Notes which are offered or sold outside the United States in reliance on exemption from the registration requirements of the Securities Act provided under Category 1 of Regulation S ("**Category 1 of Regulation S Notes**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Category 1 of Regulation S Notes within the United States or to a United States person, as such term is defined in the U.S. Internal Revenue Code of 1986 and regulations thereunder. Each Dealer has agreed that it will not offer, sell or deliver any Notes within the United States, except as permitted by the Dealer Agreement. In addition, until 40 days after the commencement of the offering of any identifiable tranche of such Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

(d) In connection with any Notes which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Category 2 of Regulation S ("**Category 2 of Regulation S Notes**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Category 2 of Regulation S Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Category 2 of Regulation S Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Category 2 of Regulation S Notes during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Category 2 of Regulation S Notes within the United States or to, or for the account or benefit of, U.S. persons.

(e) Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

SELLING RESTRICTIONS ADDRESSING ADDITIONAL UNITED KINGDOM SECURITIES LAWS

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that, except as permitted by the relevant subscription agreement:

(a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Acts 2000 (the "**FSMA**") by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

PUBLIC OFFER SELLING RESTRICTION UNDER THE PROSPECTUS DIRECTIVE

Unless the Pricing Supplement in respect of any Notes specifies the "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

   (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

   (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

   (iii) not a qualified investor as defined in the Prospectus Directive (as defined below); and

(b) the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

If the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Offering Circular as completed by the Pricing Supplement in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) *Approved prospectus:* if the Pricing Supplement in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the Pricing Supplement contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or pricing supplement, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(b) *Qualified investors:* at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(c) *Fewer than 150 offerees:* at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(d) *Other exempt offers:* at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

SINGAPORE

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interests (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

    (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

    (2) where no consideration is or will be given for the transfer;

    (3) where the transfer is by operation of law;

    (4) as specified in Section 276(7) of the SFA; or

    (5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

JAPAN

The Notes have been and will be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the "**FIEA**") and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold and will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

HONG KONG

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes (except for Notes which are a "structured product" as defined in the SFO) other than (i) to "professional investors" as defined in the SFO and any rules made under that Ordinance, or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws in Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the SFO and any rules made under that Ordinance.

PEOPLE'S REPUBLIC OF CHINA

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including the Hong Kong Special Administrative Region and Macau Special Administrative Region of the People's Republic of China or Taiwan), except as permitted by the securities laws of the People's Republic of China.

UNITED ARAB EMIRATES (EXCLUDING THE DUBAI INTERNATIONAL FINANCIAL CENTRE)

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes to be issued under the Programme have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

DUBAI INTERNATIONAL FINANCIAL CENTRE

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and will not offer the Notes to be issued under the Programme to any person in the Dubai International Financial Centre unless such offer is:

(a) an "Exempt Offer" in accordance with the Markets Rules (MKT) Module of the DFSA Rulebook; and

(b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.3 of the Conduct of Business Module of the DFSA Rulebook.

KINGDOM OF SAUDI ARABIA

No action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering of the Notes. Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a "**Saudi Investor**") who acquires any Notes pursuant to an offering should note that the offer of Notes is a private placement under Article 10 or Article 11 of the "Offers of Securities Regulations" as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008 (the "**KSA Regulations**") through a person authorised by the Capital Market Authority ("**CMA**") to carry on the securities activity of arranging and following a notification to the CMA under the KSA Regulations.

The Notes may not be advertised, offered or sold to any person in the Kingdom of Saudi Arabia other than to "Sophisticated Investors" under Article 10 of the KSA Regulations or by way of a limited offer under Article 11 of the KSA Regulations. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any offer of Notes will be made in compliance with the relevant KSA Regulations.

Each offer of Notes shall not therefore constitute a "public offer" pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 17 of the KSA Regulations. Any Saudi Investor who has acquired Notes pursuant to a private placement under Article 10 and/or Article 11 of the KSA Regulations may not offer or sell those Notes to any person unless the offer or sale is made through an authorised person appropriately licensed by the Saudi Arabian Capital Market Authority and: (a) the Notes are offered or sold to a Sophisticated Investor; (b) the price to be paid for the Notes in any one transaction is equal to or exceeds Saudi Riyal 1 million or an equivalent amount; or (c) the offer or sale is otherwise in compliance with Article 17 of the KSA Regulations.

KINGDOM OF BAHRAIN

Each Dealer has represented and agreed, and each Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold, and will not offer or sell, any Notes except on a private placement basis to persons in the Kingdom of Bahrain who are "accredited investors".

For this purpose, an "accredited investor" means:

(a) an individual holding financial assets (either singly or jointly with a spouse) of U.S.$1,000,000 or more;

(b) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.$1,000,000; or

(c) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

STATE OF QATAR

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, any Notes in the State of Qatar, including the Qatar Financial Centre, except (a) in compliance with all applicable laws and regulations of the State of Qatar, including the Qatar Financial Centre, and (b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in the State of Qatar.

GENERAL

Each Dealer has agreed and each further Dealers appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes the Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer and any other Dealer shall have any responsibility therefor.

None of the Issuer and any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction that would permit a public offering of any of the Notes, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with any additional restrictions agreed between the Issuer and the relevant Dealer and set out in the applicable Pricing Supplement.

GENERAL INFORMATION

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), the power of attorney (中國建設銀行股份有限公司授權委託書) issued by the Bank dated 10 April 2018 and the Approval of the MTN Programme Update of the Hong Kong Branch (Jian Zi Zhai (2017) No. 74)《關於更新香港分行中期票據計劃方案的批覆》(建資債 (2017) 74號), the establishment and update of, and the issue of Notes under, the Programme have been duly authorised.

LISTING

2. Application has been made to the Hong Kong Stock Exchange for the listing of the Programme by way of debt issues to Professional Investors only. The issue price of listed Notes 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 relevant Notes.

3. Application has been made to the SGX-ST for permission to deal in and quotation for any Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST.

   If the application to the SGX-ST to list a particular Series of Notes is approved, for so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes, if traded, will be traded on the SGX-ST in a board lot size of at least S$200,000 (or its equivalent in other currencies).

   The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. The approval in-principle from, the admission of any Notes to the Official List of, and the quotation of any Notes on the SGX-ST, are not to be taken as indications of the merits of the Issuer, the Hong Kong Branch or the Bank, its subsidiaries, its associated companies (if any), the Programme or such Notes.

   For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Bank shall appoint and maintain a paying agent in Singapore, where such Notes may be presented or surrendered for payment or redemption, in the event that any of the Global Notes representing such Notes is exchanged for definitive Notes. In addition, in the event that any of the Global Notes 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.

4. Application has been made to the DFSA for Notes issued under the Programme to be admitted to the DFSA Official List. An application may be made for any Tranche of Notes to be admitted to trading on NASDAQ Dubai.

NDRC APPROVAL

5. The Notes will be issued in accordance with either (i) the requirements under the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (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)) (the "**NDRC Circular**") issued by the National Development and Reform Commission of the People's Republic of China (the "**NDRC**") on 14 September 2015 or (ii) the requirements under the NDRC Circular and the Approval by the NDRC on the Management of Foreign Debt Scale Management Reform of 2018 (《國家發展改革委關於2018年度外債規模管理企業外債規模的批復》) (發改外資[2018]307號) issued by the NDRC on 9 February 2018, pursuant to which the NDRC granted annual foreign debt quota to the Bank.

6. In the case of (i), the Bank will make a pre-issuance registration with the NDRC, followed by a post-issuance filing with the NDRC within the prescribed time following issuance of the Notes. In the case of (ii), the Bank is able to rely on such annual foreign debt quota granted by the NDRC and is not required to make any pre-issuance registration for issuance of the Notes within the annual foreign debt quota with the NDRC. However, the Bank will be required to make a post-issuance filing with the NDRC within the prescribed time following issuance of the Notes.

CLEARING SYSTEMS

7. The Notes to be issued under the Programme have been accepted for clearance through Euroclear and Clearstream. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream will be specified in the applicable Pricing Supplement. The Issuer may also apply to have Bearer Notes accepted for clearance through the CMU Service. The relevant CMU instrument number will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

8. The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream, is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of the CMU Service is 55th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

LEGAL ENTITY IDENTIFIER

9. The legal entity identifier of the Bank is 5493001KQW6DM7KEDR62.

NO SIGNIFICANT CHANGE

10. Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Bank or of the Group since 31 December 2017 and there has been no material adverse change in the financial position or prospects of the Bank or of the Group since 31 December 2017.

LITIGATION

11. Save as disclosed in this 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 effect on the financial position of the Issuer or the Group.

INDEPENDENT AUDITORS

12. The independent auditor of the Bank is PricewaterhouseCoopers. PricewaterhouseCoopers is a Certified Public Accountant under The Hong Kong Institute of Certified Public Accountants.

13. The audited consolidated financial statements of the Bank as at and for the years ended 31 December 2016 and 2017, which are included elsewhere or incorporated by reference in this Offering Circular, have been audited by PricewaterhouseCoopers, independent auditor, as stated in their reports appearing or incorporated by reference herein.

14. As of 1 January 2018, the Bank has adopted new accounting standards, including IFRS 9, which are effective for accounting periods beginning on or after 1 January 2018. The IFRS 9 model introduces, among other things, an expected loss impairment model. The impact of the initial application of the new accounting standards is disclosed in note 70 of the Group 2017 Annual Financial Statements. The Bank has estimated that the adoption of IFRS 9 would reduce its net assets by approximately 1 per cent. as at 1 January 2018. According to the IFRS 9 transitional arrangement, upon initial application of IFRS 9, the Group is not required to restate the comparable figures of the prior period. Instead, differences caused by the adoption of the IFRS 9 is adjusted to the beginning balance of retained earnings and other comprehensive income.

DOCUMENTS

15. So long as Notes are capable of being issued under the Programme, 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 2016 and 2017 (in each case together with the audit report 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 Fiscal 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;

    (e) a copy of this Offering Circular together with any supplement to this Offering Circular and any other documents incorporated herein or therein; and

    (f) any future offering circulars, prospectuses, information memoranda and supplements including Pricing Supplements (save that a Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) to this Offering Circular and any other documents incorporated herein or therein by reference.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Notes:

(1) The independent auditor's reports on the Group's consolidated financial statements for the year ended 31 December 2016 and 2017 set out herein are reproduced from the Group's annual reports for the year ended 31 December 2016 and 2017, respectively. Page references referred to in the abovenamed reports refer to pages set out in such annual reports.

(2) The Group's financial statements for the three months ended 31 March 2018 set out herein are extracted from the Group's unaudited and unreviewed consolidated quarterly financial statements for the three months ended 31 March 2018. 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 ("HKSAs") 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.

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T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

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
Allowances for Impairment Losses on Loans and Advances to customers *Refer to notes 4(3)(f), 4(24)(a), 13, 25, 65(1) to the consolidated financial statements.* 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. Allowances for impairment losses are estimated using individual and collective assessments. 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. 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.	Our procedures include the following: 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. **Individual assessment** 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. 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. **Collective assessment** 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. 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. 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.
Packaged Sales of Non-Performing Loans (NPLs) *Refer to note 25 to the consolidated financial statements.* During the year ended 31 December 2016, the Bank sold RMB57,058 million of NPLs through packaged sales to external asset management companies. The packaged sales of NPLs were significant, and involved significant management judgement in the de-recognition assessment. We focused on whether the NPLs sold have been appropriately approved by the Bank, and whether the disposals met the de-recognition criteria.	Our procedures included the following: 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. We found no significant differences between management's judgement and our assessment.

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
Consolidation assessment of, and disclosures about, structured entities *Refer to notes 4(1), 4(24)(g), 21(2)(c), 31 to the consolidated financial statements.* 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. The amount of structured entities in which the Group had invested was significant and the assessment of consolidation or not involved management's judgement. We focused on the following key aspects: 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.	Our procedures included: 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: • 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. Based on the available evidence we found that management's consolidation assessment in relation to structured entities was reasonable and the disclosures were appropriate.
Business application system migration to the Group's accounting system 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. 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.	We evaluated the management oversight of the system migration that was critical to financial reporting and performed testing on the following: 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. 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. The results of the testing performed supported our ability to place reliance on the IT dependencies of the accounting system.

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 HKSAs 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 HKSAs, 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.

(Expressed in millions of RMB, unless otherwise stated)

	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	**Chung Shui Ming Timpson**	**Murray Horn**
Vice chairman, executive director and president	*Independent non-executive director*	*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
Adjustments for:			
– 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
Changes in operating assets:			
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)
Changes in operating liabilities:			
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.

(Expressed in millions of RMB, unless otherwise stated)

	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 appreciate. 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.

(Expressed in millions of RMB, unless otherwise stated)

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.

(Expressed in millions of RMB, unless otherwise stated)

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.

(Expressed in millions of RMB, unless otherwise stated)

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).

(Expressed in millions of RMB, unless otherwise stated)

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

(Expressed in millions of RMB, unless otherwise stated)

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

(Expressed in millions of RMB, unless otherwise stated)

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

(Expressed in millions of RMB, unless otherwise stated)

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	Social insurance, corporate annuity, supplementary medical insurance and housing fund paid by the Bank	Other monetary income	Total (note (vii))	Allowance
	RMB'000	RMB'000	RMB'000	RMB'000	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.

(Expressed in millions of RMB, unless otherwise stated)

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

(Expressed in millions of RMB, unless otherwise stated)

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

(Expressed in millions of RMB, unless otherwise stated)

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

(Expressed in millions of RMB, unless otherwise stated)

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

(Expressed in millions of RMB, unless otherwise stated)

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.

(Expressed in millions of RMB, unless otherwise stated)

22 DERIVATIVES AND HEDGE ACCOUNTING

(1) Analysed by type of contract

		2016			2015		
	Note	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.

(Expressed in millions of RMB, unless otherwise stated)

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

(Expressed in millions of RMB, unless otherwise stated)

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

(Expressed in millions of RMB, unless otherwise stated)

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(2) Analysed by assessment method of allowances for impairment losses

		Loans and advances for which allowances are collectively assessed	Impaired loans and advances		
			for which allowance are collectively assessed	for which allowances are individually assessed	Total
	Note	(a)	(b)	(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).

(Expressed in millions of RMB, unless otherwise stated)

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(3) Movements of allowances for impairment losses

	Note	2016			
		Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances		Total
			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			
		Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances		Total
			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.

(Expressed in millions of RMB, unless otherwise stated)

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).

(Expressed in millions of RMB, unless otherwise stated)

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).

(Expressed in millions of RMB, unless otherwise stated)

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.

(Expressed in millions of RMB, unless otherwise stated)

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).

(Expressed in millions of RMB, unless otherwise stated)

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.

(Expressed in millions of RMB, unless otherwise stated)

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

(Expressed in millions of RMB, unless otherwise stated)

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.

(Expressed in millions of RMB, unless otherwise stated)

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.

(Expressed in millions of RMB, unless otherwise stated)

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

(Expressed in millions of RMB, unless otherwise stated)

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).

(Expressed in millions of RMB, unless otherwise stated)

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.

(Expressed in millions of RMB, unless otherwise stated)

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

		2016				
	Note	As at 1 January	Charge for the year/ (Write-back)	Transfer (out)/in	Write-offs	As at 31 December
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

(Expressed in millions of RMB, unless otherwise stated)

38 MOVEMENTS OF ALLOWANCES FOR IMPAIRMENT LOSSES (CONTINUED)

		2015				
	Note	As at 1 January	Charge for the year/ (Write-back)	Transfer (out)/in	Write-offs	As at 31 December
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

(Expressed in millions of RMB, unless otherwise stated)

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.

(Expressed in millions of RMB, unless otherwise stated)

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

(Expressed in millions of RMB, unless otherwise stated)

46 ACCRUED STAFF COSTS

		2016			
	Note	As at 1 January	Increased	Decreased	As at 31 December
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**

		2015			
	Note	As at 1 January	Increased	Decreased	As at 31 December
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 1 January	Increased	Decreased	As at 31 December
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 1 January	Increased	Decreased	As at 31 December
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

(Expressed in millions of RMB, unless otherwise stated)

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).

(Expressed in millions of RMB, unless otherwise stated)

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

(Expressed in millions of RMB, unless otherwise stated)

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

(Expressed in millions of RMB, unless otherwise stated)

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:

(a) 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.

(b) 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.

(c) The subordinated bonds were issued by BIC.

(d) 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.

(e) The Group has an option to redeem the bonds on 7 November 2021, subject to an approval from relevant authority.

(f) The Group has an option to redeem the bonds on 22 November 2022, subject to an approval from relevant authority.

(g) 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:

(a) 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.

(b) 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.

(Expressed in millions of RMB, unless otherwise stated)

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

						Total amount			
Preference shares	Issue date	Classification	Initial interest rate	Issue price	Quantity (million)	Original Currency (USD)	(RMB)	Maturity date	Conversion conditions
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		

(Expressed in millions of RMB, unless otherwise stated)

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

	1 January 2016		Increase		31 December 2016	
Preference Shares	**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

(Expressed in millions of RMB, unless otherwise stated)

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)**

		2015		
	Note	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.

(Expressed in millions of RMB, unless otherwise stated)

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 according 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.

(Expressed in millions of RMB, unless otherwise stated)

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.

(Expressed in millions of RMB, unless otherwise stated)

60 OPERATING SEGMENTS (CONTINUED)

(1) Geographical segments (continued)

	2016								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Total
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

(Expressed in millions of RMB, unless otherwise stated)

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.

(Expressed in millions of RMB, unless otherwise stated)

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

(Expressed in millions of RMB, unless otherwise stated)

60 OPERATING SEGMENTS (CONTINUED)

(2) Business segments (continued)

	2015				
	Corporate banking	Personal banking	Treasury business	Others	Total
External net interest income	244,837	26,725	171,724	14,466	457,752
Internal net interest (expense)/income	(4,278)	130,274	(118,845)	(7,151)	–
Net interest income	240,559	156,999	52,879	7,315	457,752
Net fee and commission income	35,497	56,306	17,892	3,835	113,530
Net trading (loss)/gain	(4,593)	(127)	7,728	905	3,913
Dividend income	–	–	–	733	733
Net gain arising from investment securities	–	–	331	4,744	5,075
Other operating (expense)/income, net	(186)	(350)	2,785	3,435	5,684
Operating income	271,277	212,828	81,615	20,967	586,687
Operating expenses	(75,665)	(96,466)	(11,435)	(11,260)	(194,826)
Impairment losses	(87,428)	(1,178)	208	(5,241)	(93,639)
Share of profit of associates and joint ventures	–	–	–	275	275
Profit before tax	108,184	115,184	70,388	4,741	298,497
Capital expenditure	7,305	11,937	1,615	4,271	25,128
Depreciation and amortisation	6,556	10,713	1,449	1,018	19,736

	2015				
Segment assets	7,036,556	3,626,845	6,748,218	1,031,726	18,443,345
Interests in associates and joint ventures	–	–	–	4,986	4,986
	7,036,556	3,626,845	6,748,218	1,036,712	18,448,331
Deferred tax assets					25,379
Elimination					(124,221)
Total assets					18,349,489
Segment liabilities	7,841,404	7,203,232	547,997	1,435,370	17,028,003
Deferred tax liabilities					624
Elimination					(124,221)
Total liabilities					16,904,406
Off-balance sheet credit commitments	1,737,208	539,283	–	125,793	2,402,284

(Expressed in millions of RMB, unless otherwise stated)

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.

