中国农业银行
AGRICULTURAL BANK OF CHINA

Agricultural Bank of China Limited

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

Joint Dedication To Build a Beautiful China

2017 Annual Report

Profile

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

As one of the major integrated financial service providers in China, the Bank is committed to building an international first-class commercial banking group with featured operations, efficient and convenient services, diversified functions, as well as demonstrated value-creation capability. Capitalizing on its comprehensive business portfolio, extensive distribution network and advanced IT platform, the Bank provides a diverse portfolio of corporate and retail banking products and services for a broad range of customers, and conducts treasury operations and asset management. Our business scope also includes, among other things, investment banking, fund management, financial leasing and life insurance. At the end of 2017, the Bank had total assets of RMB21,053,382 million, loans and advances to customers of RMB10,720,611 million and deposits from customers of RMB16,194,279 million. Our capital adequacy ratio was 13.74%. The Bank achieved a net profit of RMB193,133 million in 2017.

The Bank had a total of 23,661 domestic branch outlets at the end of 2017, including the Head Office, the Big Client Department of the Head Office, three specialized business units managed by the Head Office, three training institutes, 37 tier-1 branches (including five branches directly managed by the Head Office), 378 tier-2 branches (including business departments of branches in provinces), 3,485 tier-1 sub-branches (including business departments in municipalities, business departments of branches directly managed by the Head Office and business departments of tier-2 branches), 19,701 foundation-level branch outlets, and 52 other establishments. Our overseas branch outlets consisted of thirteen overseas branches and four overseas representative offices. The Bank had fifteen major subsidiaries, including ten domestic subsidiaries and five overseas subsidiaries.

The Financial Stability Board has included the Bank into the list of Global Systemically Important Banks for four consecutive years since 2014. In 2017, the Bank ranked No. 38 in *Fortune's* Global 500, and ranked No. 6 in *The Banker's* "Top 1000 World Banks" list in terms of tier 1 capital. The Bank's issuer credit ratings assigned by Standard & Poor's were A/A-1, and the long-/short-term issuer default ratings assigned by Fitch Ratings were A/F1.

Contents

Definitions

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

1.	A Share(s)	Ordinary shares listed domestically which are subscribed and traded in Renminbi
2.	ABC/Agricultural Bank of China/the Bank/the Group/We	Agricultural Bank of China Limited, or Agricultural Bank of China Limited, and its subsidiaries
3.	Articles of Association	*The Articles of Association of Agricultural Bank of China Limited* approved by the China Banking Regulatory Commission on 8 November 2017
4.	Basis point(s)	A unit of measure related to the change in an interest rate or exchange rate, which is equivalent to 0.01%
5.	CASs/PRC GAAP	The Accounting Standards for Enterprises promulgated on 15 February 2006 by the Ministry of Finance of the People's Republic of China and other related rules and regulations subsequently issued
6.	CBRC	China Banking Regulatory Commission
7.	County Area Banking Business	We provide customers in the County Areas with a broad range of financial services through our branch outlets located in counties and county-level cities in the People's Republic of China. We refer to such business as the "County Area Banking Business" or "Sannong Banking Business"
8.	County Area Banking Division	An internal division with management mechanism adopted by us for specialized operation of financial services provided to Sannong and the County Areas, as required under our restructuring into a joint stock limited liability company, which focuses on the County Area Banking Business with independence in aspects such as governance mechanism, operational decision making, financial accounting as well as incentive and constraint mechanism to a certain extent
9.	County Area(s)	The county-level regions (excluding the district-level areas in the cities) in the People's Republic of China and the areas under their administration, including counties and county-level cities
10.	CSRC	China Securities Regulatory Commission
11.	Duration	An approach to measure the weighted average term of cash flows of debt securities, which mainly reflects the sensitivity of the value of debt securities to interest rate movements
12.	Economic capital	Capital allocated to assets or businesses for the purpose of mitigating risks based on internal assessment of the management of commercial banks
13.	Global Systemically Important Banks	Banks recognized as key players in the financial market with global features as announced by the Financial Stability Board
14.	H Share(s)	Shares listed on The Stock Exchange of Hong Kong Limited and subscribed and traded in Hong Kong Dollars, the nominal value of which are denominated in Renminbi

15.	Hong Kong Listing Rules	*The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited*
16.	Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
17.	Huijin	Central Huijin Investment Ltd.
18.	MOF	Ministry of Finance of the People's Republic of China
19.	PBOC	The People's Bank of China
20.	Sannong	Agriculture, rural areas and rural people
21.	SSF	National Council for Social Security Fund of the People's Republic of China

Basic Corporate Information

Legal name in Chinese	中國農業銀行股份有限公司
Abbreviation	中國農業銀行
Legal name in English	AGRICULTURAL BANK OF CHINA LIMITED
Abbreviation	AGRICULTURAL BANK OF CHINA (ABC)
Legal representative	ZHOU Mubing
Authorized representatives	ZHAO Huan ZHOU Wanfu
Secretary to the Board of Directors and Company Secretary	ZHOU Wanfu Address: No. 69, Jianguomen Nei Avenue, Dongcheng District, Beijing, PRC Tel: 86-10-85109619 (Investors Relations) Fax: 86-10-85108557 E-mail: ir@abchina.com
Registered office address	No. 69, Jianguomen Nei Avenue, Dongcheng District, Beijing, PRC
Postal code	100005
Hotline for customer service and compliant	95599
Internet website	www.abchina.com
Principal place of business in Hong Kong	25/F, Agricultural Bank of China Tower, 50 Connaught Road Central, Hong Kong
Selected media for information disclosure	*China Securities Journal*, *Shanghai Securities News*, *Securities Times* and *Securities Daily*
Website of Shanghai Stock Exchange publishing the annual report (A Shares)	www.sse.com.cn
Website of Hong Kong Stock Exchange publishing the annual report (H Shares)	www.hkexnews.hk
Location where copies of the annual report are kept	Office of the Board of Directors of the Bank
Listing exchange of A Shares	Shanghai Stock Exchange
Stock name	農業銀行
Stock code	601288
Share registrar	China Securities Depository and Clearing Corporation Limited, Shanghai Branch (Address: 3/F, China Insurance Building, No. 166 Lujiazui East Road, New Pudong District, Shanghai, PRC)
Listing exchange of H Shares	The Stock Exchange of Hong Kong Limited
Stock name	ABC
Stock code	1288
Share registrar	Computershare Hong Kong Investor Services Limited (Address: Shops 1712-1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wan Chai, Hong Kong)
Trading exchange and platform of preference shares	The Integrated Business Platform of Shanghai Stock Exchange
Stock name (stock code)	農行優1 (360001), 農行優2 (360009)
Share registrar	China Securities Depository and Clearing Corporation Limited, Shanghai Branch (Address: 3/F, China Insurance Building, No. 166 Lujiazui East Road, New Pudong District, Shanghai, PRC)

Basic Corporate Information and Major Financial Indicators

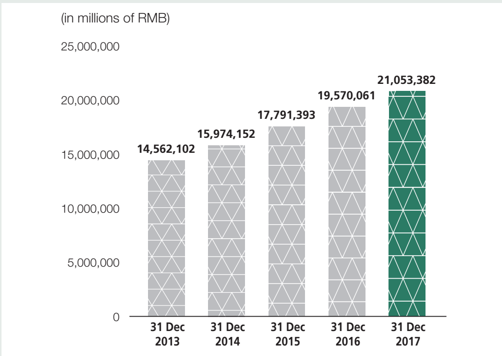
Name of domestic legal advisors	King & Wood Mallesons Lawyers
Address	40/F, Office Tower A Beijing Fortune Plaza 7 East 3rd Ring Middle Road Chaoyang District Beijing
Name of Hong Kong legal advisors	Freshfields Bruckhaus Deringer
Address	55th Floor, One Island East Taikoo Place Quarry Bay, Hong Kong
Name of domestic auditor	PricewaterhouseCoopers Zhong Tian LLP
Address	11/F, PricewaterhouseCoopers Center Link Square 2 202 Hu Bin Road, Huangpu District, Shanghai
Name of the undersigned accountants	WANG Wei, HAN Dan
Name of international auditor	PricewaterhouseCoopers
Address	22/F, Prince's Building, Central, Hong Kong