(Expressed in millions of RMB, unless otherwise stated)

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.

(Expressed in millions of RMB, unless otherwise stated)

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

		2016		2015	
	Note	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%

(Expressed in millions of RMB, unless otherwise stated)

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

		2016		2015	
	Note	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.

(Expressed in millions of RMB, unless otherwise stated)

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.

(Expressed in millions of RMB, unless otherwise stated)

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

(Expressed in millions of RMB, unless otherwise stated)

64 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(6) Key management personnel (continued)

	2015			
	Accrued cost	Social insurance, corporate annuity, supplementary medical insurance and housing fund paid by the Bank	Other monetary income	Total (note (iv))
	RMB'000	RMB'000	RMB'000	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.

(Expressed in millions of RMB, unless otherwise stated)

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

(Expressed in millions of RMB, unless otherwise stated)

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.

(Expressed in millions of RMB, unless otherwise stated)

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.

(Expressed in millions of RMB, unless otherwise stated)

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

(Expressed in millions of RMB, unless otherwise stated)

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).

(Expressed in millions of RMB, unless otherwise stated)

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.

(Expressed in millions of RMB, unless otherwise stated)

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:

		2016					
	Note	Unrated	AAA	AA	A	Lower than A	Total
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

(Expressed in millions of RMB, unless otherwise stated)

65 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(h) Distribution of debt investments analysed by rating (continued)

		2015					
	Note	Unrated	AAA	AA	A	Lower than A	Total
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.

(Expressed in millions of RMB, unless otherwise stated)

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:

		2016			
	Note	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.

(Expressed in millions of RMB, unless otherwise stated)

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.

		2016						
	Note	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	Total
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

(Expressed in millions of RMB, unless otherwise stated)

65 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(c) Interest rate repricing gap analysis (continued)

	Note	2015 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	Total
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.

(Expressed in millions of RMB, unless otherwise stated)

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:

		2016			
	Note	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
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

(Expressed in millions of RMB, unless otherwise stated)

65 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(d) Currency risk (continued)

		2015			
	Note	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
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.

(Expressed in millions of RMB, unless otherwise stated)

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							
	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	Total
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

(Expressed in millions of RMB, unless otherwise stated)

65 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(a) Maturity analysis (continued)

	2015							
	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	Total
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

(Expressed in millions of RMB, unless otherwise stated)

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

(Expressed in millions of RMB, unless otherwise stated)

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).

(Expressed in millions of RMB, unless otherwise stated)

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				
Financial assets held for trading purpose				
– Debt securities	3,134	138,196	–	141,330
– Equity instruments and funds	1,825	–	–	1,825
Financial assets designated as at fair value through profit or loss				
– 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				
Financial liabilities designated as at fair value through profit or loss	–	395,883	708	396,591
Negative fair value of derivatives	–	89,788	545	90,333
Total	–	485,671	1,253	486,924

(Expressed in millions of RMB, unless otherwise stated)

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			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
Financial assets held for trading purpose				
– Debt securities	44	17,377	–	17,421
– Equity instruments and funds	563	–	–	563
Financial assets designated as at fair value through profit or loss				
– 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				
Financial liabilities designated as at fair value through profit or loss	–	302,130	519	302,649
Negative fair value of derivatives	–	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.

(Expressed in millions of RMB, unless otherwise stated)

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	Negative fair value of derivatives	Total liabilities
	Debt securities	Equity instruments and funds	Other debt instruments		Debt securities	Equity instruments and funds				
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	Negative fair value of derivatives	Total liabilities
	Debt securities	Equity instruments and funds	Other debt instruments		Debt securities	Equity instruments and funds				
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)

(Expressed in millions of RMB, unless otherwise stated)

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.

(Expressed in millions of RMB, unless otherwise stated)

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.

(Expressed in millions of RMB, unless otherwise stated)

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

(Expressed in millions of RMB, unless otherwise stated)

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

(Expressed in millions of RMB, unless otherwise stated)

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

	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 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.

(Expressed in millions of RMB, unless otherwise stated)

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.

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 138 to 259, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- 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 2017, 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 ("HKSAs") 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.

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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
- Disclosure of estimated impact upon initial application of IFRS 9 – expected credit loss model
- Consolidation assessment of, and disclosures about, structured entities

Key Audit Matter	How our audit addressed the Key Audit Matter
Allowances for impairment losses on loans and advances to customers *Refer to notes 4(3)(f), 4(24)(a), 13, 25, 65(1) to the consolidated financial statements.* As at 31 December 2017, the gross balance of loans and advances to customers and allowances for impairment losses amounted to RMB12,903.4 billion and RMB329 billion, respectively. Allowances for impairment losses are estimated using individual and collective assessments. 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. 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 large size of the allowances for impairment losses on loans and advances to customers, we focused on this in our audit.	Our procedures include the following: 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. **Individual assessment** 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. 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. **Collective assessment** 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. 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. 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.

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
Disclosure of estimated impact upon initial application of IFRS 9 – expected credit loss model *Refer to note 70 to the consolidated financial statements.* IFRS 9, "Financial Instruments" took effect on 1 January 2018 and the Group estimated the adoption of IFRS 9 would reduce its net assets by approximately 1% as at 1 January 2018. The impact is mainly due to the application of the expected credit loss measurement models in estimating the loan loss reserve on loans and advances to customers measured at amortised cost, certain loan commitments and financial guarantee contracts. IFRS 9 is a complex accounting standard which requires considerable judgement and interpretation in its implementation, including the use of new parameters and involvement of experts. The Group's estimation of the impact of the initial implementation of IFRS 9 on net assets is a highly complex process and accordingly, we include this as a key audit matter.	The procedures performed to assess the reasonableness of the Group's disclosure on the possible impact of the initial adoption of IFRS 9 included: 1. Obtained an understanding of how the Group has implemented IFRS 9. 2. Understood and evaluated the expected credit loss model methodology and development processes through reviewing documentation and discussion with management, and the Group's experts. 3. On a sample basis, evaluated the selection of major parameters by comparing to external information, and judgements and interpretations made by management. 4. Understood the Group's key processes over the preparation of information disclosure and inspected the approval documentation. Based on the above procedures performed, we found management's judgements and key assumptions applied on the expected credit loss models to be reasonable.
Consolidation assessment of, and disclosures about, structured entities *Refer to notes 4(1), 4(24)(g), 21(2)(c), 31 to the consolidated financial statements.* As at 31 December 2017, 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. The amount of structured entities was significant and the assessment of consolidation or not involved management's judgement. We focused on the following key aspects: 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.	Our procedures included: 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: • 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. Based on the available evidence we found that, in all material respects, management's consolidation assessment in relation to structured entities was reasonable and the disclosures were appropriate.

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 HKSAs 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 HKSAs, 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, 27 March 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

AS AT 31 DECEMBER 2017
(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Note	2017	2016
Interest income		**750,154**	696,637
Interest expense		**(297,698)**	(278,838)
Net interest income	6	**452,456**	417,799
Fee and commission income		**131,322**	127,863
Fee and commission expense		**(13,524)**	(9,354)
Net fee and commission income	7	**117,798**	118,509
Net trading gain	8	**4,858**	3,975
Dividend income	9	**2,195**	2,558
Net (loss)/gain arising from investment securities	10	**(835)**	11,098
Other operating income, net:			
– Other operating income		**49,009**	55,340
– Other operating expense		**(31,450)**	(49,419)
Other operating income, net	11	**17,559**	5,921
Operating income		**594,031**	559,860
Operating expenses	12	**(167,043)**	(171,515)
		426,988	388,345
Impairment losses on:			
– Loans and advances to customers		**(123,389)**	(89,588)
– Others		**(3,973)**	(3,616)
Impairment losses	13	**(127,362)**	(93,204)
Share of profit of associates and joint ventures		**161**	69
Profit before tax		**299,787**	295,210
Income tax expense	16	**(56,172)**	(62,821)
Net profit		**243,615**	232,389

The notes on pages 144 to 259 form part of these financial statements.

	Note	2017	2016
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations		**593**	(839)
Others		**208**	68
Subtotal		**801**	(771)
Items that may be reclassified subsequently to profit or loss			
Losses of available-for-sale financial assets arising during the period		**(38,151)**	(27,841)
Income tax impact relating to available-for-sale financial assets		**9,230**	7,055
Reclassification adjustments included in profit or loss		**3,403**	(3,930)
Net gain/(loss) on cash flow hedges		**470**	(150)
Exchange difference on translating foreign operations		**(4,748)**	5,885
Subtotal		**(29,796)**	(18,981)
Other comprehensive income for the year, net of tax		**(28,995)**	(19,752)
Total comprehensive income for the year		**214,620**	212,637
Net profit attributable to:			
Equity shareholders of the Bank		**242,264**	231,460
Non-controlling interests		**1,351**	929
		243,615	232,389
Total comprehensive income attributable to:			
Equity shareholders of the Bank		**213,837**	212,418
Non-controlling interests		**783**	219
		214,620	212,637
Basic and diluted earnings per share (in RMB Yuan)	17	**0.96**	0.92

The notes on pages 144 to 259 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017
(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Note	2017	2016
Assets:			
Cash and deposits with central banks	18	**2,988,256**	2,849,261
Deposits with banks and non-bank financial institutions	19	**175,005**	494,618
Precious metals		**157,036**	202,851
Placements with banks and non-bank financial institutions	20	**325,233**	260,670
Financial assets at fair value through profit or loss	21	**578,436**	488,370
Positive fair value of derivatives	22	**82,980**	89,786
Financial assets held under resale agreements	23	**208,360**	103,174
Interest receivable	24	**116,993**	101,645
Loans and advances to customers	25	**12,574,473**	11,488,355
Available-for-sale financial assets	26	**1,550,680**	1,633,834
Held-to-maturity investments	27	**2,586,722**	2,438,417
Investment classified as receivables	28	**465,810**	507,963
Interests in associates and joint ventures	30	**7,067**	7,318
Fixed assets	32	**169,679**	170,095
Land use rights	33	**14,545**	14,742
Intangible assets	34	**2,752**	2,599
Goodwill	35	**2,751**	2,947
Deferred tax assets	36	**46,189**	31,062
Other assets	37	**71,416**	75,998
Total assets		**22,124,383**	20,963,705
Liabilities:			
Borrowings from central banks	39	**547,287**	439,339
Deposits from banks and non-bank financial institutions	40	**1,336,995**	1,612,995
Placements from banks and non-bank financial institutions	41	**383,639**	322,546
Financial liabilities at fair value through profit or loss	42	**414,148**	396,591
Negative fair value of derivatives	22	**79,867**	90,333
Financial assets sold under repurchase agreements	43	**74,279**	190,580
Deposits from customers	44	**16,363,754**	15,402,915
Accrued staff costs	45	**32,632**	33,870
Taxes payable	46	**54,106**	44,900
Interest payable	47	**199,588**	211,330
Provisions	48	**10,581**	9,276
Debt securities issued	49	**596,526**	451,554
Deferred tax liabilities	36	**389**	570
Other liabilities	50	**234,765**	167,252
Total liabilities		**20,328,556**	19,374,051
Equity:			
Share capital	51	**250,011**	250,011
Other equity instruments			
Preference Shares	52	**79,636**	19,659
Capital reserve	53	**135,225**	133,960
Investment revaluation reserve	54	**(26,004)**	(976)
Surplus reserve	55	**198,613**	175,445
General reserve	56	**259,680**	211,193
Retained earnings	57	**886,921**	786,860
Exchange reserve		**(4,322)**	348
Total equity attributable to equity shareholders of the Bank		**1,779,760**	1,576,500
Non-controlling interests		**16,067**	13,154
Total equity		**1,795,827**	1,589,654
Total liabilities and equity		**22,124,383**	20,963,705

Approved and authorised for issue by the Board of Directors on 27 March 2018.

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

The notes on pages 144 to 259 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017 AND 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 2016	**250,011**	**19,659**	**133,960**	**(976)**	**175,445**	**211,193**	**786,860**	**348**	**13,154**	**1,589,654**
Movements during the year	**–**	**59,977**	**1,265**	**(25,028)**	**23,168**	**48,487**	**100,061**	**(4,670)**	**2,913**	**206,173**
(1) Total comprehensive income for the year	**–**	**–**	**1,271**	**(25,028)**	**–**	**–**	**242,264**	**(4,670)**	**783**	**214,620**
(2) Changes in share capital										
i Establishment of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**147**	**147**
ii Change in shareholdings in subsidiaries	**–**	**–**	**(6)**	**–**	**–**	**–**	**–**	**–**	**(1,322)**	**(1,328)**
iii Capital injection by other equity holders	**–**	**59,977**	**–**	**–**	**–**	**–**	**–**	**–**	**3,422**	**63,399**
(3) Profit distribution										
i Appropriation to surplus reserve	**–**	**–**	**–**	**–**	**23,168**	**–**	**(23,168)**	**–**	**–**	**–**
ii Appropriation to general reserve	**–**	**–**	**–**	**–**	**–**	**48,487**	**(48,487)**	**–**	**–**	**–**
iii Appropriation to ordinary shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**(69,503)**	**–**	**–**	**(69,503)**
iv Dividends paid to preference shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**(1,045)**	**–**	**–**	**(1,045)**
v Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(117)**	**(117)**
As at 31 December 2017	**250,011**	**79,636**	**135,225**	**(26,004)**	**198,613**	**259,680**	**886,921**	**(4,322)**	**16,067**	**1,795,827**

	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

The notes on pages 144 to 259 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017
(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

	Note	2017	2016
Cash flows from operating activities			
Profit before tax		**299,787**	295,210
Adjustments for:			
– Impairment losses	13	**127,362**	93,204
– Depreciation and amortisation	12	**17,414**	16,017
– Interest income from impaired financial assets		**(3,182)**	(3,704)
– Revaluation loss on financial instruments at fair value through profit or loss		**32**	1,412
– Share of profit of associates and joint ventures		**(161)**	(69)
– Dividend income	9	**(2,195)**	(2,558)
– Unrealised foreign exchange gain		**(531)**	(479)
– Interest expense on bonds issued		**12,110**	11,362
– Net loss/(gain) on disposal of investment securities	10	**835**	(11,098)
– Net gain on disposal of fixed assets and other long-term assets		**(138)**	(159)
		451,333	399,138
Changes in operating assets:			
Net decrease/(increase) in deposits with central banks and with banks and non-bank financial institutions		**32,837**	(328,481)
Net decrease in placements with banks and non-bank financial institutions		**47,448**	10,762
Net increase in financial assets at fair value through profit or loss		**(92,424)**	(211,099)
Net (increase)/decrease in financial assets held under resale agreements		**(105,468)**	208,433
Net increase in loans and advances to customers		**(1,299,971)**	(1,258,420)
Net decrease/(increase) in other operating assets		**56,768**	(166,173)
		(1,360,810)	(1,744,978)
Changes in operating liabilities:			
Net increase in borrowings from central banks		**110,473**	395,118
Net increase in deposits from customers and from banks and non-bank financial institutions		**766,290**	1,829,273
Net increase/(decrease) in placements from banks and non-bank financial institutions		**79,857**	(16,216)
Net increase in financial liabilities at fair value through profit or loss		**18,588**	92,919
Net decrease in financial assets sold under repurchase agreements		**(115,297)**	(78,104)
Net increase in certificates of deposit issued		**141,011**	12,653
Income tax paid		**(54,551)**	(65,264)
Net increase in other operating liabilities		**42,196**	57,993
		988,567	2,228,372
Net cash from operating activities		**79,090**	882,532

The notes on pages 144 to 259 form part of these financial statements.

	Note	2017	2016
Cash flows from investing activities			
Proceeds from sale and redemption of investments		**1,446,732**	777,941
Dividends received		**2,237**	2,566
Proceeds from disposal of fixed assets and other long-term assets		**2,911**	1,187
Purchase of investment securities		**(1,525,529)**	(1,363,040)
Purchase of fixed assets and other long-term assets		**(22,263)**	(27,742)
Acquisition of subsidiaries, associates and joint ventures		**(1,544)**	(1,393)
Net cash used in investing activities		**(97,456)**	(610,481)
Cash flows from financing activities			
Issue of bonds		**34,989**	16,522
Capital contribution by non-controlling interests		**3,569**	13
Contribution by preference shareholders		**59,977**	–
Consideration paid for acquisition of non-controlling interests		**–**	(144)
Dividends paid		**(70,688)**	(69,574)
Repayment of borrowings		**(6,347)**	(11,711)
Interest paid on bonds issued		**(12,708)**	(10,474)
Net cash from/(used in) in financing activities		**8,792**	(75,368)
Effect of exchange rate changes on cash and cash equivalents		**(18,211)**	14,520
Net (decrease)/increase in cash and cash equivalents		**(27,785)**	211,203
Cash and cash equivalents as at 1 January	58	**599,124**	387,921
Cash and cash equivalents as at 31 December	58	**571,339**	599,124
Cash flows from operating activities include:			
Interest received		**730,411**	687,994
Interest paid, excluding interest expense on bonds issued		**(297,536)**	(262,259)

The notes on pages 144 to 259 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 2017, the Bank issued the total ordinary share capital of RMB250,011 million, with 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 27 March 2018.

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 2017.

Amendments to IAS 7, "Statement of cash flows".

These amendments IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure initiative, which continues to explore how financial statement disclosure can be improved.

Amendments to IAS 12, "Income taxes".

These amendments clarify the requirements for recognising deferred tax assets on unrealised losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets.

Amendment to IFRS 12, "Disclosure of interest in other entities".

This amendment clarifies that the disclosure requirement of IFRS 12 is applicable to interest in entities classified as held for sale except for summarised financial information (para B17 of IFRS 12). Previously, it was unclear whether all other IFRS 12 requirements were applicable for these interests. The objective of IFRS 12 was to provide information about nature of interests in other entities, risks associated with these interests, and the effect of these interests on financial statements. The Board noted that this objective is relevant to interests in other entities regardless of whether they are classified as held for sale.

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)(a).

(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%

Aircraft and vessels are used for the Group’s operating lease business, depreciated using straight-line method over the expected useful life of 20 to 30 years (less the years in service at the time of purchase) with the estimated residual value rate varying from 2.9% to 4.8%.