Basic Corporate Information and Major Financial Indicators

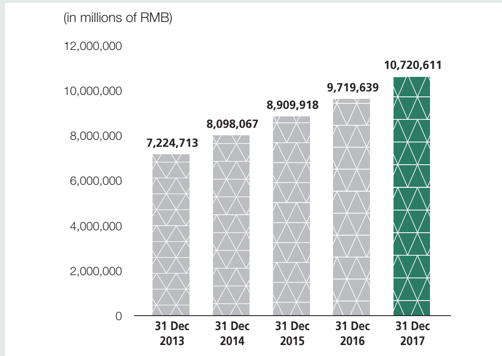
Financial Highlights

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

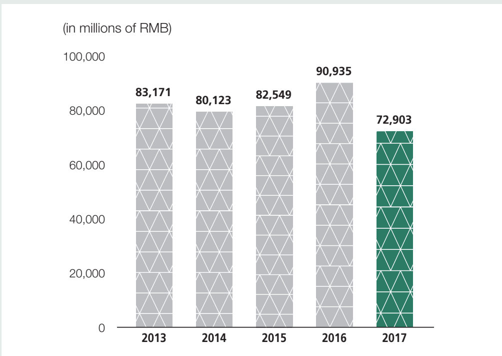
Total assets



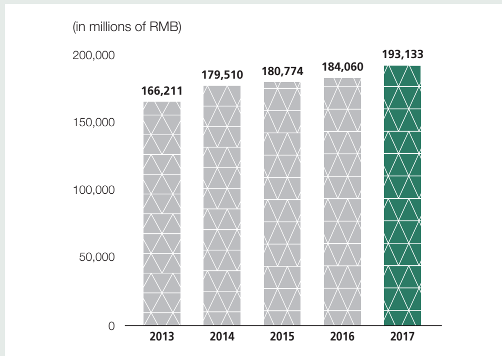
Total loans and advances to customers



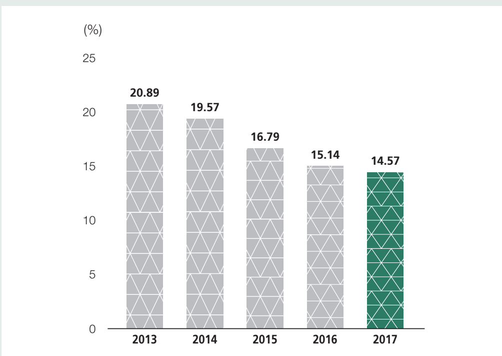
Net fee and commission income



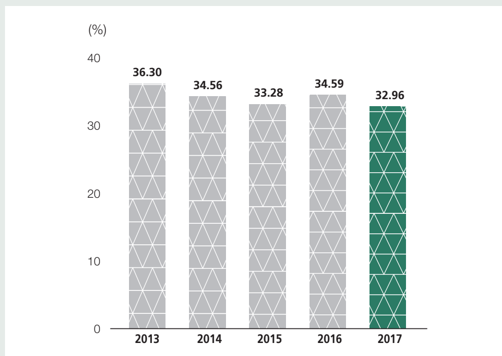
Net profit



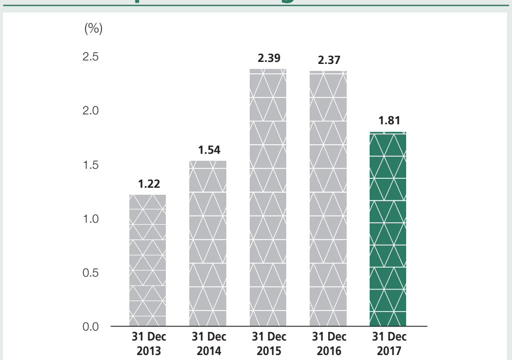
Return on weighted average net assets



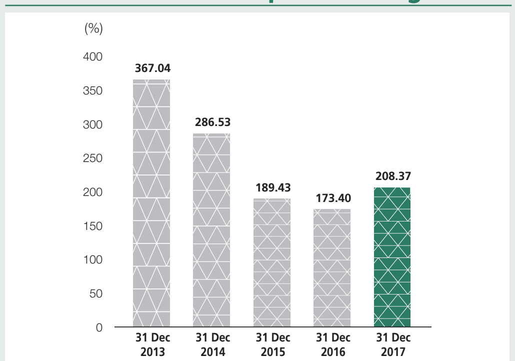
Cost-to-income ratio



Non-performing loan ratio



Allowance to non-performing loans



Financial Data

	31 December 2017	31 December 2016	31 December 2015	31 December 2014	31 December 2013
At the end of the reporting period (in millions of RMB)					
Total assets	**21,053,382**	19,570,061	17,791,393	15,974,152	14,562,102
Total loans and advances to customers	**10,720,611**	9,719,639	8,909,918	8,098,067	7,224,713
Corporate loans	**6,147,584**	5,368,250	5,378,404	5,147,410	4,728,857
Discounted bills	**187,502**	569,948	356,992	157,349	92,823
Retail loans	**4,000,273**	3,340,879	2,727,890	2,396,639	2,093,305
Overseas and others	**385,252**	440,562	446,632	396,669	309,728
Allowance for impairment losses on loans	**404,300**	400,275	403,243	358,071	322,191
Loans and advances to customers, net	**10,316,311**	9,319,364	8,506,675	7,739,996	6,902,522
Investment in securities and other financial assets, net	**6,152,743**	5,333,535	4,512,047	3,575,630	3,220,098
Cash and balances with central banks	**2,896,619**	2,811,653	2,587,057	2,743,065	2,603,802
Deposits and placements with and loans to banks and other financial institutions	**635,514**	1,203,614	1,202,175	979,867	706,333
Financial assets held under resale agreements	**540,386**	323,051	471,809	509,418	737,052
Total liabilities	**19,623,985**	18,248,470	16,579,508	14,941,533	13,717,565
Deposits from customers	**16,194,279**	15,038,001	13,538,360	12,533,397	11,811,411
Corporate deposits	**6,379,447**	5,599,743	4,821,751	4,437,283	4,311,407
Retail deposits	**9,246,510**	8,815,148	8,065,556	7,422,318	6,923,647
Overseas and others	**568,322**	623,110	651,053	673,796	576,357
Deposits and placements from banks and other financial institutions	**1,254,791**	1,458,065	1,537,660	1,056,064	903,717
Financial assets sold under repurchase agreements	**319,789**	205,832	88,804	131,021	26,787
Debt securities issued	**475,017**	388,215	382,742	325,167	266,261
Equity attributable to equity holders of the Bank	**1,426,415**	1,318,193	1,210,091	1,031,066	843,108
Net capital[1]	**1,731,946**	1,546,500	1,471,620	1,391,559	1,074,967
Common Equity Tier 1 (CET1) capital, net[1]	**1,339,953**	1,231,030	1,124,690	986,206	838,473
Additional Tier 1 capital, net[1]	**79,906**	79,904	79,902	39,946	1
Tier 2 capital, net[1]	**312,087**	235,566	267,028	365,407	236,493
Risk-weighted assets[1]	**12,605,577**	11,856,530	10,986,302	10,852,619	9,065,631

	2017	2016	2015	2014	2013
Operating results for the year (in millions of RMB)					
Operating income	**542,898**	510,128	540,862	524,126	465,771
Net interest income	**441,930**	398,104	436,140	429,891	376,202
Net fee and commission income	**72,903**	90,935	82,549	80,123	83,171
Operating expenses	**205,268**	197,049	225,818	223,898	198,607
Impairment losses on assets	**98,166**	86,446	84,172	67,971	52,990
Total profit before tax	**239,478**	226,624	230,857	232,257	214,174
Net profit	**193,133**	184,060	180,774	179,510	166,211
Net profit attributable to equity holders of the Bank	**192,962**	183,941	180,582	179,461	166,315
Net cash generated from operating activities	**633,417**	715,973	820,348	34,615	32,879

Financial Indicators

	2017	2016	2015	2014	2013
Profitability (%)					
Return on average total assets[2]	**0.95**	0.99	1.07	1.18	1.20
Return on weighted average net assets[3]	**14.57**	15.14	16.79	19.57	20.89
Net interest margin[4]	**2.28**	2.25	2.66	2.92	2.79
Net interest spread[5]	**2.15**	2.10	2.49	2.76	2.65
Return on risk-weighted assets[1,6]	**1.53**	1.55	1.65	1.65	1.83
Net fee and commission income to operating income	**13.43**	17.83	15.26	15.29	17.86
Cost-to-income ratio[7]	**32.96**	34.59	33.28	34.56	36.30
Data per share (RMB Yuan)					
Basic earnings per share[3]	**0.58**	0.55	0.55	0.55	0.51
Diluted earnings per share[3]	**0.58**	0.55	0.55	0.55	0.51
Net cash per share generated from operating activities	**1.95**	2.20	2.53	0.11	0.10

	31 December 2017	31 December 2016	31 December 2015	31 December 2014	31 December 2013
Asset Quality (%)					
Non-performing loan ratio[8]	**1.81**	2.37	2.39	1.54	1.22
Allowance to non-performing loans[9]	**208.37**	173.40	189.43	286.53	367.04
Allowance to total loans[10]	**3.77**	4.12	4.53	4.42	4.46
Capital adequacy (%)					
Common Equity Tier 1 (CET1) capital adequacy ratio[1]	**10.63**	10.38	10.24	9.09	9.25
Tier 1 capital adequacy ratio[1]	**11.26**	11.06	10.96	9.46	9.25
Capital adequacy ratio[1]	**13.74**	13.04	13.40	12.82	11.86
Risk-weighted assets to total assets ratio[1]	**59.87**	60.59	61.75	67.94	62.25
Total equity to total assets ratio	**6.79**	6.75	6.81	6.46	5.80
Data per share (RMB Yuan)					
Net assets per ordinary share[11]	**4.15**	3.81	3.48	3.05	2.60

Notes:

1. *Figures were calculated in accordance with the Capital Rules for Commercial Banks (Provisional) and other relevant regulations.*
2. *Calculated by dividing net profit by the average balances of total assets at the beginning and the end of the period.*
3. *Calculated in accordance with the Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No. 9 – Computation and Disclosure of Return on Net Assets and Earnings per Share (2010 Revision) issued by the CSRC and International Accounting Standard 33 – Earnings per share.*
4. *Calculated by dividing net interest income by the average balances of interest-earning assets.*
5. *Calculated as the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.*
6. *Calculated by dividing net profit by risk-weighted assets at the end of the period. The risk-weighted assets are calculated in accordance with the relevant regulations of the CBRC.*
7. *Calculated by dividing operating and administrative expenses by operating income in accordance with CASs, which is consistent with the corresponding figures as stated in the domestic financial report of the Bank.*
8. *Calculated by dividing the balance of non-performing loans by the balance of total loans and advances to customers.*
9. *Calculated by dividing the allowance for impairment losses on loans by the balance of non-performing loans.*
10. *Calculated by dividing the allowance for impairment losses on loans by the balance of total loans and advances to customers.*
11. *Calculated by dividing equity attributable to ordinary equity holders of the parent company after deduction of other equity instruments at the end of the reporting period by the total number of ordinary shares at the end of reporting period.*

Other Financial Indicators

		Regulatory Standard	**31 December 2017**	31 December 2016	31 December 2015	31 December 2014	31 December 2013
Liquidity ratio[1] (%)	RMB	≥25	**50.95**	46.74	44.50	44.02	43.57
	Foreign Currency	≥25	**106.74**	82.24	115.15	72.49	114.95
Percentage of loans to the largest single customer[2] (%)		≤10	**7.26**	6.98	7.15	5.23	3.33
Percentage of loans to the top ten customers[3] (%)			**18.27**	16.58	16.82	14.43	13.22
Loan migration ratio[4] (%)	Normal		**2.13**	3.00	4.96	3.60	2.53
	Special mention		**18.70**	24.86	18.28	4.99	4.36
	Substandard		**71.48**	89.23	86.94	42.53	37.24
	Doubtful		**6.94**	9.55	10.35	10.10	8.62

Notes: 1. Calculated by dividing current assets by current liabilities in accordance with the relevant regulations of the CBRC.

2. Calculated by dividing loans to the largest single customer by net capital.

3. Calculated by dividing loans to the top ten customers by net capital.

4. Calculated in accordance with the relevant regulations of the CBRC, reflecting domestic data only.

Quarterly Data

2017 (in millions of RMB)	**First quarter**	**Second Quarter**	**Third quarter**	**Fourth quarter**
Operating income	**149,475**	**129,844**	**132,826**	**130,753**
Net profit attributable to equity holders of the Bank	**55,710**	**52,883**	**51,417**	**32,952**
Net cash generated from operating activities	**294,126**	**48,747**	**253,261**	**37,283**

Honors and Awards

Organizations	Honors and Awards
ASIAMONEY	Best Green Domestic National Commercial Bank in China Best Green Chinese Bank in Overseas Markets Best Digital Bank China's Leaders in Fintech: Best State-owned Bank New Silk Road Finance Awards 2017 Middle East and Africa: Best Chinese Bank for the Belt & Road Initiative (BRI)
财视中国 www.caishiv.com	Most Recognized Product Award in Asset Securitization for Receivables Best Financial Consultant in Asset Securitization Innovative Asset Securitization Product Award
华尔街见闻	Most Influential Banking Brand for the Year Excellent Private Bank for the Year
THE Asset 财资	Best Local Currency Bond, China Best E-bank, China Most Innovative Core Banking Project, BoEing Most Innovative Mobile Banking Project
银行家 The Chinese Banker	Top Ten Innovative Internet Finance Product
金融时报 FINANCIAL NEWS	Best Bank for Inclusive Finance Service Bank for 2017
華夏時報 CHINA TIMES	State-owned Commercial Bank for 2017 Bank for Comprehensive Residential Mortgage Loans for 2017
21世纪经济报道 21st CENTURY BUSINESS HERALD	Best Corporate Culture Award for 2017 Excellent Bank for Inclusive Finance Business for 2017
NBD 每日经济新闻 NATIONAL BUSINESS DAILY	Best Private Bank for the Year
证券时报	2017 Investment Banking Junding Award among All-round Banks in China 2017 Banking Junding Award among Financial Advisors in China
上海證券報 Shanghai Securities News	Excellent Asset Management Award Excellent Innovative Wealth Management Product Award

Honors and Awards

Organizations	Honors and Awards
南方周末	Best Responsible Corporate of the Year Responsible Contribution Award of the Year
中国经营报 CHINA BUSINESS JOURNAL	Financial Poverty Alleviation Bank of Excellent Competitiveness for 2017 State-owned Commercial Bank of Excellent Competitiveness for 2017
IDC Analyze the Future	IDC Innovation Award in Financial Industry of Asia-Pacific Region for 2017
中国银行业协会 CHINA BANKING ASSOCIATION	Best Financial Institution Prize for Social Responsibility Performance in 2016 Best Administrator Prize for Social Responsibility Performance in 2016 Best Outlets Prize of Special Contribution for Social Responsibility Performance in 2016 Excellent Charity Project Prize in 2016 Excellent Institution for Legal Risk Management in 2016 Best Development Prize for Pension Fund Business in 2016 Best Performance Prize for Syndication Business
ChinaHR.com 中华英才网	Top 50 Employers for University Graduates in China Top 15 Employers of Financial Industry
金融电子化	Outstanding Contribution Award of Fintech Innovation Contribution Award to Operation and Maintenance Innovation
Trade Finance, SINOTF.com and Organizing Committee of Annual Conference of China Transaction Bank	Best Bank in International Business
Forbes Asia and Fullgoal Fund Management Company Limited	Best Organization Award (Outstanding Financial Advisor in China)
China Central Depository & Clearing Co., Ltd.	"Outstanding Custodian Award" of Chinese Bond Market

ZHOU Mubing
Chairman of the Board of Directors

In 2017, the global economy stabilized and experienced improved performance. Meanwhile, China's economy continued to be more vitalized, demonstrating its resilience. Adhering to the working principle of seeking progress while maintaining stability, following the guidance of the "Six Dimension Strategy", we strengthened our ability to provide financial services to the real economy, put greater effort into prevention of cases of violations and control of risks. We also continued to deepen reforms and strengthen management, enabling us to successfully achieve our objectives for the year and deliver results that exceeded expectations across our primary operating indicators. At the end of 2017, our total assets were RMB21.05 trillion, representing an increase of 7.6% over the end of the previous year. Net profit for the year was RMB193.133 billion, representing an increase of 4.9% over the previous year which remained the leading position among comparable banks. Our return on average total assets (ROAA) was 0.95%, while our return on weighted average net assets (ROAE) was 14.57%. Our non-performing loan ratio was 1.81%, which decreased by 0.56 percentage point over the end of the previous year and the allowance to non-performing loans was 208.37%. These achievements can be attributed to ardent support of our shareholders, customers and Chinese society; as well as the hard work and selfless contributions of all our employees. On behalf of the Board of Directors, I would like to extend my cordial gratitude to all of them.

Currently, China's banking sector faces a more complicated external environment, involving both opportunities and challenges. China's economy has been transitioning from a phase of rapid growth to a stage of high-quality development, which not only brings new financial requirements and business opportunities, but also establishes an imperative for transformation and development in the banking sector. As financial regulations become stringent, the banking sector faces increasing pressure to fulfill regulatory requirements and maintain compliant operations. FinTech has already provided a disruptive effect on the traditional banking sector. The banking industry is entering into a new phase of the FinTech revolution, with unprecedented changes being nurtured.

Looking forward to 2018, abiding by the working principle of seeking progress while maintaining stability, adopting a new vision for development and following the requirement for high-quality development, we will continue to implement the "Six Dimension Strategy", intensify our focus on serving the real economy, manage financial risks, facilitate business transformation, and continue to deepen reforms, aiming to develop ABC into an international first-class commercial banking group.

Commitment to serve the real economy. Serving the real economy is a fundamental responsibility for banks. It is also an essential solution to preventing and mitigating risks. Further, it is the ultimate mission of the Bank. Focusing on supply-side structural reform, we will continue to reduce credit to overcapacity industries and withdraw loans from "zombie" enterprises, while vigorously supporting new industries, new models and new commercial forms. With respect to our resolution to support projects relating to major national strategies, we will continue to direct significant effort to the strategic development of major regions, including the coordinated development of the Beijing-Tianjin-Hebei Region, the Yangtze Economic Belt, Xiongan New Area and the Guangdong-Hong Kong-Macao Bay Region. Regarding rural revitalization, we will focus on offering financial services around the "Seven Major Actions" related to the China's food security strategy, the rural industry integration plan, and reform of the rural collective property rights system, etc. We will maintain our innovation of financial models and products related to targeted poverty alleviation and poverty alleviation in seriously disadvantaged regions, as well as designated areas. In terms of pollution control, we will proactively create new green financial products and increase green credit, with a view towards establishing ABC as a leading bank in green finance. As to the momentum around the all-round opening-up of the domestic economy, we will enhance our financial services for the "Belt and Road Initiative", facilitate the layout of overseas institutions and refine their management standards.

Ensuring the effective control of financial risks. We will continue to focus on forestalling and defusing financial risks, therefore avoiding both "black swans" and "grey rhinos." Following the philosophy of "strict controlling the occurrence of additional non-performing loans and appropriate disposing of the existing non-performing loans", we will implement stringent lending standards and requirements throughout the Bank. We will also rigorously conduct risk management in key areas, such as group customers and real estate sector clients, to further enhance our credit risk management. We will be vigilant to the diffusion of on- and off-balance sheet risks, as well as domestic and overseas risks. We will strengthen our capacity to fund operations through more diverse channels to strengthen our liquidity risk management. We will closely monitor changes in risk factors in different markets and proactively respond to new asset management regulations, more practically controlling market risks. We will strengthen "management basics and the foundation-level management", the "Three Lines and One Grid" and technology monitoring, to strictly control risk relating to cases of violations.