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.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

6 NET INTEREST INCOME

	2017	2016
Interest income arising from:		
Deposits with central banks	**43,027**	39,512
Deposits with banks and non-bank financial institutions	**7,166**	11,595
Placements with banks and non-bank financial institutions	**8,113**	8,020
Financial assets at fair value through profit or loss	**11,046**	4,164
Financial assets held under resale agreements	**5,708**	4,102
Investment securities	**159,667**	152,040
Loans and advances to customers		
– Corporate loans and advances	**301,921**	289,477
– Personal loans and advances	**206,598**	172,078
– Discounted bills	**6,908**	15,649
Total	**750,154**	696,637
Interest expense arising from:		
Borrowings from central banks	**(14,486)**	(5,671)
Deposits from banks and non-bank financial institutions	**(34,736)**	(33,579)
Placements from banks and non-bank financial institutions	**(11,885)**	(7,014)
Financial assets sold under repurchase agreements	**(3,391)**	(3,485)
Debt securities issued	**(19,887)**	(16,615)
Deposits from customers		
– Corporate deposits	**(110,651)**	(105,232)
– Personal deposits	**(102,662)**	(107,242)
Total	**(297,698)**	(278,838)
Net interest income	**452,456**	417,799

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

	2017	2016
Impaired loans and advances	**3,143**	3,675
Other impaired financial assets	**39**	29
Total	**3,182**	3,704

(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

	2017	2016
Fee and commission income		
Bank card fees	**42,242**	37,649
Wealth management service fees	**20,040**	20,537
Agency service fees	**16,256**	20,025
Settlement and clearing fees	**13,211**	12,612
Commission on trust and fiduciary activities	**11,857**	11,174
Consultancy and advisory fees	**9,906**	11,368
Electronic banking service fees	**9,341**	7,584
Guarantee fees	**3,330**	2,938
Credit commitment fees	**1,525**	1,830
Others	**3,614**	2,146
Total	**131,322**	127,863
Fee and commission expense		
Bank card transaction fees	**(7,710)**	(5,378)
Inter-bank transaction fees	**(1,284)**	(1,132)
Others	**(4,530)**	(2,844)
Total	**(13,524)**	(9,354)
Net fee and commission income	**117,798**	118,509

8 NET TRADING GAIN

	2017	2016
Debt securities	**(1,138)**	(1,034)
Derivatives	**1,404**	2,421
Equity investments	**471**	185
Others	**4,121**	2,403
Total	**4,858**	3,975

For the year ended 31 December 2017, trading gain related to financial assets designated at fair value through profit or loss of the Group amounted to RMB14,024 million (2016: gain RMB9,587 million). Trading loss related to financial liabilities designated at fair value through profit or loss of the Group amounted to RMB15,340 million (2016: loss RMB12,161 million).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

9 DIVIDEND INCOME

	2017	2016
Dividend income from listed trading equity investments	486	131
Dividend income from available-for-sale equity investments		
– Listed	1,310	2,097
– Unlisted	399	330
Total	2,195	2,558

10 NET (LOSS)/GAIN ARISING FROM INVESTMENT SECURITIES

	2017	2016
Net gain and investment income of available-for-sale financial assets	2,549	3,390
Net revaluation (loss)/gain reclassified from other comprehensive income on disposal	(4,048)	5,546
Net gain on sale of held-to-maturity investments	278	732
Net gain on sale of investments classified as receivables	33	906
Others	353	524
Total	(835)	11,098

11 OTHER OPERATING INCOME, NET

Other operating income

	2017	2016
Insurance related income	26,349	45,684
Foreign exchange gain	14,455	2,817
Rental income	2,449	1,428
Others	5,756	5,411
Total	49,009	55,340

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

	2017	2016
Insurance related cost	26,946	47,023
Others	4,504	2,396
Total	31,450	49,419

12 OPERATING EXPENSES

	2017	2016
Staff costs		
– Salaries, bonuses, allowances and subsidies	64,274	62,093
– Other social insurance and welfare	10,213	8,997
– Housing funds	6,214	6,296
– Union running costs and employee education costs	2,609	2,567
– Defined contribution plans	12,923	12,846
– Early retirement expenses	37	45
– Compensation to employees for termination of employment relationship	4	3
	96,274	92,847
Premises and equipment expenses		
– Depreciation charges	14,049	13,804
– Rent and property management expenses	9,578	9,341
– Maintenance	2,882	2,890
– Utilities	1,988	2,071
– Others	1,988	1,875
	30,485	29,981
Taxes and surcharges	5,767	17,473
Amortisation expenses	2,306	2,213
Audit fees	172	142
Other general and administrative expenses	32,039	28,859
Total	167,043	171,515

13 IMPAIRMENT LOSSES

	2017	2016
Loans and advances to customers		
– Additions	141,957	101,757
– Releases	(18,568)	(12,169)
Investment classified as receivables	796	(586)
Available-for-sale debt securities	457	217
Held-to-maturity investments	413	970
Available-for-sale equity investments	307	89
Fixed assets	1	46
Others	1,999	2,880
Total	127,362	93,204

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

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:

	2017				
	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					
Tian Guoli (note (ii) & (vi))	–	213	22	40	275
Wang Zuji (note (vi))	–	519	51	90	660
Pang Xiusheng (note (vi))	–	467	51	88	606
Zhang Gengsheng (note (vi))	–	467	51	88	606
Non-executive directors					
Li Jun (note (iii))	–	–	–	–	–
Hao Aiqun (note (iii))	–	–	–	–	–
Feng Bing (note (ii) & (iii))	–	–	–	–	–
Zhu Hailin (note (ii) & (iii))	–	–	–	–	–
Wu Min (note (ii) & (iii))	–	–	–	–	–
Zhang Qi (note (ii) & (iii))	–	–	–	–	–
Independent non-executive directors					
Anita Fung Yuen Mei	390	–	–	–	390
Carl Walter	440	–	–	–	440
Chung Shui Ming Timpson	440	–	–	–	440
Murray Horn	470	–	–	–	470
Malcolm Christopher McCarthy (note (ii))	171	–	–	–	171
Supervisors					
Guo You (note (vi))	–	519	51	90	660
Liu Jin (note (vi))	–	660	51	124	835
Li Xiaoling (note (vi))	–	650	46	122	818
Li Xiukun (note (iv))	50	–	–	–	50
Jin Yanmin (note (iv))	50	–	–	–	50
Li Zhenyu (note (iv))	50	–	–	–	50
Bai Jianjun	250	–	–	–	250
Former executive director					
Wang Hongzhang (note (ii) & (vi))	–	346	33	42	421
Former non-executive directors					
Guo Yanpeng (note (ii) & (iii))	–	–	–	–	–
Dong Shi (note (ii) & note (iii))	–	–	–	–	–
Former independent non-executive directors					
Wim Kok (note (ii))	190	–	–	–	190
Zhang Long (note (ii))	137	–	–	–	137
	2,638	3,841	356	684	7,519

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:

	2016				
	Accrued cost	Social insurance, corporate annuity, supplementary medical insurance and housing fund paid by the Bank	Other monetary income	Total (note (vii))	Allowance
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Wang Hongzhang (note (ii))	702	131	–	833	–
Wang Zuji	702	156	–	858	–
Pang Xiusheng	632	149	–	781	–
Zhang Gengsheng	632	149	–	781	–
Non-executive directors					
Li Jun (note (iii))	–	–	–	–	–
Hao Aiqun (note (iii))	–	–	–	–	–
Dong Shi (note (ii) & (iii))	–	–	–	–	–
Independent non-executive directors					
Anita Fung Yuen Mei	–	–	–	–	98
Carl Walter	–	–	–	–	98
Zhang Long (note (ii))	–	–	–	–	410
Chung Shui Ming Timpson	–	–	–	–	440
Wim Kok (note (ii))	–	–	–	–	380
Murray Horn	–	–	–	–	470
Supervisors					
Guo You	702	156	–	858	–
Liu Jin	1,648	162	–	1,810	–
Li Xiaoling	1,648	162	–	1,810	–
Li Xiukun (note (iv))	–	–	–	–	46
Jin Yanmin (note (iv))	–	–	–	–	46
Li Zhenyu (note (iv))	–	–	–	–	46
Bai Jianjun	–	–	–	–	250
Former non-executive directors					
Chen Yuanling	–	–	–	–	–
Xu Tie	–	–	–	–	–
Guo Yanpeng	–	–	–	–	–
Former independent non-executive director					
Margaret Leung Ko May Yee	–	–	–	–	195
Former supervisors					
Jin Panshi	–	–	–	–	4
Zhang Huajian	–	–	–	–	4
Wang Lin	–	–	–	–	4
Wang Xinmin	–	–	–	–	–
	6,666	1,065	–	7,731	2,491

14 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

Notes:

(i) The amounts of emoluments for the year ended 31 December 2017 in respect of the services rendered by the directors and supervisors are subject to the approval of the Annual General Meeting.

(ii) 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.

As disclosed in the Bank's announcement on 28 April 2017, Mr. Zhang Long ceased to serve as independent non-executive director of the Bank due to personal reasons.

As disclosed in the Bank's announcement on 15 June 2017, Mr. Dong Shi ceased to serve as non-executive director of the Bank due to expiry of term.

As disclosed in the Bank's announcement on 15 June 2017, Mr. Wim Kok ceased to serve as independent non-executive director of the Bank due to expiry of term.

Upon election at the 2016 Annual General Meeting of the Bank, Ms. Feng Bing, Mr. Zhu Hailin, Mr. Wu Min and Mr. Zhang Qi commenced their positions as non-executive directors of the Bank from 28 July 2017, Sir Malcolm Christopher McCarthy commenced his position as independent non-executive director of the Bank from 15 August 2017.

As disclosed in the Bank's announcement on 17 August 2017, Mr. Wang Hongzhang ceased his positions as Chairman of the Board, executive director of the Bank, as well as the chairman and member of the Strategy Development Committee due to his age.

Upon election at the first extraordinary general meeting of 2017 of the Bank, Mr. Tian Guoli commenced his positions as chairman of the Board and executive director of the Bank from 9 October 2017.

(iii) The Bank does not need to pay the emoluments of non-executive directors appointed by Huijin for the services rendered in 2017 and 2016.

(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 2017 and 2016.

(vi) The total compensation package for these directors and supervisors for the year ended 31 December 2017 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 2017. 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 2016 had not been finalised in accordance with regulations of the PRC relevant authorities till the date that the 2016 financial statements were announced. The aforesaid total compensation package for the directors and supervisors for the year ended 31 December 2016 was the final amount.

(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:

	2017 RMB'000	2016 RMB'000
Salaries and allowance	15,589	16,336
Variable compensation	31,914	35,941
Contributions to defined contribution retirement schemes	1,056	1,183
Other benefit in kind	554	365
	49,113	53,825

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

	2017	2016
RMB7,000,001 – RMB7,500,000	–	–
RMB8,000,001 – RMB8,500,000	1	–
RMB8,500,001 – RMB9,000,000	1	–
RMB9,000,001 – RMB9,500,000	–	–
RMB9,500,001 – RMB10,000,000	1	1
RMB10,000,001 – RMB10,500,000	1	1
RMB10,500,001 – RMB11,000,000	–	1
RMB11,000,001 – RMB11,500,000	–	1
RMB11,500,001 – RMB12,000,000	1	1

None of these individuals received any inducements, or compensation for loss of office, or waived any emoluments during the year ended 31 December 2017 and 2016.

16 INCOME TAX EXPENSE

(1) Income tax expense

	2017	2016
Current tax	63,737	60,380
– Mainland China	60,753	58,713
– Hong Kong	1,377	875
– Other countries and regions	1,607	792
Adjustments for prior years	(352)	(187)
Deferred tax	(7,213)	2,628
Total	56,172	62,821

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	2017	2016
Profit before tax		299,787	295,210
Income tax calculated at 25% statutory tax rate		74,947	73,803
Effects of different applicable rates of tax prevailing in other countries/regions		(573)	(577)
Non-deductible expenses	(i)	9,340	10,648
Non-taxable income	(ii)	(27,190)	(20,866)
Adjustments on income tax for prior years which affect profit or loss		(352)	(187)
Income tax expense		56,172	62,821

(i) Non-deductible expenses primarily include non-deductible losses resulting from write-off of loans, and items that are in excess of deductible amount under the relevant PRC tax regulations such as staff costs and entertainment expenses.

(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 2017 and 2016 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.

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 2017 and 2016, therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

	2017	2016
Net profit attributable to equity shareholders of the Bank	242,264	231,460
Less: profit for the year attributable to preference shareholders of the Bank	(1,045)	(1,067)
Net profit attributable to ordinary shareholders of the Bank	241,219	230,393
Weighted average number of ordinary shares (in millions of shares)	250,011	250,011
Basic earnings per share attributable to ordinary shareholders of the Bank (in RMB Yuan)	0.96	0.92
Diluted earnings per share attributable to ordinary shareholders of the Bank (in RMB Yuan)	0.96	0.92

18 CASH AND DEPOSITS WITH CENTRAL BANKS

	Note	2017	2016
Cash		73,876	73,296
Deposits with central banks			
– Statutory deposit reserves	(1)	2,665,738	2,566,219
– Surplus deposit reserves	(2)	209,080	183,764
– Fiscal deposits		39,562	25,982
Subtotal		2,914,380	2,775,965
Total		2,988,256	2,849,261

(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:

	2017	2016
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

	2017	2016
Banks	163,521	482,348
Non-bank financial institutions	11,541	12,336
Gross balances	175,062	494,684
Allowances for impairment losses (Note 38)	(57)	(66)
Net balances	175,005	494,618

(2) Analysed by geographical sectors

	2017	2016
Mainland China	147,945	466,765
Overseas	27,117	27,919
Gross balances	175,062	494,684
Allowances for impairment losses (Note 38)	(57)	(66)
Net balances	175,005	494,618

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

20 PLACEMENTS WITH BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	2017	2016
Banks	173,762	121,238
Non-bank financial institutions	151,583	139,555
Gross balances	325,345	260,793
Allowances for impairment losses (Note 38)	(112)	(123)
Net balances	325,233	260,670

(2) Analysed by geographical sectors

	2017	2016
Mainland China	276,308	172,492
Overseas	49,037	88,301
Gross balances	325,345	260,793
Allowances for impairment losses (Note 38)	(112)	(123)
Net balances	325,233	260,670

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Analysed by nature

	Note	2017	2016
Held for trading purposes	(1)		
– Debt securities		**189,447**	141,330
– Equity instruments and funds		**1,312**	1,825
		190,759	143,155
Designated at fair value through profit or loss	(2)		
– Debt securities		**10,211**	8,690
– Equity instruments and funds		**23,076**	16,553
– Other debt instruments		**354,390**	319,972
		387,677	345,215
Total		**578,436**	488,370

Analysed by types of issuers

(1) Held for trading purpose

(a) Debt securities

	Note	2017	2016
Government		**10,812**	15,173
Central bank		**543**	–
Policy banks		**22,395**	9,064
Banks and non-bank financial institutions		**58,485**	65,307
Enterprises		**97,212**	51,786
Total		**189,447**	141,330
Listed	(i)	**189,447**	141,330
– of which in Hong Kong		**26**	502
Total		**189,447**	141,330

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

(b) Equity instruments and funds

	2017	2016
Banks and non-bank financial institutions	**152**	123
Enterprises	**1,160**	1,702
Total	**1,312**	1,825
Listed	**1,171**	1,701
– of which in Hong Kong	**1,067**	1,682
Unlisted	**141**	124
Total	**1,312**	1,825

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

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

	2017	2016
Unlisted enterprises	10,211	8,690
Total	10,211	8,690

(b) Equity instruments and funds

	2017	2016
Banks and non-bank financial institutions	8,037	10,934
Enterprises	15,039	5,619
Total	23,076	16,553
Listed	837	15
– of which in Hong Kong	699	–
Unlisted	22,239	16,538
Total	23,076	16,553

(c) Other debt instruments

	2017	2016
Banks and non-bank financial institutions	218,322	213,182
Enterprises	136,068	106,790
Total	354,390	319,972

Other debt instruments were mainly the deposits with banks, credit assets invested by principal guaranteed wealth management products and bonds (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

		2017			2016		
	Note	Notional amounts	Assets	Liabilities	Notional amounts	Assets	Liabilities
Interest rate contracts		332,480	980	487	470,809	3,278	2,492
Exchange rate contracts		5,307,995	78,909	78,581	4,650,215	73,183	83,025
Other contracts	(a)	182,632	3,091	799	333,553	13,325	4,816
Total		5,823,107	82,980	79,867	5,454,577	89,786	90,333

(2) Analysed by credit risk-weighted assets

	Note	2017	2016
Counterparty credit default risk-weighted assets			
– Interest rate contracts		651	2,649
– Exchange rate contracts		47,728	35,373
– Other contracts	(a)	5,395	10,751
Subtotal		53,774	48,773
Credit value adjustment		20,545	25,987
Total		74,319	74,760

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.

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

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

22 DERIVATIVES AND HEDGE ACCOUNTING (CONTINUED)

(3) Hedge accounting

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

	2017			2016		
	Notional amounts	**Assets**	**Liabilities**	Notional amounts	Assets	Liabilities
Fair value hedges						
Interest rate swaps	**49,087**	**469**	**(98)**	45,148	507	(69)
Foreign exchange swaps	**325**	**12**	**–**	348	24	–
Cash flow hedges						
Foreign exchange swaps	**33,193**	**1,051**	**(418)**	21,491	–	(823)
Foreign exchange forwards	**51,684**	**918**	**(69)**	–	–	–
Total	**134,289**	**2,450**	**(585)**	66,987	531	(892)

(a) Fair value hedge

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

Net (losses)/gains on fair value hedges are as follows:

	2017	2016
Net (losses)/gains on		
– hedging instruments	**(77)**	419
– hedged items	**71**	(439)

The gain and loss arising from ineffective portion of fair value hedge was immaterial for the year ended 31 December 2017 and 2016.

(b) Cash flow hedge

The Group uses foreign exchange swaps and foreign exchange forward 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 one year.

For the year ended 31 December 2017, net profit from the cash flow hedge of RMB470 million were recognised in other comprehensive income (2016: net loss 150 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:

	2017	2016
Debt securities		
– Government bonds	**106,541**	21,726
– Debt securities issued by policy banks, banks and non-bank financial institutions	**94,461**	38,751
– Corporate bonds	**2,618**	–
– Others	**1,051**	–
Subtotal	**204,671**	60,477
Discounted bills	**3,689**	42,697
Gross and net balances	**208,360**	103,174

24 INTEREST RECEIVABLE

	2017	2016
Deposits with central banks	**1,354**	1,163
Deposits with banks and non-bank financial institutions	**680**	2,286
Financial assets held under resale agreements	**145**	218
Loans and advances to customers	**39,583**	29,789
Debt securities	**69,550**	63,359
Others	**5,681**	4,830
Gross and net balances	**116,993**	101,645

25 LOANS AND ADVANCES TO CUSTOMERS

(1) Analysed by nature

	2017	2016
Corporate loans and advances		
– Loans	**7,365,095**	6,711,679
– Finance leases	**122,737**	112,259
	7,487,832	6,823,938
Personal loans and advances		
– Residential mortgages	**4,252,698**	3,625,574
– Personal consumer loans	**203,218**	87,346
– Personal business loans	**41,417**	51,189
– Credit cards	**567,683**	447,244
– Others	**214,878**	209,586
	5,279,894	4,420,939
Discounted bills	**135,715**	512,155
Gross loans and advances to customers	**12,903,441**	11,757,032
Allowances for impairment losses (Note 38)	**(328,968)**	(268,677)
– Individual assessment	**(113,820)**	(99,453)
– Collective assessment	**(215,148)**	(169,224)
Net loans and advances to customers	**12,574,473**	11,488,355

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(2) Analysed by assessment method of allowances for impairment losses

		Loans and advances for which allowances are collectively assessed	Impaired loans and advances		
			for which allowance are collectively assessed	for which allowances are individually assessed	Total
	Note	(a)	(b)	(b)	
As at 31 December 2017					
Gross loans and advances to customers		**12,711,150**	**22,493**	**169,798**	**12,903,441**
Allowances for impairment losses		**(201,346)**	**(13,802)**	**(113,820)**	**(328,968)**
Net loans and advances to customers		**12,509,804**	**8,691**	**55,978**	**12,574,473**
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

(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 2017 is 1.49% (31 December 2016: 1.52%).

(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

		2017			
		Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances		
	Note		which are collectively assessed	which are individually assessed	Total
As at 1 January		**155,949**	**13,275**	**99,453**	**268,677**
Charge for the year		**45,602**	**7,524**	**88,831**	**141,957**
Release during the year		**–**	**–**	**(18,568)**	**(18,568)**
Unwinding of discount		**–**	**–**	**(3,143)**	**(3,143)**
Transfers out	(a)	**(205)**	**(2,919)**	**(24,352)**	**(27,476)**
Write-offs		**–**	**(5,270)**	**(31,721)**	**(36,991)**
Recoveries		**–**	**1,192**	**3,320**	**4,512**
As at 31 December		**201,346**	**13,802**	**113,820**	**328,968**

		2016			
		Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances		
	Note		which are collectively assessed	which are individually assessed	Total
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

(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.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(4) Overdue loans analysed by overdue period

	2017				
	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	8,701	6,594	5,640	1,138	22,073
Guaranteed loans	15,569	20,668	24,730	3,047	64,014
Loans secured by tangible assets other than monetary assets	28,556	22,547	22,715	2,658	76,476
Loans secured by monetary assets	564	1,072	1,458	215	3,309
Total	53,390	50,881	54,543	7,058	165,872
As a percentage of gross loans and advances to customers	0.42%	0.40%	0.42%	0.05%	1.29%

	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%

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 2017, the total amount of non-performing loans sold through packaged sales to external asset management companies was RMB45,522 million (2016: RMB57,058 million).

26 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Analysed by nature

	Note	2017	2016
Debt securities	(1)	**1,461,824**	1,348,814
Equity instruments	(2)	**31,723**	22,640
Funds	(2)	**57,133**	262,380
Total	(3)	**1,550,680**	1,633,834

(1) **Debt securities**

Analysed by type of issuers

	Note	2017	2016
Government		**985,559**	772,775
Central banks		**36,742**	21,299
Policy banks		**228,104**	94,430
Banks and non-bank financial institutions		**89,327**	321,228
Enterprises		**122,092**	139,082
Total		**1,461,824**	1,348,814
Listed	(i)	**1,428,927**	1,320,530
– of which in Hong Kong		**22,662**	51,784
Unlisted		**32,897**	28,284
Total		**1,461,824**	1,348,814

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

(2) **Equity instruments and funds**

	2017	2016
Debt equity swap (“DES”) Investments	**913**	887
Other equity instruments	**30,810**	21,753
Funds	**57,133**	262,380
Total	**88,856**	285,020
Listed	**54,172**	76,525
– of which in Hong Kong	**1,957**	4,180
Unlisted	**34,684**	208,495
Total	**88,856**	285,020

Mainly 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 2017, the Group’s cost of available-for-sale debt securities was RMB1,502,144 million (as at 31 December 2016: RMB1,351,960 million). The Group’s cost of available-for-sale equity instruments and funds was RMB91,716 million (as at 31 December 2016: RMB293,459 million).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

27 HELD-TO-MATURITY INVESTMENTS

Analysed by types of issuers

	Note	2017	2016
Government		**1,908,032**	1,603,894
Central banks		**434**	422
Policy banks		**552,057**	258,080
Banks and non-bank financial institutions		**27,045**	456,139
Enterprises		**102,564**	122,931
Gross balances		**2,590,132**	2,441,466
Allowances for impairment losses (Note 38)		**(3,410)**	(3,049)
Net balances		**2,586,722**	2,438,417
Listed	(1)	**2,575,216**	2,401,617
– of which in Hong Kong		**4,000**	2,522
Unlisted		**11,506**	36,800
Total		**2,586,722**	2,438,417
Market value of listed Securities		**2,522,112**	2,456,614

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

28 INVESTMENT CLASSIFIED AS RECEIVABLES

	Note	2017	2016
Government			
– Special government bond	(1)	**49,200**	49,200
– Others		**304,554**	228,762
Policy banks		**20,000**	–
Banks and non-bank financial institutions		**13,462**	50,271
Enterprises		**29,096**	33,662
Others	(2)	**51,612**	147,419
Gross balances		**467,924**	509,314
Allowance for impairment losses (Note 38)		**(2,114)**	(1,351)
Net balances		**465,810**	507,963
Listed		**406,864**	281,640
– of which in Hong Kong		**1,181**	485
Unlisted		**58,946**	226,323
Total		**465,810**	507,963

(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 2018 to October 2027 and bear interest rates ranging from 2.00% to 8.50% per annum. During the reporting period, matured plans have been repaid without overdue.

29 INVESTMENTS IN SUBSIDIARIES

(1) Investment cost

	Note	2017	2016
CCB Financial Asset Investment Corporation Limited ("CCBFI")	(a)	**12,000**	–
CCB Brasil Financial Holding – Investimentos e Participações Ltda.	(b)	**9,542**	6,906
CCB Financial Leasing Corporation Limited ("CCBFLCL")		**8,163**	8,163
CCB Life Insurance Company Limited ("CCB Life")		**3,902**	3,902
CCB Trust Corporation Limited ("CCB 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 Bausparkasse")		**1,502**	1,502
PT Bank China Construction Bank Indonesia Tbk ("CCB Indonesia")		**1,352**	1,352
China Construction Bank (Malaysia) Berhad ("CCB Malaysia")		**1,334**	1,334
China Construction Bank (New Zealand) Limited ("CCB New Zealand")		**976**	976
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
CCB International Group Holdings Limited ("CCBIG")		**–**	–
Rural Banks	(c)	**1,378**	1,378
Total		**51,660**	37,024

(a) On July 2017, the Bank set up a wholly-owned subsidiary, CCB Financial Asset Investment Corporation Limited. As at 31 December 2017, the Bank held 100% of the total capital of CCBFI.

(b) In October 2017, the Bank injected additional capital of USD400 million to China Construction Bank (Brasil) Banco Multiplo S/A. by CCB Brasil Financial Holding – Investimentos e Participações Ltda.

(c) 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 2016: 27 rural banks).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

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
CCBFI	Beijing the PRC	RMB 12,000 million	Investment	100%	–	100%	Establishment
CCB Brasil Financial Holding – Investimentos e Participações Ltda	Sao Paulo Brasil	R$ 4,281 million	Investment	99.99%	0.01%	100%	Acquisition
CCBFLCL	Beijing, the PRC	RMB 8,000 million	Financial Leasing	100%	–	100%	Establishment
CCB Life	Shanghai, the PRC	RMB 4,496 million	Insurance	51%	–	51%	Acquisition
CCB Trust	Anhui, the PRC	RMB 1,527 million	Trust business	67%	–	67%	Acquisition
CCB Pension	Beijing the PRC	RMB 2,300 million	Pension Management	85%	–	85%	Establishment
CCB London	London, United Kingdom	US$ 200 million RMB 1,500 million	Commercial Banking	100%	–	100%	Establishment
CCB Europe	Luxembourg	Euro 200 million	Commercial Banking	100%	–	100%	Establishment
Sino-German Bausparkasse	Tianjin, the PRC	RMB 2,000 million	House savings	75.1%	–	75.1%	Establishment
CCB Indonesia	Jakarta, Indonesia	IDR 1,663,146 million	Commercial Banking	60%	–	60%	Acquisition
CCB Malaysia	Kuala Lumpur, Malaysia	MYR 823 million	Commercial Banking	100%	–	100%	Establishment
CCB New Zealand	Auckland New Zealand	NZD 199 million	Commercial Banking	100%	–	100%	Establishment
CCB Russia	Moscow, Russia	RUB 4,200 million	Commercial Banking	100%	–	100%	Establishment
Golden Fountain	British Virgin Islands	US$ 50,000	Investment	100%	–	100%	Acquisition
CCB Principal	Beijing, the PRC	RMB 200 million	Fund management services	65%	–	65%	Establishment
CCBIG	Hong Kong, the PRC	HK$1	Investment	100%	–	100%	Establishment
CCB International (Holdings) Limited ("CCBI")	Hong Kong, the PRC	US$ 601 million	Investment	–	100%	100%	Acquisition
China Construction Bank (Asia) Corporation Limited ("CCB Asia")	Hong Kong, the PRC	HK$ 6,511 million RMB 17,600 million	Commercial Banking	–	100%	100%	Acquisition
China Construction Bank (Brasil) Banco Multiplo S/A. ("CCB Brasil")	Sao Paulo Brasil	R$ 2,957 million	Commercial Banking	–	100%	100%	Acquisition

(3) As at 31 December 2017, 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:

	2017	2016
As at 1 January	**7,318**	4,986
Acquisition during the year	**1,544**	2,408
Disposal during the year	**(1,549)**	(326)
Share of profits	**161**	69
Cash dividend receivable	**(42)**	(8)
Effect of exchange difference and others	**(365)**	189
As at 31 December	**7,067**	7,318

(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 Limited	Beijing, the PRC	RMB2,370 million	Investment management and consultancy	12.66%	12.66%	2,967	611	63	41
Diamond String Limited	Hong Kong, the PRC	HK$10,000	Property investment	50.00%	50.00%	2,064	1,662	254	114
Wuhu Jianxin Dingxin Investment Management Center (Limited Partnership)	Wuhu, the PRC	RMB701 million	Investment management and consultancy	28.53%	28.53%	1,211	465	24	23
Guangdong SOE Reorganization Development Fund (Limited Partnership)	Zhuhai, the PRC	RMB900 million	Investment management and consultancy	49.67%	33.00%	1,014	–	13	8
Beijing Jianxin Ruixiang Investment Management Center (Limited Partnership)	Beijing, the PRC	RMB876 million	Investment management and consultancy	31.49%	31.49%	877	9	–	(8)

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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 2017 and 2016, 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:

	2017	2016
Financial assets at fair value through profit or loss	**17,405**	5,408
Interest receivables	**178**	155
Available-for-sale financial assets	**79,231**	275,035
Investment classified as receivables	**48,356**	121,527
Interest in associates and joint ventures	**3,430**	4,184
Other assets	**3,398**	3,451
Total	**151,998**	409,760

For the year ended 31 December 2017 and 2016, the income from these unconsolidated structured entities held by the Group was as follows:

	2017	2016
Interest income	**2,661**	4,773
Fee and commission income	**19,760**	21,491
Net trading gain	**471**	132
Dividend income	**1,486**	2,102
Net (loss)/gain arising from investment securities	**(3,623)**	3,033
Share of profit of associates and joint ventures	**55**	30
Total	**20,810**	31,561

As at 31 December 2017, the balance of the non-principal guaranteed wealth management products set up by the Group amounted to RMB1,730,820 million (as at 31 December 2016: RMB1,794,708 million). For the year ended 31 December 2017, 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	Aircraft and vessels	Others	Total
Cost/deemed cost						
As at 1 January 2017	**119,972**	**25,543**	**54,987**	**20,501**	**42,193**	**263,196**
Additions	**1,082**	**6,305**	**4,109**	**6,229**	**2,309**	**20,034**
Transfer in/(out)	**3,111**	**(4,568)**	**59**	**–**	**1,398**	**–**
Other movements	**(1,295)**	**(634)**	**(4,166)**	**(3,875)**	**(2,264)**	**(12,234)**
As at 31 December 2017	**122,870**	**26,646**	**54,989**	**22,855**	**43,636**	**270,996**
Accumulated depreciation						
As at 1 January 2017	**(30,328)**	**–**	**(34,598)**	**(1,478)**	**(26,201)**	**(92,605)**
Charge for the year	**(4,192)**	**–**	**(5,791)**	**(1,058)**	**(4,066)**	**(15,107)**
Other movements	**364**	**–**	**4,038**	**286**	**2,126**	**6,814**
As at 31 December 2017	**(34,156)**	**–**	**(36,351)**	**(2,250)**	**(28,141)**	**(100,898)**
Allowances for impairment losses (Note 38)						
As at 1 January 2017	**(418)**	**–**	**–**	**(75)**	**(3)**	**(496)**
Charge for the year	**–**	**–**	**–**	**(1)**	**–**	**(1)**
Other movements	**3**	**–**	**–**	**75**	**–**	**78**
As at 31 December 2017	**(415)**	**–**	**–**	**(1)**	**(3)**	**(419)**
Net carrying value						
As at 1 January 2017	**89,226**	**25,543**	**20,389**	**18,948**	**15,989**	**170,095**
As at 31 December 2017	**88,299**	**26,646**	**18,638**	**20,604**	**15,492**	**169,679**
Cost/deemed cost						
As at 1 January 2016	113,844	27,274	51,305	10,440	40,338	243,201
Additions	1,602	5,286	6,423	9,909	2,318	25,538
Transfer in/(out)	4,513	(6,065)	50	–	1,502	–
Other movements	13	(952)	(2,791)	152	(1,965)	(5,543)
As at 31 December 2016	119,972	25,543	54,987	20,501	42,193	263,196
Accumulated depreciation						
As at 1 January 2016	(26,319)	–	(32,101)	(633)	(24,116)	(83,169)
Charge for the year	(4,016)	–	(5,070)	(852)	(3,866)	(13,804)
Other movements	7	–	2,573	7	1,781	4,368
As at 31 December 2016	(30,328)	–	(34,598)	(1,478)	(26,201)	(92,605)
Allowances for impairment losses (Note 38)						
As at 1 January 2016	(423)	–	–	(75)	(3)	(501)
Charge for the year	–	–	–	–	(46)	(46)
Other movements	5	–	–	–	46	51
As at 31 December 2016	(418)	–	–	(75)	(3)	(496)
Net carrying value						
As at 1 January 2016	87,102	27,274	19,204	9,732	16,219	159,531
As at 31 December 2016	89,226	25,543	20,389	18,948	15,989	170,095

Notes:

(1) Other movements include disposals, retirements and exchange gains or losses of fixed assets.

(2) As at 31 December 2017, the ownership documentation for the Group's bank premises with a net carrying value of RMB19,512 million (as at 31 December 2016: RMB22,952 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.

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33 LAND USE RIGHTS

	2017	2016
Cost/deemed cost		
As at 1 January	**21,206**	21,217
Additions	**499**	86
Disposals	**(210)**	(97)
As at 31 December	**21,495**	21,206
Amortisation		
As at 1 January	**(6,322)**	(5,844)
Charge for the year	**(535)**	(505)
Disposals	**47**	27
As at 31 December	**(6,810)**	(6,322)
Allowances for impairment losses (Note 38)		
As at 1 January	**(142)**	(142)
Disposals	**2**	–
As at 31 December	**(140)**	(142)
Net carrying value		
As at 1 January	**14,742**	15,231
As at 31 December	**14,545**	14,742

34 INTANGIBLE ASSETS

	Software	Others	Total
Cost/deemed cost			
As at 1 January 2017	7,688	1,128	8,816
Additions	851	121	972
Disposals	(115)	(38)	(153)
As at 31 December 2017	8,424	1,211	9,635
Amortisation			
As at 1 January 2017	(5,851)	(358)	(6,209)
Charge for the year	(628)	(107)	(735)
Disposals	50	19	69
As at 31 December 2017	(6,429)	(446)	(6,875)
Allowances for impairment losses (Note 38)			
As at 1 January 2017	(1)	(7)	(8)
Additions	–	(1)	(1)
Disposals	1	–	1
As at 31 December 2017	–	(8)	(8)
Net carrying value			
As at 1 January 2017	1,836	763	2,599
As at 31 December 2017	1,995	757	2,752

34 INTANGIBLE ASSETS (CONTINUED)

	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

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:

	2017	2016
As at 1 January	**2,947**	2,140
Additions through acquisitions	**–**	566
Effect of exchange difference	**(196)**	241
As at 31 December	**2,751**	2,947

(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 2017 (as at 31 December 2016: nil).

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36 DEFERRED TAX

	2017	2016
Deferred tax assets	**46,189**	31,062
Deferred tax liabilities	**(389)**	(570)
Total	**45,800**	30,492

(1) Analysed by nature

	2017		2016	
	Deductible/ (taxable) temporary differences	**Deferred tax assets/ (liabilities)**	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
Deferred tax assets				
– Fair value adjustments	**31,341**	**8,162**	1,899	458
– Allowances for impairment losses	**153,278**	**38,023**	111,883	27,952
– Early retirement benefits and accrued salaries	**23,511**	**5,814**	24,749	6,188
– Others	**(26,160)**	**(5,810)**	(17,429)	(3,536)
Total	**181,970**	**46,189**	121,102	31,062
Deferred tax liabilities				
– Fair value adjustments	**(1,446)**	**(343)**	(2,115)	(501)
– Allowances for impairment losses	**–**	**–**	28	7
– Others	**(556)**	**(46)**	(447)	(76)
Total	**(2,002)**	**(389)**	(2,534)	(570)

(2) Movements of deferred tax

	Fair value adjustments	**Allowances for impairment losses**	**Early retirement benefits and accrued salaries**	**Others**	**Total**
As at 1 January 2017	**(43)**	**27,959**	**6,188**	**(3,612)**	**30,492**
Recognised in profit or loss	**(233)**	**10,064**	**(374)**	**(2,244)**	**7,213**
Recognised in other comprehensive income	**8,095**	**–**	**–**	**–**	**8,095**
As at 31 December 2017	**7,819**	**38,023**	**5,814**	**(5,856)**	**45,800**
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

The Group did not have significant unrecognised deferred tax as at the end of the reporting period.