Focusing on facilitating business transformation. We are consistent with our customer-orientated operating philosophy. Through the intense focus on business transformation and innovation, we have been working to offer products and services that exceed expectations. Closely following the development trend of County Area Banking Business, we will accelerate our "No. 1 Project" for Providing Internet Financial Services for Sannong, through further optimizing platform functions and creating innovative products, to build our new advantage in serving Sannong. Through creative internet applications and focusing on "FinTech+", we will facilitate the strategic transformation of our retail banking business, while continuing to enhance and strengthen our traditional advantages in the retail banking business. Through tailored solutions and enhanced incentives, we will substantially improve the profitability of our intermediary businesses. We will also continuously enhance our awareness of the importance efficiently using our capital, in particular eliminating uses that are ineffective, in order to improve our capital adequacy level, addressing both its symptoms and root causes. At the same time, we will focus on broadening sources of income and opportunities for saving cost, as well as on constructing our operation mechanism. In this regard, we will optimize our asset portfolio, reduce cost and optimize resource allocation, and performance evaluation systems with the objective of improving our business performance.

Adherence to deepening reforms. We will further deepen reforms related to our operational system and mechanism to revitalize our operations. We will implement the reforms, which include the organizational restructuring of our Head Office, County Area Banking Division, management of business units directly operated by our head office, integrated operation, management of our branches in provincial capitals, and talent development and professional posts, as well as audit, internal control and compliance management. Oriented on market and information technology, we will accelerate the reform of management of technology and product innovation. We will continue the reform to support the operation of our asset management business, which will focus on net assets value, a market orientation and corporatization. With the objective of establishing a comprehensive and long-term operational system, we will push forward our business process transformation and reform in a practical way.

Great accomplishments result from great ambition and tireless efforts. The year 2018 is the 40th anniversary of China's Reform and Opening-up, as well as the 10th anniversary of our shareholding system reform. It is also a pivotal year to implement our Reform and Development Plan for 2016-2020 and further deepen our reforms related to operational system and mechanism. In the coming year, we will vigorously devote our best effort into creating a new chapter for the reform and development of the Agricultural Bank of China.

ZHOU Mubing
Chairman of the Board of Directors
26 March 2018

ZHAO Huan
President

In 2017, facing a complex environment in financial markets, at home and abroad, we diligently implemented China’s economic directives and plans. Adhering to the principle of seeking progress while maintaining stability, as well as focusing on promoting supply-side structural reform, we put tremendous effort into providing support to Sannong and the real economy. Through adjusting our business structure, promoting development, effectively managing risk and strengthening our basics of management, we maintained stable operation, while making meaningful enhancements, to achieve results that exceeded our expectations and fulfilled the operating objectives established by our Board of Directors. This, again, illustrates that we have realized tangible synergies through our successful developments in scale, quality and efficiency.

We adhered to maintaining stable operation and gradually improved our performance. At the end of 2017, our total assets were RMB21.05 trillion, representing an increase of RMB1.48 trillion or 7.6% over the end of the previous year. We recorded net profit of RMB193.133 billion for 2017, representing an increase of 4.9% over the previous year. The ranking of the Bank, domestically, in terms of deposits and loans remained stable, with loans increasing by 1,000.972 billion or 10.3% and deposits increasing by 1,156.278 billion or 7.7% over the end of the previous year. In particular, the balance of our retail deposits and its growth both maintained leading positions in the banking industry. Our allowance to non-performing loan ratio was 208.37%, representing an increase of 34.97 percentage points over the end of the previous year. Our cost-to-income ratio was 32.96% representing a decrease of 1.63 percentage points over the previous year.

We proactively supported the supply-side structural reform through the agricultural sector and our work serving Sannong and poverty alleviation initiatives advanced to a new stage. We persevered in our strategic positioning of serving Sannong, especially in supporting “Large Sannong, New Sannong and Featured Sannong”. Accordingly, the loans in key areas achieved rapid growth. These included hydraulic projects, urbanization in County Areas, and large-scale professional operators. We actively supported rural households to purchase property in cities, with the Anjiadai loans for rural households increasing by RMB182.0 billion over the end of the previous year. In response to evolving financing demands in rural areas, we launched the “No.1 Project” for Providing Internet Financial Services for Sannong, illustrating a satisfactory start. We also directed significant effort to targeted financial poverty alleviation. The increase in the balance of loans provided to 832 key counties of national poverty alleviation in 2017 reached RMB110.7 billion, which was RMB18.7 billion higher than that of the previous year. The average new loans to these counties amounted to RMB133 million. At the end of 2017, the balance of loans in County Areas amounted to RMB3.57 trillion, representing an increase of RMB390 billion over the end of the previous year, which reached a historical high. The growth rate of loans in County Areas was 12.3%, which was 2.0 percentage points higher than that of the Bank. The loan-to-deposit ratio in County Areas, dividing increased loans by increased deposits in 2017, reached 78.9%. The balance of agriculture-related loans and loans to rural households (calculated on the basis of agriculture-related loans) exceeded RMB3 trillion and RMB1 trillion, respectively. The balance of non-performing loans and non-performing loan ratio in County Areas both reached the lowest points in the past three years. All regulatory indicators for the County Area Banking Division met regulatory standards, marking a breakthrough in serving Sannong.

Through increased credit origination and structural adjustments, we achieved remarkable results in serving the real economy. Adhering to our ultimate objective and mission of serving the real economy, we allocated more financial resources to key areas and weak sectors to support national economic development. The new loans provided for major projects, such as railways, highways, electrical facilities, environmental protection, urban infrastructure, and the reconstruction of shanty areas amounted to RMB567.8 billion, representing an increase of RMB208.1 billion over the previous year. We implemented the Guiding Opinions on Financial Services for New Economy, under which the loans provided for strategic emerging industries increased by RMB45.7 billion. We facilitated the establishment of an inclusive financial service system and steadily expanded key businesses such as internet loans based on big data, with loans to small- and micro-enterprises increasing by RMB160.2 billion. By strictly following the macro-control policies on real estate industry, we controlled the total volume and regional distribution of residential mortgage loans appropriately, while steadily developing consumption loans. Our retail loans increased by RMB659,394 million. Moreover, we strictly followed the policies on cutting overcapacity. Our credit risk exposures in the iron and steel industry, and coal industry continued to decline, while loans to customers in wholesale and retail industry, and low-end manufacturing industry with high non-performing loan ratio were gradually withdrawn. Consequently, we made new progress in the adjustment of our credit structure.

Through deepening reforms, as well as accelerating innovation and transformation, our strategic businesses achieved rapid growth. Maintaining our approach of transformation driven by reforms and innovation, we continued to promote the refinement of our business structure and ongoing evolution of profit models. Our investment capability in financial markets and market-making ability continuously improved, as we maintained our leading positions in the banking industry, in terms of returns of bond investments and market-making capacity, in both the bond market and the spot exchange market. Our wealth management business maintained steady growth, with the average daily balance reaching RMB1.75 trillion. The financial assets of our private banking customers reached RMB1 trillion and the assets under our custody exceeded RMB10 trillion. Our credit card, precious metal, international settlement, foreign exchange settlement and purchase, foreign exchange trading and other businesses all achieved rapid growth. In respect of investment banking, focusing on business innovation, we became one of the first batches of underwriters for "Bond Connect", and offered several asset-backed securitization products which were first launched in China, such as Lucid Waters and Lush Mountains and the reconstruction of shanty areas. The subsidiaries under our integrated business platform and our overseas institutions maintained steady development, with their profitability improving. Our Dubai Branch commenced operations, while our London Branch, Macao Branch, Hanoi Branch and our representative office in Sao Paulo obtained approvals from local regulatory authorities. Moreover, we made new progress in the establishment of our overseas network.

Our asset quality significantly improved following the policy of "disposing of the existing non-performing loans and controlling the occurrence of additional non-performing loans". We attached more importance to risk prevention and control by creating tailored solutions and addressing both symptoms and root causes, so as to reduce our non-performing loans. We further strengthened management of group customers and their connected parties, and enhanced our risk control in key areas such as guarantee circles with high risk exposures, "zombie" enterprises, and local government financing. Accordingly, our non-performing loan formation ratio decreased, with improvement in data and indicators. These include the proportion of special mention loans, the overdue loan ratio and loans overdue for over 90 days. The momentum of high risk exposure was effectively controlled. At the same time, we put greater efforts into the disposal of non-performing loans and raising their recovery rate. Thanks to the great efforts made by all our employees, we recorded significant "double-digit decline" in non-performing loans and our asset quality further improved. The balance of non-performing loans amounted to RMB194,032 million, representing a decrease of RMB36,802 million over the end of the previous year. The non-performing loan ratio was 1.81%, representing a decrease of 0.56 percentage point over the end of the previous year.

We enhanced the level of sophistication in terms of our management basics and foundation-level management, to further consolidate our development. In strictly complying with the regulatory requirements of CBRC, we participated in several specialized inspections and rectifications, such as the rectification over market disorder. In addition, we further improved our internal control and compliance management. We continued activities to support the "Year to Strengthen Management Basics and Foundation-level Management" initiatives, promoted the management model of "Three Lines and One Grid", strengthened operating risk control, inspected cases of violations to identify potential risks, and continuously enhanced the management standards for anti-money laundering and compliance operation. Furthermore, we promptly discovered and eliminated certain potential risks, and our internal control system was further improved. We efficiently facilitated the development of IT-based banking, with some of our major projects, such as the first phase of the Large-sum and Suspicious Transactions Reporting System, successfully commencing operation. The application of big data analysis achieved a successful result. Information technology has played a more important role in supporting our business operation and management. By adopting a series of effective measures aimed at optimizing systems and closing loopholes, compliance operation awareness was significantly enhanced throughout the Bank.