37 OTHER ASSETS

	Note	2017	2016
Repossessed assets	(1)		
– Buildings		**1,589**	1,773
– Land use rights		**624**	745
– Others		**953**	955
		3,166	3,473
Fee and commission receivables		**9,463**	7,782
Clearing and settlement accounts		**6,095**	23,494
Leasehold improvements		**3,401**	3,489
Deferred expenses		**3,254**	3,297
Policyholder account assets of insurance business		**431**	5,664
Others		**49,628**	33,139
Gross balance		**75,438**	80,338
Allowances for impairment losses (Note 38)			
– Repossessed assets		**(1,035)**	(1,062)
– Others		**(2,987)**	(3,278)
Total		**71,416**	75,998

(1) For the year ended 31 December 2017, the original cost of repossessed assets disposed of by the Group amounted to RMB606 million (for the year ended 31 December 2016: RMB161 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

		2017				
	Note	**As at 1 January**	**Charge for the year/ (Write-back)**	**Transfer (out)/in**	**Write-offs**	**As at 31 December**
Deposits with banks and non-bank financial institutions	19	**66**	**(9)**	**–**	**–**	**57**
Placements with banks and non-bank financial institutions	20	**123**	**(11)**	**–**	**–**	**112**
Loans and advances to customers	25(3)	**268,677**	**123,389**	**(26,107)**	**(36,991)**	**328,968**
Available for sale debt securities		**1,309**	**457**	**57**	**–**	**1,823**
Available for sale equity instrument		**4,076**	**307**	**119**	**(30)**	**4,472**
Held-to-maturity investments	27	**3,049**	**413**	**(52)**	**–**	**3,410**
Investment classified as receivables	28	**1,351**	**796**	**(33)**	**–**	**2,114**
Fixed assets	32	**496**	**1**	**–**	**(78)**	**419**
Land use rights	33	**142**	**–**	**–**	**(2)**	**140**
Intangible assets	34	**8**	**1**	**–**	**(1)**	**8**
Other assets	37	**4,340**	**1,613**	**–**	**(1,931)**	**4,022**
Total		**283,637**	**126,957**	**(26,016)**	**(39,033)**	**345,545**

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

38 MOVEMENTS OF ALLOWANCES FOR IMPAIRMENT LOSSES (CONTINUED)

		2016				
	Note	As at 1 January	Charge for the year/ (Write-back)	Transfer (out)/in	Write-offs	As at 31 December
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

Transfer (out)/in includes exchange differences.

39 BORROWINGS FROM CENTRAL BANKS

	2017	2016
Mainland China	**484,657**	385,375
Overseas	**62,630**	53,964
Total	**547,287**	439,339

40 DEPOSITS FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	2017	2016
Banks	149,749	413,150
Non-bank financial institutions	1,187,246	1,199,845
Total	1,336,995	1,612,995

(2) Analysed by geographical sectors

	2017	2016
Mainland China	1,181,374	1,442,126
Overseas	155,621	170,869
Total	1,336,995	1,612,995

41 PLACEMENTS FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	2017	2016
Banks	353,317	297,639
Non-bank financial institutions	30,322	24,907
Total	383,639	322,546

(2) Analysed by geographical sectors

	2017	2016
Mainland China	148,424	118,944
Overseas	235,215	203,602
Total	383,639	322,546

42 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017	2016
Principal guaranteed wealth management products	354,382	324,443
Financial liabilities related to precious metals	39,927	31,313
Structured financial instruments	19,839	40,835
Total	414,148	396,591

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 2017 and 2016.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

43 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

Financial assets sold under repurchase agreements by underlying assets are shown as follows:

	2017	2016
Securities		
– Government bonds	**63,322**	167,088
– Debt securities issued by policy banks, banks and non-bank financial institutions	**3,632**	15,640
Subtotal	**66,954**	182,728
Discounted bills	**401**	5,500
Others	**6,924**	2,352
Total	**74,279**	190,580

44 DEPOSITS FROM CUSTOMERS

	2017	2016
Demand deposits		
– Corporate customers	**5,767,595**	5,206,395
– Personal customers	**3,204,950**	3,022,447
Subtotal	**8,972,545**	8,228,842
Time deposits (including call deposits)		
– Corporate customers	**3,312,456**	3,120,699
– Personal customers	**4,078,753**	4,053,374
Subtotal	**7,391,209**	7,174,073
Total	**16,363,754**	15,402,915

Deposits from customers include:

	2017	2016
(1) Pledged deposits		
– Deposits for acceptance	**83,365**	99,822
– Deposits for guarantee	**97,050**	80,930
– Deposits for letter of credit	**22,491**	28,264
– Others	**290,235**	313,110
Total	**493,141**	522,126
(2) Outward remittance and remittance payables	**29,635**	14,121

45 ACCRUED STAFF COSTS

	Note	2017			
		As at 1 January	**Increased**	**Decreased**	**As at 31 December**
Salaries, bonuses, allowances and subsidies		**24,813**	**64,274**	**(65,459)**	**23,628**
Other social insurance and welfare		**2,735**	**10,213**	**(8,975)**	**3,973**
Housing funds		**193**	**6,214**	**(6,244)**	**163**
Union running costs and employee education costs		**2,252**	**2,609**	**(2,123)**	**2,738**
Post-employment benefits	(1)				
– Defined contribution plans		**964**	**12,923**	**(12,994)**	**893**
– Defined benefit plans		**970**	**25**	**(1,435)**	**(440)**
Early retirement benefits		**1,940**	**76**	**(342)**	**1,674**
Compensation to employees for termination of employment relationship		**3**	**4**	**(4)**	**3**
Total		**33,870**	**96,338**	**(97,576)**	**32,632**

	Note	2016			
		As at 1 January	Increased	Decreased	As at 31 December
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

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

	2017			
	As at 1 January	**Increased**	**Decreased**	**As at 31 December**
Basic pension insurance	**664**	**9,622**	**(9,697)**	**589**
Unemployment insurance	**42**	**312**	**(317)**	**37**
Annuity contribution	**258**	**2,989**	**(2,980)**	**267**
Total	**964**	**12,923**	**(12,994)**	**893**

	2016			
	As at 1 January	Increased	Decreased	As at 31 December
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

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

45 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	
	2017	2016	**2017**	2016	**2017**	2016
As at 1 January	**7,131**	6,664	**6,161**	6,536	**970**	128
Cost of the net defined benefit liability in profit or loss						
– Interest costs	**212**	186	**187**	183	**25**	3
Remeasurements of the defined benefit liability in other comprehensive income						
– Actuarial (gain)/losses	**(519)**	919	**–**	–	**(519)**	919
– Returns on plan assets	**–**	–	**74**	80	**(74)**	(80)
Other changes						
– Benefits paid	**(627)**	(638)	**(627)**	(638)	**–**	–
– Contribution to plan assets	**–**	–	**842**	–	**(842)**	–
As at 31 December	**6,197**	7,131	**6,637**	6,161	**(440)**	970

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:

	2017	2016
Discount rate	**4.00%**	3.00%
Health care cost increase rate	**7.00%**	7.00%
Average expected future lifetime of eligible employees	**12.4 years**	12.8 years

Mortality assumptions are based on China Life Insurance Mortality Table (2010-2013). The Table 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	(121)	125
Health care cost increase rate	45	(44)

(iii) As at 31 December 2017, the weighted average duration of supplementary retirement benefit obligations of the Group is 7.9 years (As at 31 December 2016: 8.7 years).

45 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:

	2017	2016
Cash and cash equivalents	411	1,185
Equity instruments	532	359
Debt instruments	5,557	4,522
Others	137	95
Total	6,637	6,161

46 TAXES PAYABLE

	2017	2016
Income tax	44,359	35,526
Business tax	–	68
Value added tax	7,549	7,039
Others	2,198	2,267
Total	54,106	44,900

47 INTEREST PAYABLE

	2017	2016
Deposits from customers	175,126	185,018
Deposits from banks and non-bank financial institutions	7,550	15,801
Debts securities issued	2,307	2,312
Others	14,605	8,199
Total	199,588	211,330

48 PROVISIONS

	2017	2016
Litigation provisions	2,946	2,292
Others	7,635	6,984
Total	10,581	9,276

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

49 DEBT SECURITIES ISSUED

	Note	2017	2016
Certificates of deposit issued	(1)	**321,366**	199,008
Bonds issued	(2)	**71,331**	47,163
Subordinated bonds issued	(3)	**144,898**	145,599
Eligible Tier 2 capital bonds issued	(4)	**58,931**	59,784
Total		**596,526**	451,554

(1) Certificates of deposit were mainly issued by head office, overseas branches and Sino-German Bausparkasse.

(2) Bonds issued

Issue date	Maturity date	Interest rate per annum	Issue place	Currency	2017	2016
2014-04-01	2017-04-01	2.375%	Hong Kong	USD	**–**	2,085
2014-05-28	2019-05-28	1.375%	Switzerland	CHF	**2,002**	2,047
2014-06-27	2017-06-27	3.45%	Switzerland	RMB	**–**	1,250
2014-07-02	2019-07-02	3.25%	Hong Kong	USD	**3,904**	4,170
2014-09-05	2017-09-05	3.35%	Taiwan	RMB	**–**	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	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
2015-01-20	2020-01-20	3.125%	Hong Kong	USD	**4,555**	4,865
2015-02-11	2020-02-11	1.50%	Luxembourg	EUR	**3,902**	3,655
2015-06-18	2018-06-18	4.317%	Auckland	NZD	**231**	241
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	**115**	120
2015-07-16	2018-06-18	3.935%	Auckland	NZD	**69**	72
2015-07-28	2020-07-28	3.25%	Hong Kong	USD	**3,253**	3,475
2015-09-10	2019-09-10	3.945%	Auckland	NZD	**57**	59
2015-09-18	2018-09-18	3 month Australia benchmark interest rate +1.15%	Sydney	AUD	**2,031**	2,003
2015-10-19	2017-10-19	4.30%	London	RMB	**–**	990
2015-11-26	2017-11-26	4.00%	Hong Kong	RMB	**–**	1,000
2015-12-07	2018-09-18	3 month Australia benchmark interest rate+1.15%	Sydney	AUD	**15**	15
2015-12-29	2020-01-27	3.80%	Auckland	NZD	**92**	96
2016-03-30	2026-03-30	4.08%	Mainland China	RMB	**3,500**	3,500
2016-05-16	2019-05-16	3.10%	Auckland	NZD	**47**	48
2016-05-31	2019-05-31	2.38%	Hong Kong	USD	**1,434**	757
2016-05-31	2021-05-31	2.75%	Hong Kong	USD	**1,967**	1,934
2016-08-18	2020-09-18	2.95%	Auckland	NZD	**475**	496
2016-10-18	2020-10-18	3.05%	Auckland	NZD	**7**	7
2016-10-21	2021-10-21	2.25%	Hong Kong	USD	**1,757**	4,865
2016-11-09	2019-11-09	3.05%	Mainland China	RMB	**3,200**	4,000
2016-11-09	2021-11-09	3.05%	Mainland China	RMB	**800**	1,000
2016-12-22	2019-12-22	3.35%	Auckland	NZD	**46**	48
2017-02-17	2020-02-17	0.63%	Luxembourg	EUR	**3,902**	–
2017-05-05	2022-07-26	Senior Tranche A: CNLR1Y+0.18% Senior Tranche B: CNLR1Y+0.64%	Mainland China	RMB	**1,012**	–
2017-05-31	2020-05-29	3MLIBOR+0.77%	Hong Kong	USD	**7,808**	–
2017-06-13	2022-06-13	2.75%	Hong Kong	USD	**3,904**	–
2017-08-04	2018-02-05	1.87%	Hong Kong	USD	**163**	–
2017-09-27	2019-09-27	2.37%	Hong Kong	USD	**488**	–
2017-10-25	2022-10-25	3.15%	Hong Kong	USD	**651**	–
2017-10-25	2020-10-27	2.20%	Hong Kong	USD	**78**	–
2017-10-26	2020-10-26	2.08%	Singapore	SGD	**2,432**	–
2017-11-09	2022-11-09	3.93%	Auckland	NZD	**692**	–
2017-12-04	2020-12-04	2.29%	Hong Kong	USD	**5,205**	–
2017-12-04	2020-12-04	2.75%	Hong Kong	USD	**3,253**	–
2017-12-04	2022-12-04	3.00%	Hong Kong	USD	**2,603**	–
2017-12-22	2018-12-21	3.25%	Hong Kong	USD	**2,798**	–
Total nominal value					**72,255**	47,405
Less: unamortised issuance costs					**(924)**	(242)
Carrying value as at 31 December					**71,331**	47,163

49 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 Brasil Central Bank is as follows:

Issue date	Maturity date	Interest rate per annum	Currency	Note	2017	2016
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 Brasil Central Bank	BRL	(c)	**393**	427
2009-12-18	2024-12-22	4.80%	RMB	(d)	**20,000**	20,000
2010-04-27	2020-04-27	8.50%	USD	(c)	**1,713**	1,883
2010-07-30	2017-10-15	7.31%	USD	(c)	**–**	222
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)	**4,880**	5,212
Total nominal value					**144,986**	145,744
Less: Unamortised issuance cost					**(88)**	(145)
Carrying value as at 31 December					**144,898**	145,599

(a) 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.

(b) 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.

(c) The subordinated bonds were issued by BIC, including a bond expired on 15 October 2017.

(d) 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.

(e) The Group has an option to redeem the bonds on 7 November 2021, subject to an approval from relevant authority.

(f) The Group has an option to redeem the bonds on 22 November 2022, subject to an approval from relevant authority.

(g) 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	2017	2016
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)	**13,014**	13,899
2015-12-18	2025-12-21	4.00%	RMB	(d)	**24,000**	24,000
Total nominal value					**59,014**	59,899
Less: Unamortised issuance cost					**(83)**	(115)
Carrying value as at 31 December					**58,931**	59,784

(a) 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.

(b) 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.

(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.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

50 OTHER LIABILITIES

	2017	2016
Insurance related liabilities	112,914	95,892
Clearing and settlement accounts	16,136	966
Payment and collection clearance accounts	13,986	3,190
Deferred income	11,731	11,473
Capital expenditure payable	9,552	10,388
Cash pledged and rental income received in advance	8,887	8,259
Dormant accounts	5,032	4,501
Accrued expenses	3,382	3,074
Others	53,145	29,509
Total	234,765	167,252

51 SHARE CAPITAL

	2017	2016
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.

52 OTHER EQUITY INSTRUMENTS

(1) 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: Original Currency (USD)	Total amount: (RMB)	Maturity date	Conversion conditions
2015 Offshore Preference Shares	16 December 2015	Equity instruments	4.65%	$20 per share	152.5	3,050	19,711	No maturity date	None
2017 Domestic Preference Shares	21 December 2017	Equity instruments	4.75%	RMB100 per share	600		60,000	No maturity date	None
Less: Issuance fee							(75)		
Carrying amount							79,636		

52 OTHER EQUITY INSTRUMENTS (CONTINUED)

(2) The key terms

(a) Offshore Preference Shares

(i) 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.

(ii) 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.

(iii) 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.

(b) Domestic Preference Shares

(i) Dividend

The nominal dividend rate of the Domestic Preference Shares is adjusted on a phase-by-phase basis. It is the sum of the benchmark rate plus the fixed interest spread, and is adjusted every five years. The fixed interest spread is determined as the nominal dividend rate set for issuance less the benchmark rate at the time of issuance, and will not be subject to future adjustments. The dividends for domestic preference shares are non-cumulative. The Bank has the right to cancel dividend distribution on Domestic Preference Shares, and the cancellation does not constitute a default event. The Bank may, at its discretion, use the cancelled dividends to repay other indebtedness due and payable. If the Bank cancels all or part of the dividends on the Domestic Preference Shares, the Bank shall make no profit distribution to shareholders holding ordinary shares from the day after the cancellation proposal is adopted by the General Shareholders' Meeting to the day when full distribution of dividends is resumed. The cancellation of dividends on Domestic Preference Shares will not constitute other restrictions to the Bank except for the distribution of dividends to ordinary shareholders.

The dividends on the Domestic Preference Shares are distributed annually.

(ii) Redemption

The Bank may, subject to CBRC Approval and compliance with the Redemption Preconditions, redeem in whole or in part of the Domestic Preference Shares after at least five years from the completion date of the issuance (i.e., 27 December 2017). The redemption period begins from the first day of the redemption and ends on the day when all Domestic Preference Shares are redeemed or converted. The redemption price of the Domestic Preference Shares shall be their issue price plus any dividends accrued but unpaid in the current period.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

52 OTHER EQUITY INSTRUMENTS (CONTINUED)

(2) The key terms (continued)

(b) Domestic Preference Shares (continued)

(iii) Compulsory conversion of preference shares

If an Additional Tier 1 Capital Instrument Trigger Event occurs, i.e., the Core Tier 1 Capital Adequacy Ratio of the Bank has fallen to 5.125% or below, the Bank has the right to, without prior consent from the shareholders of the Domestic Preference Shares and as agreed, convert all or part of the Domestic Preference Shares issued and outstanding to ordinary A shares, to restore the Bank's Core Tier 1 Capital Adequacy Ratio to above the trigger point (i.e., 5.125%). In the case of partial conversion, the Domestic Preference Shares shall be subject to the same proportion and conditions of conversion. Once Domestic Preference Shares are converted to ordinary A shares, they shall not be converted back to preference shares under any circumstances.

When a Tier 2 Capital Instrument Trigger Event occurs, the Bank has the right to, without prior consent of the shareholders of the Domestic Preference Shares and as agreed, convert all the Domestic Preference Shares issued and outstanding to ordinary A shares. Once Domestic Preference Shares are converted to ordinary A shares, they shall not be converted back to preference shares under any circumstances. A Tier 2 Capital Instrument Trigger Event is the earlier of the following two scenarios: (1) the CBRC having decided that without a conversion or write-off of the Bank's capital the Bank would become non-viable; and (2) 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. When the compulsory conversion of preference shares occurs, the Bank shall report to the CBRC for approval and decision, and perform the announcement obligation according to the regulations of Securities Act and CSRC.

The Bank classifies 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 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.

(3) Changes in Preference shares outstanding

	1 January 2017		Increase		31 December 2017	
Preference Shares	Amount (million shares)	Carrying value	Amount (million shares)	Carrying value	Amount (million shares)	Carrying value
2015 Offshore Preference Shares	152.5	19,659	–	–	**152.5**	**19,659**
2017 Domestic Preference Shares	–	–	600	59,977	**600**	**59,977**
Total	152.5	19,659	600	59,977	**752.5**	**79,636**

(4) Interests attributable to the holders of equity instruments

Items	**2017**	2016
1. Total equity attributable to equity holders of the Bank	**1,779,760**	1,576,500
(1) Equity attributable to ordinary equity holders of the Bank	**1,700,124**	1,556,841
(2) Equity attributable to other equity holders of the Bank	**79,636**	19,659
Of which: net profit	**1,045**	1,067
dividends received	**1,045**	1,067
2. Total equity attributable to non-controlling interests	**16,067**	13,154
(1) Equity attributable to non-controlling interests of ordinary shares	**12,645**	13,154
(2) Equity attributable to non-controlling interests of other equity instruments	**3,422**	–

53 CAPITAL RESERVE

	2017	2016
Share premium	134,537	134,543
Cash flow hedge reserve	320	(150)
Others	368	(433)
Total	135,225	133,960

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:

	2017		
	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount
As at 1 January	(1,381)	405	(976)
(Losses)/Gains during the year			
– Debt securities	(39,394)	9,541	(29,853)
– Equity instruments and funds	1,896	(474)	1,422
	(37,498)	9,067	(28,431)
Reclassification adjustments			
– Impairment	764	(191)	573
– Disposals	4,048	(1,012)	3,036
– Others	(274)	68	(206)
	4,538	(1,135)	3,403
As at 31 December	(34,341)	8,337	(26,004)

	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)

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

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	2017	2016
MOF	(1)	**254,104**	205,933
Hong Kong Banking Ordinance	(2)	**2,124**	2,124
Other regulatory bodies in Mainland China	(3)	**2,866**	2,546
Other overseas regulatory bodies		**586**	590
Total		**259,680**	211,193

(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 MOF 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 15 June 2017, the shareholders approved the profit distribution for the year ended 31 December 2016. The Bank appropriated cash dividend for the year ended 31 December 2016 in an aggregate amount of RMB69,503 million.

In the Board of Directors' Meeting held on 15 June 2017, 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 RMB1,045 million yuan (including tax). The dividend payment date was 18 December 2017.

On 27 March 2018, Board of Directors proposed the following profit distribution scheme for the year ended 31 December 2017:

(1) Appropriate statutory surplus reserve amounted to RMB23,168 million, based on 10% of the net profit of the Bank amounted to RMB231,680 million for the year 2017 (2016: RMB22,413 million). It has been recorded in "Surplus reserve" as at the end of the reporting period.

(2) Appropriate general reserve amounted to RMB13,943 million, pursuant to relevant regulations issued by MOF (2016: RMB34,228 million).

(3) Appropriate cash dividend RMB0.291 per share before tax (2016: RMB0.278 per share) and in aggregation amount of RMB727,53 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

Cash and cash equivalents

	2017	2016
Cash	73,876	73,296
Surplus deposit reserves with central banks	209,080	183,764
Demand deposits with banks and non-bank financial institutions	60,910	60,921
Deposits with banks and non-bank financial institutions with original maturity with or within three months	59,220	229,622
Placements with banks and non-bank financial institutions with original maturity with or within three months	168,253	51,521
Total	571,339	599,124

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 2017, the carrying value of debt securities lent to counterparties was RMB35,938 million (as at 31 December 2016: RMB36,577 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 2017, loans with an original carrying amount of RMB153,397 million (as at 31 December 2016: RMB69,530 million) have been securitised by the Group under arrangements in which the Group retained a continuing involvement in such assets. As at 31 December 2017, the carrying amount of assets that the Group continued to recognise was RMB13,375 million (as at 31 December 2016: RMB5,156 million). The carrying amount of continuing involvement assets and liabilities that the Group continued to recognise was RMB13,352 million as at 31 December 2017 (as at 31 December 2016: RMB5,216 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)

	2017								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Total
External net interest income	48,813	44,573	38,519	52,282	53,586	12,290	186,954	15,439	452,456
Internal net interest income/(expense)	23,973	19,223	33,632	28,890	25,935	11,576	(136,706)	(6,523)	–
Net interest income	72,786	63,796	72,151	81,172	79,521	23,866	50,248	8,916	452,456
Net fee and commission income	17,095	15,584	18,332	16,872	11,383	3,813	31,780	2,939	117,798
Net trading gain/(loss)	1,022	1,567	637	362	407	189	(1,392)	2,066	4,858
Dividend income	1,288	5	–	189	11	–	245	457	2,195
Net gain/(loss) arising from investment securities	481	–	35	658	199	–	(2,846)	638	(835)
Other operating income, net	58	790	1,569	561	2,625	149	3,394	8,413	17,559
Operating income	92,730	81,742	92,724	99,814	94,146	28,017	81,429	23,429	594,031
Operating expenses	(25,727)	(21,426)	(26,204)	(30,140)	(27,754)	(11,324)	(16,748)	(7,720)	(167,043)
Impairment losses	(13,724)	(16,877)	(31,377)	(21,669)	(20,555)	(14,243)	(5,324)	(3,593)	(127,362)
Share of profit of associates and joint ventures	–	–	–	100	–	–	–	61	161
Profit before tax	53,279	43,439	35,143	48,105	45,837	2,450	59,357	12,177	299,787
Capital expenditure	1,932	1,916	7,655	2,666	2,006	1,054	1,687	6,209	25,125
Depreciation and amortisation	2,581	1,750	3,166	3,343	2,704	1,417	1,624	829	17,414
	2017								
Segment assets	4,687,992	3,479,166	4,916,680	4,058,155	3,294,459	1,100,318	8,672,547	1,723,881	31,933,198
Interests in associates and joint ventures	1	–	–	4,904	–	–	–	2,162	7,067
	4,687,993	3,479,166	4,916,680	4,063,059	3,294,459	1,100,318	8,672,547	1,726,043	31,940,265
Deferred tax assets									46,189
Elimination									(9,862,071)
Total assets									22,124,383
Segment liabilities	4,675,179	3,479,313	4,887,516	4,058,490	3,303,501	1,110,903	7,050,551	1,624,785	30,190,238
Deferred tax liabilities									389
Elimination									(9,862,071)
Total liabilities									20,328,556
Off-balance sheet credit commitments	600,582	422,504	767,363	492,226	348,508	155,452	–	242,537	3,029,172

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

60 OPERATING SEGMENTS (CONTINUED)

(1) Geographical segments (continued)

	2016								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Total
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)

(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.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

60 OPERATING SEGMENTS (CONTINUED)

(2) Business segments (continued)

	2017				
	Corporate banking	Personal banking	Treasury business	Others	Total
External net interest income	150,924	101,139	173,958	26,435	452,456
Internal net interest income/(expense)	73,083	74,348	(139,552)	(7,879)	–
Net interest income	224,007	175,487	34,406	18,556	452,456
Net fee and commission income	30,739	61,298	19,850	5,911	117,798
Net trading (loss)/gain	(6,128)	(1,357)	11,687	656	4,858
Dividend income	–	–	–	2,195	2,195
Net gain/(loss) arising from investment securities	–	–	681	(1,516)	(835)
Other operating (expense)/income, net	(556)	526	(700)	18,289	17,559
Operating income	248,062	235,954	65,924	44,091	594,031
Operating expenses	(59,291)	(83,839)	(9,582)	(14,331)	(167,043)
Impairment losses	(106,047)	(14,379)	(1,725)	(5,211)	(127,362)
Share of profit of associates and joint ventures	–	–	–	161	161
Profit before tax	82,724	137,736	54,617	24,710	299,787
Capital expenditure	5,110	7,974	849	11,192	25,125
Depreciation and amortisation	5,701	8,897	947	1,869	17,414
	2017				
Segment assets	6,837,261	5,377,252	8,475,693	1,648,535	22,338,741
Interests in associates and joint ventures	–	–	–	7,067	7,067
	6,837,261	5,377,252	8,475,693	1,655,602	22,345,808
Deferred tax assets					46,189
Elimination					(267,614)
Total assets					22,124,383
Segment liabilities	10,072,832	7,502,694	900,534	2,119,721	20,595,781
Deferred tax liabilities					389
Elimination					(267,614)
Total liabilities					20,328,556
Off-balance sheet credit commitments	2,016,432	761,613	–	251,127	3,029,172

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

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

61 ENTRUSTED LENDING BUSINESS

At the balance sheet date, the amounts of the entrusted loans and funds were as follows:

	2017	2016
Entrusted loans	2,736,842	2,398,103
Entrusted funds	2,736,842	2,398,103

62 PLEDGED ASSETS

(1) Assets pledged as security

(a) Carrying value of pledged assets analysed by asset type

	2017	2016
Discounted bills	401	5,500
Bonds	628,172	655,915
Others	6,924	2,352
Total	635,497	663,767

(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 2017 and 2016, 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.

	2017	2016
Loan commitments		
– with an original maturity within one year	192,768	191,077
– with an original maturity of one year or over	396,467	383,530
Credit card commitments	801,618	690,144
	1,390,853	1,264,751
Bank acceptances	276,629	296,606
Financing guarantees	60,821	107,160
Non-financing guarantees	898,422	776,775
Sight letters of credit	41,216	37,383
Usance letters of credit	266,865	160,141
Others	94,366	81,710
Total	3,029,172	2,724,526

63 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(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.

	2017	2016
Credit risk-weighted amount of contingent liabilities and commitments	1,110,481	1,073,108

(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:

	2017	2016
Within one year	5,720	5,717
After one year but within two years	4,289	4,396
After two years but within three years	3,024	3,194
After three years but within five years	3,350	5,076
After five years	2,423	2,756
Total	18,806	21,139

(4) Capital commitments

As at the end of the reporting period, the Group had capital commitments as follows:

	2017	2016
Contracted for	5,882	9,294

(5) Underwriting obligations

As at 31 December 2017, there was no unexpired underwriting commitment of the Group (as at 31 December 2016: 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 2017, were RMB79,431 million (as at 31 December 2016: RMB75,695 million).

(7) Outstanding litigation and disputes

As at 31 December 2017, the Group was the defendant in certain pending litigations and disputes with gross claims of RMB10,499 million (as at 31 December 2016: RMB7,783 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 48). 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)).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

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 the 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 2017, 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 RMB144,986 million (as at 31 December 2016: RMB145,744 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.

(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

	2017		2016	
	Amount	**Ratio to similar transactions**	Amount	Ratio to similar transactions
Interest income	**1,096**	**0.15%**	460	0.07%
Interest expense	**128**	**0.04%**	106	0.04%

Balances

	2017		2016	
	Balance	**Ratio to similar transactions**	Balance	Ratio to similar transactions
Interest receivable	**140**	**0.12%**	151	0.15%
Loans and advances to customers	**28,000**	**0.22%**	–	0.00%
Available-for-sale financial assets	**2,199**	**0.14%**	–	0.00%
Held-to-maturity investments	**9,140**	**0.35%**	12,770	0.52%
Deposits from banks and non-bank financial institutions	**6,114**	**0.46%**	20	0.00%
Deposits from customers	**55**	**0.00%**	865	0.01%
Interest payable	**–**	**0.00%**	6	0.00%
Credit commitments	**288**	**0.01%**	288	0.01%

64 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(1) Transactions with parent companies and their affiliates (continued)

(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

		2017		2016	
	Note	**Amount**	**Ratio to similar transactions**	Amount	Ratio to similar transactions
Interest income		**32,102**	**4.28%**	28,755	4.13%
Interest expense		**10,237**	**3.44%**	2,528	0.91%
Fee and commission income		**667**	**0.51%**	228	0.18%
Fee and commission expense		**198**	**1.46%**	295	3.15%
Operating expenses	(i)	**724**	**0.46%**	612	0.40%

Balances

		2017		2016	
	Note	**Balance**	**Ratio to similar transactions**	Balance	Ratio to similar transactions
Deposits with banks and non-bank financial institutions		**36,672**	**20.95%**	72,746	14.71%
Placements with banks and non-bank financial institutions		**71,066**	**21.85%**	69,487	26.66%
Financial assets at fair value through profit or loss		**22,323**	**3.86%**	8,111	1.66%
Positive fair value of derivatives		**7,522**	**9.06%**	3,581	3.99%
Financial assets held under resale agreements		**62,500**	**30.00%**	10,897	10.56%
Interest receivable		**21,747**	**18.59%**	14,606	14.37%
Loans and advances to customers		**30,553**	**0.24%**	53,297	0.46%
Available-for-sale financial assets		**215,607**	**13.90%**	234,915	14.38%
Held-to-maturity investments		**458,789**	**17.74%**	419,087	17.19%
Investment classified as receivables		**28,925**	**6.21%**	46,959	9.24%
Other assets		**15**	**0.02%**	80	0.11%
Deposits from banks and non-bank financial institutions	(ii)	**194,730**	**14.56%**	34,485	2.14%
Placements from banks and non-bank financial institutions		**109,661**	**28.58%**	68,722	21.31%
Negative fair value of derivatives		**6,739**	**8.44%**	7,332	8.12%
Financial assets sold under repurchase agreements		**1,255**	**1.69%**	15,904	8.35%
Deposits from customers		**14,455**	**0.09%**	18,471	0.12%
Interest payable		**423**	**0.21%**	3,058	1.45%
Other liabilities		**1,251**	**0.53%**	–	0.00%
Credit commitments		**10,231**	**0.34%**	23,159	1.18%

(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) Deposits from the affiliates of parent companies are unsecured and are repayable under normal commercial terms.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

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

	2017	2016
Interest income	604	12
Interest expense	571	4
Fee and commission income	27	–
Operating expenses	–	7

Balances

	2017	2016
Loans and advances to customers	7,497	680
Placements from banks and non-bank financial institutions	98	–
Financial liabilities at fair value through profit or loss	–	448
Deposits from customers	2,223	1,547
Interest payable	2	–
Other liabilities	264	–
Credit commitments	82	5

(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

	2017	2016
Interest income	1,320	1,154
Interest expense	577	1,651
Fee and commission income	1,820	3,421
Fee and commission expense	542	646
Dividend income	65	50
Net gain arising from investment securities	399	315
Other operating expense, net	(94)	(370)
Operating expenses	811	3

64 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(3) Transactions between the Bank and its subsidiaries (continued)

Balances

	2017	2016
Deposits with banks and non-bank financial institutions	4,871	11,254
Placements with banks and non-bank financial institutions	90,481	86,820
Positive fair value of derivatives	1,424	1,087
Interest receivable	120	81
Loans and advances to customers	10,653	6,259
Available-for-sale financial assets	9,074	2,271
Held-to-maturity investments	656	690
Investment classified as receivables	455	486
Other assets	38,480	49,931
Deposits from banks and non-bank financial institutions	19,547	9,315
Placements from banks and non-bank financial institutions	58,017	105,653
Negative fair value of derivatives	1,288	3,715
Deposits from customers	3,821	3,974
Interest payable	94	611
Debt securities issued	840	890
Other liabilities	1,033	110

As at 31 December 2017, the total maximum guarantee limit of guarantee letters issued by the Bank with its subsidiaries as beneficiary is RMB53,726 million (as at 31 December 2016: RMB44,793 million).

For the year ended 31 December 2017, the transactions between subsidiaries of the Group are mainly deposits with banks and non-bank financial institution and deposits from banks and non-bank financial institutions. As at 31 December 2017, the balances of the above transactions were RMB4,613 million (as at 31 December 2016: RMB173 million) and RMB10,721 million (as at 31 December 2016: RMB4,478 million) respectively.

(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 2017 and 2016.

As at 31 December 2017, RMB3,183 million of the Group's supplementary retirement benefit plan assets (as at 31 December 2016: RMB2,950 million) were managed by CCB Principal and management fees from the Bank was RMB8.73 million (as at 31 December 2016: RMB8.73 million).

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

64 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(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 2017 and 2016, 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:

	2017			
	Remuneration paid	Contributions to defined contribution retirement schemes	Other benefits in kind (note (i))	Total (note (ii))
	RMB'000	RMB'000	RMB'000	RMB'000
Executive Vice President				
Yang Wensheng	467	51	88	606
Huang Yi	467	51	88	606
Yu Jingbo	467	51	88	606
Zhang Lilin	265	27	47	339
Chief Disciplinary Officer				
Zhu Kepeng	467	51	88	606
Chief Risk Officer				
Liao Lin	657	43	114	814
Chief Financial Officer				
Xu Yiming	788	51	136	975
Secretary to the Board				
Huang Zhiling	–	–	–	–
Former Chief Risk Officer				
Zeng Jianhua	131	8	22	161
Former Secretary to the Board				
Chen Caihong	713	16	115	844
	4,422	349	786	5,557

64 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(6) Key management personnel (continued)

	2016			
	Accrued cost	Social insurance, corporate annuity, supplementary medical insurance and housing fund paid by the Bank	Other monetary income	Total (note (iii))
	RMB'000	RMB'000	RMB'000	RMB'000
Executive Vice President				
Yang Wensheng	631	150	–	781
Huang Yi	631	150	–	781
Yu Jingbo	631	150	–	781
Chief Disciplinary Officer				
Zhu Kepeng	631	150	–	781
Chief Risk Officer				
Liao Lin	–	–	–	–
Chief Financial Officer				
Xu Yiming	1,977	169	–	2,146
Secretary to the Board				
Chen Caihong	1,977	169	–	2,146
Former Chief Risk Officer				
Zeng Jianhua	1,977	169	–	2,146
	8,455	1,107	–	9,562

(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 2017 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 2017. The final compensation will be disclosed in a separate announcement when determined.

(iii) The total compensation package for certain key management personnel for the year ended 31 December 2016 had not been finalised in accordance with regulations of the PRC relevant authorities till the date that the 2016 financial statements were announced. The aforesaid total compensation package for the key management personnel for the year ended 31 December 2016 was the final amount.

(iv) 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:

– 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 Clients 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.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

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.