The year 2018 marks the commencement of the implementation of the spirit of the 19th CPC National Congress, as well as a pivotal year to secure a decisive victory in building a moderately prosperous society in all respects and implement the "13th Five-Year Plan" on a continuous basis. It is also an important year for Agricultural Bank of China to deepen its reforms and transformation, and accelerate the progress of establishing itself as an international first-class commercial banking group. In the coming year, our management will center on the development targets set by the Board of Directors, adopt a new vision for development and follow the requirements for high-quality development. Our management will focus on our key missions in serving the real economy, preventing financial risks, facilitating operation transformation and deepening reforms on continuous basis, therefore maintaining sustainable development and creating greater value for our shareholders and customers.

On behalf of senior management, I would like to express my sincere gratitude for the dedication of all our employees, the guidance and support of our Directors and Supervisors, as well as the caring attitude and support of our customers, investors and friends from different sectors.

ZHAO Huan
President
26 March 2018

Environment and Prospects

In 2017, the global economy continued its recovery and achieved the fastest growth in the past six years, with moderate inflation in general. In the United States, private investment increased more rapidly. The economy of United States maintained strong growth with inflation showing an evident rebound and the unemployment rate recording its lowest level in the past 16 years. The Eurozone continued its economic recovery, of which individual economies generally achieved strong growth, and the unemployment rate reached its lowest level since the European debt crisis. Japan continued its moderate economic recovery with improved inflation, and its unemployment rate recorded its lowest level in the past 24 years. Emerging economies generally experienced fast growth. As driven by the increase in commodity prices, the economy of Russia and that of Brazil gradually stabilized. In 2017, the Dow Jones Industrial Average Index, European STOXX50 Index and Nikkei 225 Index increased by 25.1%, 5.56% and 19.1%, respectively. The USD Index showed a weak trend as it dropped by 9.89% in 2017. Commodity prices rose with mild fluctuations, and the CRB Spot Market Price Index slightly increased by 2.19% in 2017.

In 2017, China's economy remained stable with a favorable trend and continuous structural improvement, of which new drivers for economic growth developed fast, and the quality and efficiency of economic development were both improved. The annual GDP increased by 6.9%, representing an increase of 0.2 percentage point compared to the previous year. The exports increased by 10.8%, representing an increase of 12.8 percentage points compared to the previous year. The total fixed asset investment and the total retail sales of consumer goods increased by 7.2% and 10.2%, representing a decrease of 0.9 and 0.2 percentage point compared to the previous year, respectively. The economic structure continued to improve. The contribution of the added value of tertiary industry to the GDP growth was 58.8%, representing an increase of 1.3 percentage points compared to the previous year. A lot of new market entities emerged from the sectors such as medium-high end consumption, innovation-driven development, the green and low-carbon economy, the sharing economy and modern supply chains, which brought obvious supporting effects to the economic growth. The supply-side structural reform was further deepened, while the effects of the initiative to "cut overcapacity, reduce inventory, deleverage, lower costs and bolster areas of weakness" achieved notable results. The opening-up scheme was further developing, with the "Belt and Road Initiative" achieved breakthrough progress. The consumer price index (CPI) rose moderately with a year-on-year increase of 1.6% in 2017. The inflationary pressure in industry sectors increased, with a year-on-year increase of 6.3% in the producer pricing index (PPI). In 2017, the money supply (M2) increased by 8.2%, and the total social financing amounted to RMB174.6 trillion as at the end of 2017.

In response to the complex and dynamic economic and financial environment at home and abroad, the PRC government adhered to the principle of seeking progress while maintaining stability, and continued to adopt prudent monetary policies and proactive fiscal policies. The Financial Stability and Development Committee under the State Council was established to coordinate the financial regulatory authorities and bolster areas of weakness in the regulatory system. Financial regulations were comprehensively tightened, as the rectification over market disorder was reinforced and measures to punish violations were taken. In addition, the framework of regulation underpinned by monetary policy and macro-prudential policy was improved, the off-balance sheet wealth management was involved into the generalized credit quota and the unified macro-prudential management of cross-border financing was constantly enhanced. Financial reforms continuously deepened. A new regulation to control asset management is about to be promulgated. The mechanism for the development of inclusive financial services was further improved, while positive results were achieved in market-oriented debt-to-equity swaps conducted by commercial banks.

In 2018, a global economic recovery is expected to be continued. According to the estimate of IMF in January 2018, the global economic growth for 2018 will increase to 3.9% from 3.6% in 2017. The tax reform and improvement in the labor market in the United States will accelerate the pace of economic recovery. Future uncertainties will reduce as major European countries' elections were all settled. Japan will continue its moderate economic recovery. Emerging economies will maintain their strong economic growth. However, the foundation of global economic recovery is vulnerable, which still faces numerous risks and challenges, such as the normalization of monetary policies, the new round of rising protectionism in global trade and investment, etc.

China's economy has been transitioning from a phase of rapid growth to a stage of high-quality development. It is expected that the growth of China's economy will decrease slightly in 2018 with moderate inflation. The investments in real estate market and the infrastructure will maintain stable. The growth of investment in the advanced manufacturing industry will be faster, while the fixed asset investment will remain steady growth in general. The upgrading of household consumption will continue to accelerate. The proportion of medium-high end consumption, as represented by culture, tourism, information and green products, will further increase. With the implementation of regular environmental protection inspections, the prices of manufacturing products will increase slightly. As the pressure of house prices on rent and service prices will gradually relieve, price of consumer goods will moderately increase. Hence, the inflationary pressure is expected to be low in general.

In 2018, the macro-control policy will mainly focus on facilitating high-quality development of economy. The proactive financial policy will continue with higher emphasis on adjusting and optimizing the spending structure, so as to offer support in key areas and projects, such as targeted poverty alleviation, pollution prevention, construction of Xiongan New Area and rural revitalization etc. The prudent monetary policy will remain neutral with a focus on the constraint of the total monetary supply. It is expected that the liquidity will maintain tight balance. The continuous high level of Sino-US interest spread should offer support to the stability with a slight raise of RMB exchange rate. In general, RMB effective exchange rate index will remain stable. The prevention of systemic financial risk will remain as the key focus area for regulatory authorities. The regulation over financial businesses closely related to shadow banking will continue to be strengthened and improved, in order to lead the financial industry to return to its principal businesses.

The transitioning of China's economy into a stage of high-quality development is expected to provide scarce market opportunities for the reform and development of the Bank. Looking forward in 2018, adhering to the working principle of seeking progress while maintaining stability, we will rigorously serve Sannong and the real economy, prevent financial risk, facilitate business transformation and continue deepening the reforms, striving to develop ABC into an international first-class commercial banking group.

Firstly, we will strive to return to our principal businesses and serve the real economy effectively. We will focus on our financial services for the supply-side structural reform, the major national strategies and reforms, as well as rural vitalization strategy. We will put greater efforts into reform and innovation and enhance our internal management, to continuously improve the efficiency and level of serving the real economy. Secondly, we will establish new competitive edges in serving Sannong. The provision of internet financial services for Sannong is an important strategic measure to transform our service mode of Sannong and solve problems in relation to Sannong services under a new era. Our next step is to expand the scale, produce excellent performance and enhance brand awareness, thus gaining a leading position in providing internet financial services in the rural areas. Thirdly, we will continue to deepen the reforms and facilitate business transformation and development. By using internet thinking and focusing on FinTech+, we will facilitate the strategic transformation of our retail banking business. We will substantially improve the profitability of our intermediate businesses, by consolidating our leading position in fundamental intermediate businesses, optimizing our agency businesses and accelerating the development of emerging businesses. We will enhance our awareness of the importance efficiently using our capital, and raise our capital adequacy level. We will enhance the data-driven and value-orientated application in our customer management, aiming to establish an intelligent, scene-sensitive and integrated service channel system, as well as standardized and centralized operating procedures. Fourthly, we will well manage risks in key areas. We will manage credit risk effectively and keep preventing and controlling liquidity risk and market risk. We will implement several measures and polices at the same time so as to prevent compliance risk.

Financial Statement Analysis

Income statement Analysis

In 2017, we achieved a net profit of RMB193,133 million, representing an increase of RMB9,073 million, or 4.9%, compared to the previous year.

Changes of Significant Income Statement Items

In millions of RMB, except for percentages

Item	2017	2016	Increase/ (decrease)	Growth rate (%)
Net interest income	**441,930**	398,104	43,826	11.0
Net fee and commission income	**72,903**	90,935	(18,032)	-19.8
Other non-interest income	**28,065**	21,089	6,976	33.1
Operating income	**542,898**	510,128	32,770	6.4
Less: Operating expenses	**205,268**	197,049	8,219	4.2
Impairment losses on assets	**98,166**	86,446	11,720	13.6
Operating profit	**239,464**	226,633	12,831	5.7
Share of results of associate	**14**	(9)	23	–
Profit before tax	**239,478**	226,624	12,854	5.7
Less: Income tax expense	**46,345**	42,564	3,781	8.9
Net Profit	**193,133**	184,060	9,073	4.9
Attributable to:				
Equity holders of the Bank	**192,962**	183,941	9,021	4.9
Non-controlling interests	**171**	119	52	43.7

Net Interest Income

Net interest income was the largest component of our operating income, accounting for 81.4% of the total operating income in 2017. Our net interest income was RMB441,930 million in 2017, representing an increase of RMB43,826 million compared to the previous year. The changes in volume and interest rates resulted in an increase of RMB37,277 million and an increase of RMB6,549 million in net interest income, respectively.

In 2017, our net interest margin and net interest spread were 2.28% and 2.15%, respectively, representing increases of 3 basis points and 5 basis points compared to the previous year. The increases in net interest margin and net interest spread were primarily due to further consolidation of our competitiveness in our stable deposits with low cost that recorded an increase in the proportion of demand deposits, and re-pricing of part of the time deposits with higher cost upon maturity, which led to a decrease in average cost of deposits by 13 basis points compared to 2016.

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

In millions of RMB, except for percentages

Item	2017 Average balance	2017 Interest income/ expense	2017 Average yield/cost (%)	2016 Average balance	2016 Interest income/ expense	2016 Average yield/cost (%)
Assets						
Loans and advances to customers	**10,373,827**	**441,475**	**4.26**	9,370,200	410,790	4.38
Debt securities investments[1]	**5,464,803**	**200,475**	**3.67**	4,618,837	170,096	3.68
Non-restructuring-related debt securities	**5,099,513**	**189,274**	**3.71**	4,253,514	158,870	3.74
Restructuring-related debt securities[2]	**365,290**	**11,201**	**3.07**	365,323	11,226	3.07
Balances with central banks	**2,620,442**	**41,604**	**1.59**	2,478,513	39,264	1.58
Amounts due from banks and other financial institutions[3]	**908,848**	**30,145**	**3.32**	1,222,750	37,040	3.03
Total interest-earning assets	**19,367,920**	**713,699**	**3.68**	17,690,300	657,190	3.71
Allowance for impairment losses[4]	**(413,876)**			(410,350)		
Non-interest-earning assets[4]	**1,143,042**			966,835		
Total assets	**20,097,086**			18,246,785		
Liabilities						
Deposits from customers	**15,599,797**	**209,782**	**1.34**	14,233,459	209,149	1.47
Amounts due to banks and other financial institutions[5]	**1,306,033**	**34,723**	**2.66**	1,383,379	34,248	2.48
Other interest-bearing liabilities[6]	**862,685**	**27,264**	**3.16**	483,256	15,689	3.25
Total interest-bearing liabilities	**17,768,515**	**271,769**	**1.53**	16,100,094	259,086	1.61
Non-interest-bearing liabilities[4]	**1,021,891**			1,067,598		
Total liabilities	**18,790,406**			17,167,692		
Net interest income		**441,930**			398,104	
Net interest spread			**2.15**			2.10
Net interest margin			**2.28**			2.25

Notes:

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

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

In millions of RMB

	Increase/(decrease) due to		Net increase/ (decrease)
	Volume	Interest rate	
Assets			
Loans and advances to customers	42,711	(12,026)	30,685
Debt securities investments	31,034	(655)	30,379
Balances with central banks	2,253	87	2,340
Amounts due from banks and other financial institutions	(10,412)	3,517	(6,895)
Changes in interest income	65,586	(9,077)	56,509
Liabilities			
Deposits from customers	18,374	(17,741)	633
Amounts due to banks and other financial institutions	(2,056)	2,531	475
Other interest-bearing liabilities	11,991	(416)	11,575
Changes in interest expense	28,309	(15,626)	12,683
Changes in net interest income	**37,277**	**6,549**	**43,826**

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

Interest Income

We achieved interest income of RMB713,699 million in 2017, representing an increase of RMB56,509 million over the previous year, which was primarily due to an increase of RMB1,677,620 million in the average balance of interest-earning assets.

Interest Income from Loans and Advances to Customers

Interest income from loans and advances to customers increased by RMB30,685 million, or 7.5%, over the previous year to RMB441,475 million, which was primarily due to an increase of RMB1,003,627 million in the average balance.

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

In millions of RMB, except for percentages

Item	2017 Average balance	2017 Interest income	2017 Average yield (%)	2016 Average balance	2016 Interest income	2016 Average yield (%)
Corporate loans	**5,991,265**	**263,591**	**4.40**	5,455,502	250,729	4.60
Short-term corporate loans	**2,328,333**	**95,481**	**4.10**	2,249,014	96,411	4.29
Medium- and long-term corporate loans	**3,662,932**	**168,110**	**4.59**	3,206,488	154,318	4.81
Discounted bills	**273,659**	**9,113**	**3.33**	450,555	14,326	3.18
Retail loans	**3,681,674**	**158,165**	**4.30**	3,031,025	134,990	4.45
Overseas and others	**427,229**	**10,606**	**2.48**	433,118	10,745	2.48
Total loans and advances to customers	**10,373,827**	**441,475**	**4.26**	9,370,200	410,790	4.38

Interest income from corporate loans increased by RMB12,862 million, or 5.1%, to RMB263,591 million compared to the previous year, which was primarily due to an increase of RMB535,763 million in the average balance, partially offset by a decrease of 20 basis points in the average yield. Interest income from retail loans increased by RMB23,175 million, or 17.2%, to RMB158,165 million compared to the previous year, which was primarily due to an increase of RMB650,649 million in the average balance, partially offset by a decrease of 15 basis points in the average yield. The decrease in the average yields of corporate loans and retail loans were primarily due to the decrease in interest income from loans as a result of separation of price and tax following the implementation of the "Transition from Business Tax to Value-Added Tax" policy and the continual effect of the consecutive reductions of interest rates by the PBOC from November 2014 to 2015.

Interest income from discounted bills decreased by RMB5,213 million, or 36.4%, to RMB9,113 million compared to the previous year, which was primarily due to a decrease of RMB176,896 million in the average balance, partially offset by an increase of 15 basis points in the average yield. The increase in the average yield was primarily due to the increase in the interest rate in the bills market as compared to the previous year.

Interest income from overseas and other loans decreased by RMB139 million, or 1.3%, to RMB10,606 million compared to the previous year, which was primarily due to a decrease of RMB5,889 million in the average balance.

Interest Income from Debt Securities Investments

Interest income from debt securities investments was the second largest component of our interest income. In 2017, our interest income from debt securities investments increased by RMB30,379 million to RMB200,475 million compared to the previous year, which was primarily due to an increase of RMB845,966 million in the average balance.

Interest Income from Balances with Central Banks

Interest income from balances with central banks increased by RMB2,340 million to RMB41,604 million compared to the previous year, which was primarily due to an increase of RMB141,929 million in the average balance.

Interest Income from Amounts Due from Banks and Other Financial Institutions

Interest income from amounts due from banks and other financial institutions decreased by RMB6,895 million to RMB30,145 million compared to the previous year, which was primarily due to a decrease of RMB313,902 million in the average balance, partially offset by an increase of 29 basis points in the average yield. The increase in the average yield was primarily due to the upward interest rate in the market as a result of tight liquidity.

Interest Expense

Interest expense increased by RMB12,683 million to RMB271,769 million compared to the previous year, which was mainly due to an increase of RMB1,668,421 million in the average balance.

Interest Expense on Deposits from Customers

Interest expense on deposits from customers increased by RMB633 million to RMB209,782 million compared to the previous year, which was primarily due to an increase of RMB1,366,338 million in the average balance, partially offset by a decrease of 13 basis points in the average cost. The decrease in the average cost was primarily due to an increase in the proportion of demand deposits and the re-pricing of time deposits.

Analysis of Average Cost of Deposits by Product

In millions of RMB, except for percentages

Item	2017			2016		
	Average balance	**Interest expense**	**Average cost (%)**	Average balance	Interest expense	Average cost (%)
Corporate deposits						
Time	**2,241,983**	**54,598**	**2.44**	2,119,595	54,861	2.59
Demand	**4,236,947**	**26,983**	**0.64**	3,562,748	22,064	0.62
Sub-Total	**6,478,930**	**81,581**	**1.26**	5,682,343	76,925	1.35
Retail deposits						
Time	**4,413,278**	**109,000**	**2.47**	4,319,228	115,665	2.68
Demand	**4,707,589**	**19,201**	**0.41**	4,231,888	16,559	0.39
Sub-Total	**9,120,867**	**128,201**	**1.41**	8,551,116	132,224	1.55
Total deposits from customers	**15,599,797**	**209,782**	**1.34**	14,233,459	209,149	1.47

Interest Expense on Amounts Due to Banks and Other Financial Institutions

Interest expense on amounts due to banks and other financial institutions increased by RMB475 million to RMB34,723 million compared to the previous year, which was primarily due to an increase of 18 basis in the average cost. The increase in the average cost was primarily due to the upward interest rate in the market as a result of tight liquidity.

Interest Expense on Other Interest-bearing Liabilities

Interest expense on other interest-bearing liabilities increased by RMB11,575 million to RMB27,264 million compared to the previous year, primarily due to an increase of RMB379,429 million in the average balance. The increase in the average balances was mainly due to the Bank's regular borrowing from the PBOC through Lending Facility and issuance of medium-term notes and certificates of deposit by our overseas branches.