	2017	2016
Deposits with central banks	**2,914,380**	2,775,965
Deposits with banks and non-bank financial institutions	**175,005**	494,618
Placements with banks and non-bank financial institutions	**325,233**	260,670
Debt investments at fair value through profit or loss	**554,048**	469,992
Positive fair value of derivatives	**82,980**	89,786
Financial assets held under resale agreements	**208,360**	103,174
Interest receivable	**116,993**	101,645
Loans and advances to customers	**12,574,473**	11,488,355
Available-for-sale debt securities	**1,461,824**	1,348,814
Held-to-maturity investments	**2,586,722**	2,438,417
Investment classified as receivables	**465,810**	507,963
Other financial assets	**65,238**	69,405
Total	**21,531,066**	20,148,804
Off-balance sheet credit commitments	**3,029,172**	2,724,526
Maximum credit risk exposure	**24,560,238**	22,873,330

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	2017	2016
Gross impaired loans			
– Individually assessed and impaired gross amount		**169,798**	156,436
– Allowances for impairment losses		**(113,820)**	(99,453)
Subtotal		**55,978**	56,983
– Collectively assessed and impaired gross amount		**22,493**	22,254
– Allowances for impairment losses		**(13,802)**	(13,275)
Subtotal		**8,691**	8,979
Overdue but not impaired			
– between 1 day and 90 days		**30,483**	31,522
– between 91 days and 180 days		**–**	4
– more than 180 days		**–**	21
Gross amount		**30,483**	31,547
Allowances for impairment losses	(i)	**(3,164)**	(6,804)
Subtotal		**27,319**	24,743
Neither overdue nor impaired			
– Unsecured loans		**3,856,502**	3,442,193
– Guaranteed loans		**2,035,372**	1,880,508
– Loans secured by tangible assets other than monetary assets		**5,441,687**	5,002,018
– Loans secured by monetary assets		**1,347,106**	1,222,076
Gross amount		**12,680,667**	11,546,795
Allowances for impairment losses	(i)	**(198,182)**	(149,145)
Subtotal		**12,482,485**	11,397,650
Total		**12,574,473**	11,488,355

(i) The balances represent collectively assessed allowances of impairment losses.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

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:

	2017		
	Overdue but not impaired loans and advances		**Impaired loans and advances which are subject to individual assessment**
	Corporate	**Personal**	**Corporate**
Portion covered	**4,112**	**14,678**	**29,810**
Portion not covered	**3,523**	**8,170**	**139,988**
Total	**7,635**	**22,848**	**169,798**

	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

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

	2017			2016		
	Gross Loan balance	Percentage	Balance secured by collateral	Gross loan balance	Percentage	Balance secured by collateral
Corporate loans and advances						
– Transportation, storage and postal services	1,429,583	11.08%	516,193	1,287,693	10.95%	520,293
– Manufacturing	1,318,827	10.22%	410,706	1,323,238	11.24%	464,514
– Leasing and commercial services	981,704	7.61%	347,367	826,410	7.03%	309,203
– Production and supply of electric power, heat, gas and water	867,818	6.73%	199,689	726,706	6.18%	192,922
– Real estate	522,242	4.05%	284,698	448,576	3.82%	316,657
– Wholesale and retail trade	477,404	3.70%	266,890	492,343	4.19%	252,177
– Water, environment and public utility management	395,163	3.06%	193,538	324,204	2.76%	167,715
– Construction	280,721	2.18%	70,228	259,268	2.21%	76,772
– Mining	250,698	1.94%	28,685	250,530	2.13%	29,755
– Public management, social securities and social organisation	107,297	0.83%	18,035	130,037	1.11%	33,862
– Agriculture, forestry, farming, fishing	74,831	0.58%	24,972	90,685	0.77%	34,986
– Education	70,981	0.55%	16,912	77,445	0.66%	21,415
– Others	710,563	5.50%	87,281	586,803	4.99%	80,183
Total corporate loans and advances	7,487,832	58.03%	2,465,194	6,823,938	58.04%	2,500,454
Personal loans and advances	5,279,894	40.92%	4,429,426	4,420,939	37.60%	3,820,851
Discounted bills	135,715	1.05%	–	512,155	4.36%	–
Total loans and advances to customers	12,903,441	100.00%	6,894,620	11,757,032	100.00%	6,321,305

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:

	2017				
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances	Charged to profit or loss during the year	Written off during the year
Transportation, storage and postal services	13,844	(8,651)	(26,573)	(10,184)	549
Manufacturing	76,557	(51,220)	(39,504)	(47,638)	15,896

	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
Transportation, storage and postal services	6,004	(3,935)	(21,943)	(2,412)	250
Manufacturing	71,443	(44,348)	(29,902)	(44,859)	14,272

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

65 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(d) Loans and advances to customers analysed by geographical sector concentrations

	2017			2016		
	Gross loan balance	**Percentage**	**Balance secured by collateral**	Gross loan balance	Percentage	Balance secured by collateral
Yangtze River Delta	**2,288,830**	**17.74%**	**1,476,742**	2,117,133	18.02%	1,360,362
Central	**2,176,159**	**16.86%**	**1,346,200**	1,982,785	16.86%	1,197,869
Bohai Rim	**2,131,045**	**16.52%**	**1,024,363**	1,946,622	16.56%	892,618
Western	**2,117,740**	**16.41%**	**1,206,486**	1,953,377	16.61%	1,124,332
Pearl River Delta	**1,941,337**	**15.05%**	**1,370,326**	1,762,963	14.99%	1,312,827
Northeastern	**672,309**	**5.21%**	**341,388**	643,515	5.47%	296,115
Head office	**574,506**	**4.45%**	**–**	452,941	3.85%	–
Overseas	**1,001,515**	**7.76%**	**129,115**	897,696	7.64%	137,182
Gross loans and advances to customers	**12,903,441**	**100.00%**	**6,894,620**	11,757,032	100.00%	6,321,305

As at the end of reporting period, details of impaired loans and impairment allowances in respect of geographical sectors are as follows:

	2017		
	Gross impaired loans	**Individually assessed impairment allowances**	**Collectively assessed impairment allowances**
Bohai Rim	**38,302**	**(22,645)**	**(39,339)**
Western	**34,973**	**(19,205)**	**(37,230)**
Central	**32,154**	**(19,135)**	**(35,432)**
Yangtze River Delta	**31,460**	**(21,038)**	**(40,866)**
Pearl River Delta	**27,777**	**(18,022)**	**(31,612)**
Northeastern	**18,920**	**(11,925)**	**(15,798)**
Head Office	**5,867**	**(394)**	**(10,640)**
Overseas	**2,838**	**(1,456)**	**(4,231)**
Total	**192,291**	**(113,820)**	**(215,148)**

	2016		
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances
Bohai Rim	29,199	(15,573)	(31,505)
Western	29,435	(14,557)	(30,102)
Central	26,654	(14,557)	(28,012)
Yangtze River Delta	41,539	(27,423)	(32,173)
Pearl River Delta	29,426	(18,429)	(24,124)
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)

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

	2017	2016
Unsecured loans	3,885,329	3,471,042
Guaranteed loans	2,123,492	1,964,685
Loans secured by tangible assets other than monetary assets	5,539,863	5,095,325
Loans secured by monetary assets	1,354,757	1,225,980
Gross loans and advances to customers	12,903,441	11,757,032

(f) Rescheduled loans and advances to customers

	2017		2016	
	Total	Percentage of gross loans and advances to customers	Total	Percentage of gross loans and advances to customers
Rescheduled loans and advances to customers	4,001	0.03%	5,020	0.04%
Of which:				
Rescheduled loans and advances overdue for more than 90 days	998	0.01%	2,321	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	2017	2016
Impaired			
– Individually assessed and impaired gross amount		25	29
– Allowances for impairment losses		(25)	(29)
Subtotal		–	–
Neither overdue nor impaired			
– Grade A to AAA		646,592	815,896
– Grade B to BBB		489	5,238
– Unrated		61,661	37,488
Total		708,742	858,622
Allowances for impairment losses	(i)	(144)	(160)
Subtotal		708,598	858,462
Total		708,598	858,462

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.

(i) The balances represent collectively assessed allowances of impairment losses.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

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:

		2017					
	Note	Unrated	AAA	AA	A	Lower than A	Total
Impaired							
Individually assessed and impaired gross amount							
– Banks and non-bank financial institutions		–	–	–	–	–	–
– Enterprises		632	–	–	–	–	632
– Others		200	–	–	–	–	200
Total		832	–	–	–	–	832
Allowances for impairment losses							(434)
Subtotal							398
Neither overdue nor impaired							
– Government		2,042,536	1,158,184	8,698	24,490	25,461	3,259,369
– Central banks		6,891	5,837	25,089	–	–	37,817
– Policy banks		803,872	3,665	1,545	13,491	–	822,573
– Banks and non-bank financial institutions		253,410	100,733	12,765	31,369	8,443	406,720
– Enterprises		164,026	282,420	29,681	15,708	5,319	497,154
– Others		8,278	22,641	19,218	695	454	51,286
Total		3,279,013	1,573,480	96,996	85,753	39,677	5,074,919
Allowances for impairment losses	(i)						(6,913)
Subtotal							5,068,006
Total							5,068,404

65 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(h) Distribution of debt investments analysed by rating (continued)

		2016					
	Note	Unrated	AAA	AA	A	Lower than A	Total
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

(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:

		2017			
	Note	As at 31 December	Average	Maximum	Minimum
Risk valuation of trading portfolio		**112**	**167**	**252**	**105**
Of which:					
– Interest rate risk		**59**	**84**	**148**	**50**
– Foreign exchange risk	(i)	**90**	**117**	**226**	**70**
– Commodity risk		**1**	**8**	**21**	**–**

		2016			
	Note	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	–

(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 RMB46,727 million (as at 31 December 2016: RMB48,500 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 RMB50,694 million (as at 31 December 2016: RMB43,566 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.

		2017						
	Note	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	Total
Assets								
Cash and deposits with central banks		1.51%	122,593	2,865,663	–	–	–	2,988,256
Deposits and placements with banks and non-bank financial institutions		2.64%	–	364,272	128,267	7,699	–	500,238
Financial assets held under resale agreements		2.99%	–	208,360	–	–	–	208,360
Loans and advances to customers	(ii)	4.18%	–	7,514,939	4,660,444	336,579	62,511	12,574,473
Investments	(iii)	3.74%	120,309	460,631	522,564	2,362,479	1,722,732	5,188,715
Other assets			664,341	–	–	–	–	664,341
Total assets		3.66%	907,243	11,413,865	5,311,275	2,706,757	1,785,243	22,124,383
Liabilities								
Borrowings from central banks		2.99%	–	204,808	341,709	770	–	547,287
Deposits and placements from banks and non-bank financial institutions		2.49%	–	1,462,200	202,473	51,471	4,490	1,720,634
Financial liabilities at fair value through profit or loss		3.37%	19,854	234,157	153,549	6,588	–	414,148
Financial assets sold under repurchase agreements		3.33%	–	67,469	1,892	4,632	286	74,279
Deposits from customers		1.33%	121,264	11,569,194	2,987,851	1,674,005	11,440	16,363,754
Debt securities issued		3.69%	–	251,877	79,399	210,334	54,916	596,526
Other liabilities			611,928	–	–	–	–	611,928
Total liabilities		1.56%	753,046	13,789,705	3,766,873	1,947,800	71,132	20,328,556
Asset-liability gap		2.10%	154,197	(2,375,840)	1,544,402	758,957	1,714,111	1,795,827

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

65 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(c) Interest rate repricing gap analysis (continued)

		2016						
	Note	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	Total
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		2.06%	424,016	(1,839,375)	818,884	565,725	1,620,404	1,589,654

(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 RMB64,750 million as at 31 December 2017 (as at 31 December 2016: RMB76,096 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:

		2017			
	Note	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and deposits with central banks		2,796,711	102,635	88,910	2,988,256
Deposits and placements with banks and non-bank financial institutions	(i)	538,969	151,775	17,854	708,598
Loans and advances to customers		11,304,255	832,693	437,525	12,574,473
Investments		4,927,815	167,193	93,707	5,188,715
Other assets		589,623	31,493	43,225	664,341
Total assets		20,157,373	1,285,789	681,221	22,124,383
Liabilities					
Borrowings from central banks		484,657	35,805	26,825	547,287
Deposits and placements from banks and non-bank financial institutions	(ii)	1,378,896	277,483	138,534	1,794,913
Financial liabilities at fair value through profit or loss		392,984	20,628	536	414,148
Deposits from customers		15,453,722	593,332	316,700	16,363,754
Debt securities issued		269,389	226,549	100,588	596,526
Other liabilities		511,113	77,123	23,692	611,928
Total liabilities		18,490,761	1,230,920	606,875	20,328,556
Net position		1,666,612	54,869	74,346	1,795,827
Net notional amount of derivatives		268,286	(294,407)	55,765	29,644
Credit commitments		2,673,845	153,622	201,705	3,029,172

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

65 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(d) Currency risk (continued)

		2016			
	Note	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
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		213,538	(280,450)	89,001	22,089
Credit commitments		2,461,840	88,183	174,503	2,724,526

(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 constitute 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.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

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:

	2017							
	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	Total
Assets								
Cash and deposits with central banks	2,705,300	282,956	–	–	–	–	–	2,988,256
Deposits and placements with banks and non-bank financial institutions	–	85,221	194,429	80,625	128,814	11,149	–	500,238
Financial assets held under resale agreements	–	–	203,910	4,450	–	–	–	208,360
Loans and advances to customers	72,933	631,065	445,807	581,601	2,641,172	2,881,396	5,320,499	12,574,473
Investments								
– Financial assets at fair value through profit or loss	24,386	–	150,934	103,563	150,580	128,825	20,148	578,436
– Available-for-sale financial assets	88,855	–	37,644	31,627	127,903	931,628	333,023	1,550,680
– Held-to-maturity investments	–	–	13,953	36,360	220,316	1,186,295	1,129,798	2,586,722
– Investment classified as receivables	–	–	2,841	11,479	23,610	207,401	220,479	465,810
– Investments in associates and joint ventures	7,067	–	–	–	–	–	–	7,067
Other assets	244,725	76,990	42,548	85,403	127,317	48,817	38,541	664,341
Total assets	3,143,266	1,076,232	1,092,066	935,108	3,419,712	5,395,511	7,062,488	22,124,383
Liabilities								
Borrowings from central banks	–	–	97,125	107,684	341,708	770	–	547,287
Deposits and placements from banks and non-bank financial institutions	–	764,478	347,584	287,101	250,648	65,779	5,044	1,720,634
Financial liabilities at fair value through profit or loss	–	19,854	136,833	97,323	153,550	6,588	–	414,148
Financial assets sold under repurchase agreements	–	–	66,125	1,344	1,892	4,632	286	74,279
Deposits from customers	–	9,783,474	1,117,271	1,101,977	2,636,627	1,699,395	25,010	16,363,754
Debt securities issued								
– Certificates of deposit issued	–	–	60,085	150,190	91,918	19,140	33	321,366
– Bonds issued	–	–	–	162	3,715	63,355	4,099	71,331
– Subordinated bonds issued	–	–	–	–	–	140,044	4,854	144,898
– Eligible Tier 2 capital bonds issued	–	–	–	–	–	12,967	45,964	58,931
Other liabilities	4,022	135,125	74,668	78,171	255,819	49,822	14,301	611,928
Total liabilities	4,022	10,702,931	1,899,691	1,823,952	3,735,877	2,062,492	99,591	20,328,556
Net gaps	3,139,244	(9,626,699)	(807,625)	(888,844)	(316,165)	3,333,019	6,962,897	1,795,827
Notional amount of derivatives								
– Interest rate contracts	–	–	30,749	45,943	145,336	98,848	11,604	332,480
– Exchange rate contracts	–	–	870,778	893,633	3,430,481	110,477	2,626	5,307,995
– Other contracts	–	–	33,184	61,192	84,471	3,513	272	182,632
Total	–	–	934,711	1,000,768	3,660,288	212,838	14,502	5,823,107

65 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(a) Maturity analysis (continued)

	2016							
	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	Total
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

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

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.

	2017							
	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	547,287	563,332	–	99,448	110,503	352,611	770	–
Deposits and placements from banks and non-bank financial institutions	1,720,634	1,751,770	766,491	351,816	291,385	260,618	74,705	6,755
Financial liabilities at fair value through profit or loss	414,148	418,613	19,854	138,903	98,501	154,750	6,605	–
Financial assets sold under repurchase agreements	74,279	75,774	–	66,326	1,374	2,030	5,658	386
Deposits from customers	16,363,754	16,725,423	9,785,489	1,131,863	1,138,058	2,735,162	1,905,745	29,106
Debt securities issued								
– Certificates of deposit issued	321,366	359,190	–	63,261	150,660	104,893	40,339	37
– Bond issued	71,331	82,226	–	201	1,796	8,139	67,539	4,551
– Subordinated bonds issued	144,898	204,878	–	36	1,224	5,913	175,336	22,369
– Eligible Tier 2 capital bonds issued	58,931	80,778	–	–	–	2,758	28,842	49,178
Other financial liabilities	216,642	216,642	24,349	26,551	28,197	124,193	–	13,352
Total	19,933,270	20,478,626	10,596,183	1,878,405	1,821,698	3,751,067	2,305,539	125,734
Off- balance sheet loan commitments and credit card commitments (Note)		1,390,853	1,133,818	85,704	8,111	37,721	83,073	42,426
Guarantees, acceptances and other credit commitments (Note)		1,638,319	–	398,492	232,930	425,987	542,427	38,483

65 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(b) Contractual undiscounted cash flow (continued)

	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

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 2017, 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 process, technique and input

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 2017, 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 2016.

(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:

	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets at fair value through profit or loss				
Financial assets held for trading purpose				
– Debt securities	**2,050**	**187,397**	**–**	**189,447**
– Equity instruments and funds	**1,312**	**–**	**–**	**1,312**
Financial assets designated as at fair value through profit or loss				
– Debt securities	**–**	**–**	**10,211**	**10,211**
– Equity instruments and funds	**837**	**–**	**22,239**	**23,076**
– Other debt instruments	**–**	**228,995**	**125,395**	**354,390**
Positive fair value of derivatives	**–**	**82,881**	**99**	**82,980**
Available-for-sale financial assets				
– Debt securities	**176,791**	**1,282,194**	**2,839**	**1,461,824**
– Equity instruments and funds	**8,181**	**63,806**	**4,419**	**76,406**
Total	**189,171**	**1,845,273**	**165,202**	**2,199,646**
Liabilities				
Financial liabilities at fair value through profit or loss				
Financial liabilities designated as at fair value through profit or loss	**–**	**413,676**	**472**	**414,148**
Negative fair value of derivatives	**–**	**79,769**	**98**	**79,867**
Total	**–**	**493,445**	**570**	**494,015**

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

65 RISK MANAGEMENT (CONTINUED)

(5) Fair value of financial instruments (continued)

(c) Financial instruments measured at fair value (continued)

(i) Fair value hierarchy (continued)

	2016			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
Financial assets held for trading purpose				
– Debt securities	3,134	138,196	–	141,330
– Equity instruments and funds	1,825	–	–	1,825
Financial assets designated as at fair value through profit or loss				
– 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				
Financial liabilities designated as at fair value through profit or loss	–	395,883	708	396,591
Negative fair value of derivatives	–	89,788	545	90,333
Total	–	485,671	1,253	486,924

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 2017 and 2016, 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:

	2017									
	Financial assets designated as at fair value through profit or loss				Available-for-sale financial assets					
	Debt securities	Equity instruments and funds	Other debt instruments	Positive fair value of derivatives	Debt securities	Equity instruments and funds	Total assets	Financial liabilities designated as at fair value through profit or loss	Negative fair value of derivatives	Total liabilities
As at 1 January 2017	8,690	16,132	264,856	466	5,719	9,349	305,212	(708)	(545)	(1,253)
Total gains or losses:										
In profit or loss	114	162	2,398	(243)	(264)	(46)	2,121	204	242	446
In other comprehensive income	–	–	–	–	(81)	(50)	(131)	–	–	–
Purchases	3,546	19,532	396,578	–	715	5,160	425,531	(287)	–	(287)
Sales and settlements	(2,139)	(13,587)	(538,437)	(124)	(3,250)	(9,994)	(576,531)	319	205	524
As at 31 December 2017	10,211	22,239	125,395	99	2,839	4,419	165,202	(472)	(98)	(570)

	2016									
	Financial assets designated as at fair value through profit or loss				Available-for-sale financial assets					
	Debt securities	Equity instruments and funds	Other debt instruments	Positive fair value of derivatives	Debt securities	Equity instruments and funds	Total assets	Financial liabilities designated as at fair value through profit or loss	Negative fair value of derivatives	Total liabilities
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)

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

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:

	2017			2016		
	Realised	**Unrealised**	**Total**	Realised	Unrealised	Total
Total gains/(losses)	**1,964**	**603**	**2,567**	7,782	(89)	7,693

(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.