Net Fee and Commission Income

In 2017, we generated net fee and commission income of RMB72,903 million, representing a decrease of RMB18,032 million, or 19.8%, compared to the previous year.

Composition of Net Fee and Commission Income

In millions of RMB, except for percentages

Item	2017	2016	Increase/ (decrease)	Growth rate (%)
Settlement and clearing fees	**11,113**	16,715	(5,602)	-33.5
Consultancy and advisory fees	**8,358**	9,050	(692)	-7.6
Agency commissions	**22,773**	39,377	(16,604)	-42.2
Bank card fees	**22,699**	20,108	2,591	12.9
Electronic banking service fees	**14,595**	9,993	4,602	46.1
Credit commitment fees	**2,094**	2,263	(169)	-7.5
Custodian and other fiduciary service fees	**3,368**	3,119	249	8.0
Others	**257**	194	63	32.5
Fee and commission income	**85,257**	100,819	(15,562)	-15.4
Less: Fee and commission expenses	**12,354**	9,884	2,470	25.0
Net fee and commission income	**72,903**	90,935	(18,032)	-19.8

Settlement and clearing fees decreased by RMB5,602 million, or 33.5%, to RMB11,113 million compared to the previous year, which was mainly due to our reduction or exemption of certain service fees in response to government policies related to financial service charges.

Consultancy and advisory fees decreased by RMB692 million, or 7.6%, to RMB8,358 million compared to the previous year, which was primarily due to more discounts and exemptions of fees offered to corporate customers.

Agency commissions decreased by RMB16,604 million, or 42.2%, to RMB22,773 million compared to the previous year, which was mainly due to the ending of assets disposal business on behalf of the MOF at the end of 2016.

Bank card fees increased by RMB2,591 million, or 12.9%, to RMB22,699 million compared to the previous year, which was mainly due to the increases in income from credit card instalment business and income from acquiring business.

Electronic banking service fees increased by RMB4,602 million, or 46.1%, to RMB14,595 million compared to the previous year, which was primarily due to the rapid growth in income from e-commerce banking services.

Credit commitment fees decreased by RMB169 million, or 7.5%, to RMB2,094 million compared to the previous year. The decrease was mainly due to cancellation of certain guarantee and commitment fees related to loans.

Custodian and other fiduciary service fees increased by RMB249 million, or 8.0%, to RMB3,368 million compared to the previous year, which was mainly due to the increase in assets under custody.

Other Non-interest Income

In 2017, other non-interest income amounted to RMB28,065 million, representing an increase of RMB6,976 million compared to the previous year.

Net Trading gain or loss decreased by RMB14,286 million to RMB -8,829 million compared to the previous year, which was primarily due to the decrease in gain from investment in derivative financial instruments.

Net loss on financial instruments designated at fair value through profit or loss increased by RMB1,953 million to RMB3,244 million compared to the previous year, which was primarily due to the increase in net loss on principal guaranteed wealth management products.

Net gain on investment securities decreased by RMB784 million to RMB136 million compared to the previous year. The decrease was primarily due to the decrease in gains on domestic other debt securities investment compared to the previous year.

Other operating income increased by RMB23,999 million to RMB40,002 million compared to the previous year, which was primarily due to the increase in insurance premium income of our subsidiary, ABC Life Insurance Co., Ltd and the increase in net gain on foreign exchange.

Composition of Other Non-interest Income

In millions of RMB

Item	2017	2016
Net trading (loss)/gain	**(8,829)**	5,457
Net loss on financial instruments designated at fair value through profit or loss	**(3,244)**	(1,291)
Net gain on investments securities	**136**	920
Other operating income	**40,002**	16,003
Total	**28,065**	21,089

Operating expenses

In 2017, our operating expenses increased by RMB8,219 million to RMB205,268 million compared to the previous year; cost-to-income ratio decreased by 1.63 percentage points to 32.96% compared to the previous year.

Staff costs increased by RMB2,303 million, or 2.1%, to RMB113,839 million compared to the previous year, which was primarily due to the increase in staff costs in line with market situation and business performance, as well as the increase in social insurances and other costs.

General operating and administrative expenses increased by RMB584 million, or 1.3%, to RMB45,024 million compared to the previous year, which was primarily due to the increase in the scale of the business of the Bank and the increase in investments in key projects.

Insurance benefits and claims increased by RMB11,341 million, or 101.2%, to RMB22,552 million compared to the previous year. The increase was primarily due to the expansion of insurance business.

Depreciation and amortization decreased by RMB758 million, or 4.0%, to RMB18,279 million compared to the previous year, primarily because we strictly controlled our expenditure on fixed assets and stepped up effort in the disposal of idle fixed assets to reduce depreciation expenses.

Composition of operating expense

In millions of RMB, except for percentages

Item	2017	2016	Increase/ (decrease)	Growth rate (%)
Staff costs	**113,839**	111,536	2,303	2.1
General operating and administrative expenses	**45,024**	44,440	584	1.3
Insurance benefits and claims	**22,552**	11,211	11,341	101.2
Depreciation and amortization	**18,279**	19,037	(758)	-4.0
Tax and surcharges	**4,953**	11,449	(6,496)	-56.7
Provision for guarantees and commitments	**(2,985)**	(3,474)	489	-14.1
Others	**3,606**	2,850	756	26.5
Total	**205,268**	197,049	8,219	4.2

Impairment losses on assets

In 2017, impairment losses on assets increased by RMB11,720 million to RMB98,166 million compared to the previous year.

Impairment losses on loans increased by RMB13,936 million to RMB92,864 million compared to the previous year.

Income Tax Expense

In 2017, our income tax expense increased by RMB3,781 million, or 8.9%, to RMB46,345 million compared to the previous year. The effective tax rate was 19.35%, which was lower than the statutory tax rate. This was primarily because the interest income from the PRC treasury bonds and local government bonds held by the Bank was exempted from enterprise income tax by the relevant tax laws.

Segment Reports

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

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

In millions of RMB, except for percentages

	2017		2016	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Corporate banking business	**249,333**	**45.9**	241,764	47.4
Retail banking business	**205,930**	**37.9**	194,215	38.1
Treasury operations	**56,590**	**10.5**	56,317	11.0
Other business	**31,045**	**5.7**	17,832	3.5
Total operating income	**542,898**	**100.0**	510,128	100.0

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

In millions of RMB, except for percentages

	2017		2016	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	**21,973**	**4.0**	46,873	9.2
Yangtze River Delta	**108,026**	**19.9**	97,206	19.1
Pearl River Delta	**73,544**	**13.5**	67,944	13.3
Bohai Rim	**82,172**	**15.1**	76,065	14.9
Central China	**79,503**	**14.6**	69,579	13.6
Western China	**120,504**	**22.2**	109,500	21.5
Northeastern China	**21,245**	**3.9**	21,693	4.2
Overseas and others	**35,931**	**6.8**	21,268	4.2
Total operating income	**542,898**	**100.0**	510,128	100.0

Note: Please refer to "Note IV. 44. Operating Segments" to the Consolidated Financial Statements for details of geographic segments.

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

In millions of RMB, except for percentages

Item	2017		2016	
	Amount	**Percentage (%)**	Amount	Percentage (%)
County Area Banking Business	**211,600**	**39.0**	194,311	38.1
Urban Area Banking Business	**331,298**	**61.0**	315,817	61.9
Total operating income	**542,898**	**100.0**	510,128	100.0

Balance Sheet Analysis

Assets

At 31 December 2017, our total assets amounted to RMB21,053,382 million, representing an increase of RMB1,483,321 million, or 7.6%, compared to the end of the previous year. Net loans and advances to customers increased by RMB996,947 million, or 10.7%. Net investment in securities and other financial assets increased by RMB819,208 million, or 15.4%. Cash and balances with central banks increased by RMB84,966 million, or 3.0%. Deposits and placements with and loans to banks and other financial institutions decreased by RMB568,100 million, or 47.2%, primarily due to the decrease in cooperative deposits with banks and other financial institutions. Financial assets held under resale agreements increased by RMB217,335 million, or 67.3%, primarily due to the increase in debt securities held under resale agreements.

Key Items of Assets

In millions of RMB, except for percentages

Item	31 December 2017		31 December 2016	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Total loans and advances to customers	**10,720,611**	**–**	9,719,639	–
Less: Allowance for impairment losses on loans	**404,300**	**–**	400,275	–
Loans and advances to customers, net	**10,316,311**	**49.0**	9,319,364	47.6
Investment in securities and other financial assets, net	**6,152,743**	**29.2**	5,333,535	27.3
Cash and balances with central banks	**2,896,619**	**13.8**	2,811,653	14.4
Deposits and placements with and loans to banks and other financial institutions	**635,514**	**3.0**	1,203,614	6.2
Financial assets held under resale agreements	**540,386**	**2.6**	323,051	1.7
Others	**511,809**	**2.4**	578,844	2.8
Total assets	**21,053,382**	**100.0**	19,570,061	100.0

Loans and Advances to Customers

At 31 December 2017, our total loans and advances to customers amounted to RMB10,720,611 million, representing an increase of RMB1,000,972 million, or 10.3%, compared to the end of the previous year.