	2017					2016				
	Carrying value	**Fair value**	**Level 1**	**Level 2**	**Level 3**	Carrying value	Fair value	Level 1	Level 2	Level 3
Investment classified as receivables	**465,810**	**480,353**	**–**	**466,521**	**13,832**	507,963	512,409	–	358,488	153,921
Held-to-maturity investments	**2,586,722**	**2,535,280**	**23,186**	**2,512,094**	**–**	2,438,417	2,494,243	1,351	2,492,892	–
Total	**3,052,532**	**3,015,633**	**23,186**	**2,978,615**	**13,832**	2,946,380	3,006,652	1,351	2,851,380	153,921

(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 2017 was RMB211,511 million (as at 31 December 2016: RMB212,166 million), and their carrying value was RMB203,829 million (as at 31 December 2016: RMB205,383 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 2017, 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 recognises insurance contract liabilities accordingly. For long-term personal insurance contracts and short-term personal insurance contracts, insurance risk may be elevated by the uncertainty of insurance risk assumptions including assumptions on death events, relevant expenses, and interest rates. For property and casualty insurance contracts, claims are often affected by natural disasters, catastrophes, terrorist attacks and other factors. In addition, the insurance risk will be affected by the policy termination, premium reduction or policyholders' refusal of payment, that is, the insurance risk will be affected by the policyholder's behavior and decision.

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, monitoring 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	2017	2016
Common Equity Tier 1 ratio	(a)(b)(c)	**13.09%**	12.98%
Tier 1 ratio	(a)(b)(c)	**13.71%**	13.15%
Total capital ratio	(a)(b)(c)	**15.50%**	14.94%
Common Equity Tier 1 capital			
– Qualifying common share capital		**250,011**	250,011
– Capital reserve	(d)	**109,968**	132,800
– Surplus reserve		**198,613**	175,445
– General reserve		**259,600**	211,134
– Retained earnings		**883,184**	784,164
– Non-controlling interest recognised in Common Equity Tier 1 capital		**3,264**	4,069
– Others	(e)	**(4,256)**	798
Deductions for Common Equity Tier 1 capital			
– Goodwill	(f)	**2,556**	2,752
– Other intangible assets (excluding land use rights)	(f)	**2,274**	2,083
– Cash-flow hedge reserve		**320**	(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		**79,636**	19,659
– Non-controlling interest recognised in Additional Tier 1 capital		**152**	82
Tier 2 capital			
– Directly issued qualifying Tier 2 instruments including related premium		**138,848**	155,684
– Provisions in Tier 2	(g)	**92,838**	58,281
– Non-controlling interest recognised in Tier 2 capital		**266**	375
Common Equity Tier 1 capital after deduction	(h)	**1,691,332**	1,549,834
Tier 1 capital after deduction	(h)	**1,771,120**	1,569,575
Total capital after deduction	(h)	**2,003,072**	1,783,915
Risk-weighted assets	(i)	**12,919,980**	11,937,774

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 2017, 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

	2017	2016
Assets:		
Cash and deposits with central banks	**2,973,506**	2,842,072
Deposits with banks and non-bank financial institutions	**126,766**	389,062
Precious metals	**157,036**	202,851
Placements with banks and non-bank financial institutions	**286,797**	318,511
Financial assets at fair value through profit or loss	**395,536**	360,628
Positive fair value of derivatives	**75,851**	81,425
Financial assets held under resale agreements	**194,850**	67,391
Interest receivable	**111,436**	98,040
Loans and advances to customers	**12,081,328**	11,084,938
Available-for-sale financial assets	**1,402,017**	1,473,168
Held-to-maturity investments	**2,550,066**	2,410,110
Investment classified as receivables	**575,994**	508,363
Investments in subsidiaries	**51,660**	37,024
Investment in consolidated structured entities	**187,486**	211,908
Fixed assets	**144,042**	145,421
Land use rights	**13,657**	14,277
Intangible assets	**1,831**	1,588
Deferred tax assets	**43,821**	28,281
Other assets	**91,671**	106,344
Total assets	**21,465,351**	20,381,402

	2017	2016
Liabilities:		
Borrowings from central banks	**546,633**	438,660
Deposits from banks and non-bank financial institutions	**1,323,371**	1,582,881
Placements from banks and non-bank financial institutions	**318,488**	311,095
Financial liabilities at fair value through profit or loss	**413,523**	395,769
Negative fair value of derivatives	**73,730**	83,332
Financial assets sold under repurchase agreements	**53,123**	170,067
Deposits from customers	**16,064,638**	15,114,993
Accrued staff costs	**29,908**	31,779
Taxes payable	**51,772**	43,653
Interest payable	**197,153**	210,035
Provisions	**8,543**	7,336
Debt securities issued	**538,989**	386,491
Deferred tax liabilities	**39**	53
Other liabilities	**95,324**	54,015
Total liabilities	**19,715,234**	18,830,159

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

66 STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY OF THE BANK (CONTINUED)

	2017	2016
Equity:		
Share capital	**250,011**	250,011
Other equity instruments Preference Shares	**79,636**	19,659
Capital reserve	**135,791**	134,520
Investment revaluation reserve	**(24,463)**	(1,213)
Surplus reserve	**198,613**	175,445
General reserve	**254,864**	206,697
Retained earnings	**856,109**	766,312
Exchange reserve	**(444)**	(188)
Total equity	**1,750,117**	1,551,243
Total liabilities and equity	**21,465,351**	20,381,402

Approved and authorised for issue by the Board of Directors 27 March 2018.

Wang Zuji
Vice chairman, executive director and president

Chung Shui Ming Timpson
Independent non-executive director

Carl Walter
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 2016	250,011	19,659	134,520	(1,213)	175,445	206,697	766,312	(188)	1,551,243
Movements during the year	–	59,977	1,271	(23,250)	23,168	48,167	89,797	(256)	198,874
(1) Total comprehensive income for the year	–	–	1,271	(23,250)	–	–	231,680	(256)	209,445
(2) Changes in share capital									
i Capital injection by other equity holders	–	59,977	–	–	–	–	–	–	59,977
(3) Profit distribution									
i Appropriation to surplus reserve	–	–	–	–	23,168	–	(23,168)	–	–
ii Appropriation to general reserve	–	–	–	–	–	48,167	(48,167)	–	–
iii Dividends paid to ordinary shareholders	–	–	–	–	–	–	(69,503)	–	(69,503)
iv Dividends paid to preference shareholders	–	–	–	–	–	–	(1,045)	–	(1,045)
As at 31 December 2017	250,011	79,636	135,791	(24,463)	198,613	254,864	856,109	(444)	1,750,117

	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

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.

(EXPRESSED IN MILLIONS OF RMB, UNLESS OTHERWISE STATED)

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 2017 and have not been adopted in the financial statements.

Standards		Effective for annual periods beginning on or after
(1)	IFRS 9, "Financial Instruments"	1 January 2018
(2)	IFRS 15, "Revenue from Contracts with Customers"	1 January 2018
(3)	IFRS 16, "Leases"	1 January 2019
(4)	IFRS 17, "Insurance Contracts"	1 January 2021

(1) 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.

Credit risk assessment and ECL estimates must reflect unbiased and probability-weighted amounts, and incorporate all available information relevant to the assessments, including reasonable and supportable information on past events, and current and forecasted economic conditions. In addition, ECL estimation should also consider the time value of money. In comparison with IAS 39, IFRS 9 intends impairment recognition and measurement to be more forward-looking.

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.

The Group estimated that the adoption of IFRS 9 would reduce its net assets by approximately 1% as at 1 January 2018, mainly due to the application of ECL model.

70 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

(2) 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.

(3) 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.

(4) IFRS 17, "Insurance Contracts"

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows
- an explicit risk adjustment, and
- a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The Group is currently assessing the impact of IFRS 17 upon initial application.

China Construction Bank Corporation
Consolidated statement of comprehensive income
For the three months ended 31 March 2018
(Expressed in millions of Renminbi, unless otherwise stated)

	Three months ended 31 March	
	2018	2017
	(Unaudited)	(Unaudited)
Interest income	199,141	179,561
Interest expense	(76,459)	(72,638)
Net interest income	122,682	106,923
Fee and commission income	40,872	41,542
Fee and commission expense	(2,941)	(2,775)
Net fee and commission income	37,931	38,767
Net trading gain	2,423	1,073
Dividend income	69	440
Net gain arising from investment securities	722	558
Other operating income, net:		
- Other operating income	20,104	23,761
- Other operating expense	(19,013)	(12,484)
Other operating income, net	1,091	11,277
Operating income	164,918	159,038
Operating expenses	(36,233)	(35,095)
	128,685	123,943
Impairment losses on:		
- Loans and advances to customers	(34,926)	(35,322)
- Others	(3,314)	(840)
Impairment losses	(38,240)	(36,162)
Share of profit/(loss) of associates and joint ventures	48	(8)
Profit before tax	90,493	87,773
Income tax expense	(16,417)	(17,542)
Net profit	74,076	70,231

China Construction Bank Corporation
Consolidated statement of comprehensive income (continued)
For the three months ended 31 March 2018
(Expressed in millions of Renminbi, unless otherwise stated)

	Three months ended 31 March	
	2018	2017
	(Unaudited)	(Unaudited)
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Fair value changes of equity instrument designated as at fair value in other comprehensive income	(67)	N/A
Subtotal	(67)	-
Items that may be reclassified subsequently to profit or loss		
Gains of financial assets measured at fair value in other comprehensive income	10,026	N/A
Income tax impact relating to financial assets measured at fair value in other comprehensive income	(2,563)	N/A
Losses of available-for-sale financial assets arising during the period	N/A	(12,425)
Income tax impact relating to available-for-sale financial assets	N/A	3,010
Reclassification adjustments included in profit or loss	(85)	234
Net loss on cash flow hedges	(246)	(115)
Exchange difference on translating foreign operations	(2,660)	60
Subtotal	4,472	(9,236)
Other comprehensive income for the period, net of tax	4,405	(9,236)
Total comprehensive income for the period	78,481	60,995
Net profit attributable to:		
Equity shareholders of the Bank	73,815	70,012
Non-controlling interests	261	219
	74,076	70,231
Total comprehensive income attributable to:		
Equity shareholders of the Bank	78,309	60,908
Non-controlling interests	172	87
	78,481	60,995
Basic and diluted earnings per share (in RMB Yuan)	0.30	0.28

China Construction Bank Corporation
Consolidated statement of financial position
As at 31 March 2018
(Expressed in millions of Renminbi, unless otherwise stated)

	31 March 2018	31 December 2017
	(Unaudited)	(Audited)
Assets:		
Cash and deposits with central banks	2,782,774	2,988,256
Deposits with banks and non-bank financial institutions	551,144	175,005
Precious metals	141,246	157,036
Placements with banks and non-bank financial institutions	301,908	325,233
Positive fair value of derivatives	132,827	82,980
Financial assets held under resale agreements	477,379	208,360
Interest receivable	131,624	116,993
Loans and advances to customers	12,780,050	12,574,473
Financial investments	5,202,278	5,181,648
Financial assets at fair value through profit or loss	768,145	578,436
Financial assets measured at amortised cost	3,193,250	N/A
Financial assets measured at fair value in other comprehensive income	1,240,883	N/A
Available-for-sale financial assets	N/A	1,550,680
Held-to-maturity investments	N/A	2,586,722
Investment classified as receivables	N/A	465,810
Interests in associates and joint ventures	7,321	7,067
Fixed assets	167,514	169,679
Land use rights	14,273	14,545
Intangible assets	2,626	2,752
Goodwill	2,646	2,751
Deferred tax assets	57,702	46,189
Other assets	95,428	71,416
Total assets	22,848,740	22,124,383

China Construction Bank Corporation
Consolidated statement of financial position (continued)
As at 31 March 2018
(Expressed in millions of Renminbi, unless otherwise stated)

	31 March 2018	31 December 2017
	(Unaudited)	(Audited)
Liabilities:		
Borrowings from central banks	552,760	547,287
Deposits from banks and non-bank financial institutions	1,173,475	1,336,995
Placements from banks and non-bank financial institutions	491,628	383,639
Financial liabilities at fair value through profit or loss	482,298	414,148
Negative fair value of derivatives	132,750	79,867
Financial assets sold under repurchase agreements	44,083	74,279
Deposits from customers	16,899,661	16,363,754
Accrued staff costs	28,310	32,632
Taxes payable	74,519	54,106
Interest payable	187,245	199,588
Provisions	36,804	10,581
Debt securities issued	610,693	596,526
Deferred tax liabilities	462	389
Other liabilities	280,436	234,765
Total liabilities	20,995,124	20,328,556

(Expressed in millions of Renminbi, unless otherwise stated)

	31 March 2018	31 December 2017
	(Unaudited)	(Audited)
Equity:		
Share capital	250,011	250,011
Other equity instruments		
Preference shares	79,636	79,636
Capital reserve	134,537	135,225
Investment revaluation reserve	-	(26,004)
Other comprehensive income	(15,479)	-
Surplus reserve	198,613	198,613
General reserve	259,784	259,680
Retained earnings	930,275	886,921
Exchange reserve	-	(4,322)
Total equity attributable to equity shareholders of the Bank	1,837,377	1,779,760
Non-controlling interests	16,239	16,067
Total equity	1,853,616	1,795,827
Total liabilities and equity	22,848,740	22,124,383

Approved and authorised for issue by the Board of Directors on 26 April 2018.

Wang Zuji *Vice chairman, executive director and president*	Chung Shui Ming Timpson *Independent non-executive director*	Hao Aiqun *Non-executive director*

China Construction Bank Corporation
Consolidated statement of cash flows
For the three months ended 31 March 2018
(Expressed in millions of Renminbi, unless otherwise stated)

	Three months ended 31 March	
	2018	2017
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Profit before tax	90,493	87,773
Adjustments for:		
– Impairment losses	38,240	36,162
– Depreciation and amortisation	4,175	3,985
– Interest income from impaired financial assets	(749)	(752)
– Revaluation gain on financial instruments at fair value through profit or loss	(1,115)	(81)
– Share of (profit)/loss of associates and joint ventures	(48)	8
– Dividend income	(69)	(440)
– Unrealised foreign exchange loss/(gain)	1,202	(10,442)
– Interest expense on bonds issued	3,987	2,842
– Net gain on disposal of investment securities	(722)	(558)
– Net gain on disposal of fixed assets and other long-term assets	(64)	(12)
	135,330	118,485

China Construction Bank Corporation
Consolidated statement of cash flows (continued)
For the three months ended 31 March 2018
(Expressed in millions of Renminbi, unless otherwise stated)

	Three months ended 31 March	
	2018	2017
	(Unaudited)	(Unaudited)
Cash flows from operating activities (continued)		
Changes in operating assets:		
Net decrease in deposits with central banks and with banks and non-bank financial institutions	169,204	107,348
Net decrease in placements with banks and non-bank financial institutions	6,550	46,367
Net increase in financial assets at fair value through profit or loss	(4,971)	(93,541)
Net increase in financial assets held under resale agreements	(269,062)	(144,496)
Net increase in loans and advances to customers	(307,113)	(426,878)
Net increase in other operating assets	(13,774)	(38,680)
	(419,166)	(549,880)
Changes in operating liabilities:		
Net increase in borrowings from central banks	6,730	53,657
Net increase in deposits from customers and from banks and non-bank financial institutions	416,791	638,268
Net increase in placements from banks and non-bank financial institutions	120,991	112,182
Net increase in financial liabilities at fair value through profit or loss	68,925	990
Net decrease in financial assets sold under repurchase agreements	(29,603)	(134,299)
Net increase in certificates of deposit issued	25,129	14,515
Income tax paid	(6,139)	(10,596)
Net increase in other operating liabilities	29,385	19,991
	632,209	694,708
Net cash from operating activities	348,373	263,313

(Expressed in millions of Renminbi, unless otherwise stated)

	Three months ended 31 March	
	2018	2017
	(Unaudited)	(Unaudited)
Cash flows from investing activities		
Proceeds from sale and redemption of investments	429,298	333,172
Dividends received	69	464
Proceeds from disposal of fixed assets and other long-term assets	1,976	2,060
Purchase of investment securities	(435,872)	(339,310)
Purchase of fixed assets and other long-term assets	(2,523)	(2,783)
Acquisition of associates and joint ventures	(652)	(801)
Net cash used in investing activities	(7,704)	(7,198)
Cash flows from financing activities		
Issue of bonds	1,251	-
Capital contribution by non-controlling interests	-	93
Consideration paid for acquisition of non-controlling interests	-	(100)
Dividends paid	(2)	(60)
Repayments of borrowings	(163)	-
Interest paid on bonds issued	(2,505)	(1,565)
Net cash used in financing activities	(1,419)	(1,632)

China Construction Bank Corporation
Consolidated statement of cash flows (continued)
For the three months ended 31 March 2018
(Expressed in millions of Renminbi, unless otherwise stated)

	Three months ended 31 March	
	2018	2017
	(Unaudited)	(Unaudited)
Effect of exchange rate changes on cash and cash equivalents	(11,467)	(3,027)
Net increase in cash and cash equivalents	327,783	251,456
Cash and cash equivalents as at 1 January	571,339	599,124
Cash and cash equivalents as at 31 March	899,122	850,580
Cash flows from operating activities include:		
Interest received	183,760	167,140
Interest paid, excluding interest expense on bonds issued	(86,709)	(73,708)

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