Distribution of Loans and Advances to Customers by Business Type

In millions of RMB, except for percentages

Item	31 December 2017		31 December 2016	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Loans granted by domestic branches	**10,335,359**	**96.4**	9,279,077	95.5
Corporate loans	**6,147,584**	**57.4**	5,368,250	55.2
Discounted bills	**187,502**	**1.7**	569,948	5.9
Retail loans	**4,000,273**	**37.3**	3,340,879	34.4
Overseas and others	**385,252**	**3.6**	440,562	4.5
Total	**10,720,611**	**100.0**	9,719,639	100.0

Corporate loans amounted to RMB6,147,584 million, representing an increase of RMB779,334 million, or 14.5%, compared to the end of the previous year, primarily because we proactively served the supply-side structural reform and increased credit support to areas such as rebuilding of shanty areas, urban infrastructure construction, transportation facilities and strategic emerging industries.

Retail loans amounted to RMB4,000,273 million, representing an increase of RMB659,394 million, or 19.7%, compared to the end of the previous year, primarily because we proactively supported the credit demand related to people's livelihood such as retail residential mortgage loans and retail comprehensive consumption loans, which resulted in rapid growth in retail loans.

Discounted bills amounted to RMB187,502 million, representing a decrease of RMB382,446 million, or 67.1%, compared to the end of the previous year, primarily because we adjusted our credit structure and reduced our bills financing to prioritize credit demand of the real economy.

Overseas and other loans amounted to RMB385,252 million, representing a decrease of RMB55,310 million, or 12.6%, compared to the end of the previous year, primarily because certain overseas branches reduced the scale of trade financing business.

Distribution of Corporate Loans by Maturity

In millions of RMB, except for percentages

Item	31 December 2017		31 December 2016	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Short-term corporate loans	**2,311,991**	**37.6**	2,169,949	40.4
Medium- and long-term corporate loans	**3,835,593**	**62.4**	3,198,301	59.6
Total	**6,147,584**	**100.0**	5,368,250	100.0

Short-term corporate loans increased by RMB142,042 million, or 6.5%. Medium- and long-term corporate loans increased by RMB637,292 million, or 19.9%, with proportion to the total corporate loans increased by 2.8 percentage points to 62.4% compared to the end of the previous year.

Distribution of Corporate Loans by Industry

In millions of RMB, except for percentages

Item	31 December 2017 Amount	31 December 2017 Percentage (%)	31 December 2016 Amount	31 December 2016 Percentage (%)
Manufacturing	**1,241,537**	**20.2**	1,225,322	22.8
Production and supply of power, heat, gas and water	**801,355**	**13.1**	660,361	12.3
Real estate[1]	**513,512**	**8.4**	449,687	8.4
Transportation, logistics and postal services	**1,223,618**	**19.9**	1,006,903	18.8
Wholesale and retail	**356,353**	**5.8**	404,172	7.5
Water, environment and public utilities management	**367,775**	**6.0**	236,880	4.4
Construction	**223,058**	**3.6**	181,634	3.4
Mining	**224,098**	**3.6**	230,098	4.3
Leasing and commercial services	**797,744**	**13.0**	552,447	10.3
Finance	**137,590**	**2.2**	179,338	3.3
Information transmission, software and IT services	**45,054**	**0.7**	23,804	0.4
Others[2]	**215,890**	**3.5**	217,604	4.1
Total	**6,147,584**	**100.0**	5,368,250	100.0

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

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

In 2017, we further strengthened in-depth research and targeted direction on industries. We modified the industry-specific credit policies in relation to thermal power, textiles, wind power, paper, coking, education and medical and health industries. We proactively support the development of new driver for economic growth by formulating guideline for credit policies in relation to strategic emerging industries, which specified aspects and directions we would proactively and selectively support for. We continued to strengthen management and control on industries with overcapacity and further reduced their credit exposures.

At 31 December 2017, the five major industries of our corporate borrowers included: (1) manufacturing, (2) transportation, logistics and postal services, (3) production and supply of power, heat, gas and water, (4) leasing and commercial services, and (5) real estate. Aggregate loans to these five major industries accounted for 74.6% of our total corporate loans, representing an increase of 2 percentage points compared to the end of the previous year. The industry with the largest increase in proportion to our total corporate loans was leasing and commercial services, while manufacturing recorded the largest decrease in proportion to our total corporate loans.

Distribution of Retail Loans by Product Type

In millions of RMB, except for percentages

Item	31 December 2017		31 December 2016	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Residential mortgage loans	**3,133,474**	**78.4**	2,558,116	76.6
Personal consumption loans	**137,525**	**3.4**	119,088	3.6
Loans to private business	**204,681**	**5.1**	228,214	6.8
Credit card balances	**317,547**	**7.9**	242,451	7.3
Loans to rural households	**206,044**	**5.2**	191,786	5.7
Others	**1,002**	**–**	1,224	–
Total	**4,000,273**	**100.0**	3,340,879	100.0

At 31 December 2017, our residential mortgage loans amounted to RMB3,133,474 million, representing an increase of RMB575,358 million, or 22.5%, compared to the end of the previous year, primarily because we actively implemented the national macro-control policies for the real estate industry, and supported purchase of residential properties for non-investment purpose.

Personal consumption loans amounted to RMB137,525 million, representing an increase of RMB18,437 million, or 15.5%, compared to the end of the previous year. The increase was mainly due to rapid growth in our short- and medium-term internet consumption loans such as "Internet Quick Loan" and "Self-help Pledge Loan".

Loans to private business amounted to RMB204,681 million, representing a decrease of RMB23,533 million, or 10.3%, compared to the end of the previous year. The decrease was mainly due to our effort in adjusting the retail credit business structure in response to changes in the retail credit market.

Credit card balances amounted to RMB317,547 million, representing an increase of RMB75,096 million, or 31.0%, compared to the end of the previous year, primarily due to the increase in both the number of credit cards issued and the transaction volume of credit cards.

Loans to rural households amounted to RMB206,044 million, increased by RMB14,258 million, or 7.4%, compared to the end of the previous year mainly because we strengthened our support to new agricultural business entities.

Distribution of Loans by Geographic Region

In millions of RMB, except for percentages

Item	31 December 2017		31 December 2016	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Head Office	**246,197**	**2.3**	279,762	2.9
Yangtze River Delta	**2,415,289**	**22.5**	2,170,468	22.3
Pearl River Delta	**1,635,306**	**15.2**	1,466,397	15.1
Bohai Rim	**1,682,564**	**15.7**	1,500,014	15.4
Central China	**1,519,322**	**14.2**	1,309,273	13.5
Northeastern China	**428,538**	**4.0**	394,896	4.1
Western China	**2,408,143**	**22.5**	2,158,267	22.2
Overseas and others	**385,252**	**3.6**	440,562	4.5
Total	**10,720,611**	**100.0**	9,719,639	100.0

During the reporting period, we further optimized the allocation of credit resources by geographic region. We allocated strategic credit resources to branches in free trade zones and in key regions related to the "Belt and Road Initiative" and the national development strategies, such as the coordinated development of the Beijing-Tianjin-Hebei Region and the Yangtze Economic Belt, with a focus on supporting industrial transfer to Central and Western China as well as Northeastern China and investment in infrastructure projects in Central and Western China, to facilitate balanced development of loans by geographic region.

Investments

At 31 December 2017, our net investment in securities and other financial assets amounted to RMB6,152,743 million, representing an increase of RMB819,208 million, or 15.4%, compared to the end of the previous year.

Distribution of Investments by Product Type

In millions of RMB, except for percentages

	31 December 2017		31 December 2016	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Non-restructuring-related debt securities	**5,490,804**	**89.2**	4,789,697	89.8
Restructuring-related debt securities	**367,314**	**6.0**	365,323	6.9
Equity instruments	**19,025**	**0.3**	12,954	0.2
Others[1]	**275,600**	**4.5**	165,561	3.1
Total	**6,152,743**	**100.0**	5,333,535	100.0

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

At 31 December 2017, non-restructuring-related debt securities investments increased by RMB701,107 million as compared to the end of the previous year, which was primarily due to the expansion of the scale of our investment in debt securities as we strengthened our effort in studying and capturing the market trend to increase our investment in debt securities with high yield, when the market yield of debt securities was on a significant rising trend in several occasions in 2017.

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

In millions of RMB, except for percentages

	31 December 2017		31 December 2016	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Government bonds	**2,485,220**	**45.3**	1,927,598	40.3
Bonds issued by policy banks	**1,526,936**	**27.8**	1,442,999	30.1
Bonds issued by other banks and financial institutions	**889,472**	**16.2**	814,571	17.0
Bonds issued by entities in public sectors and quasi-governments	**188,414**	**3.4**	174,025	3.6
Corporate bonds	**400,762**	**7.3**	430,504	9.0
Total	**5,490,804**	**100.0**	4,789,697	100.0

In 2017, the Bank conducted an in-depth analysis of the domestic and overseas macro-economic environment, closely monitored the changes of the bond market, controlled the pace of investment, strengthened risk control and moderately increased our investments in local government bonds.

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

In millions of RMB, except for percentages

	31 December 2017		31 December 2016	
Remaining Maturity	**Amount**	**Percentage (%)**	Amount	Percentage (%)
Overdue	–	–	–	–
Less than 3 months	**489,001**	**8.9**	279,454	5.8
3-12 months	**515,278**	**9.4**	695,366	14.5
1-5 years	**2,815,757**	**51.3**	2,296,876	48.0
More than 5 years	**1,670,768**	**30.4**	1,518,001	31.7
Total	**5,490,804**	**100.0**	4,789,697	100.0

In 2017, following the changes of the yield in the bond market and based on the principle of balancing yield and maturity, we appropriately adjusted the maturity structure of our investment portfolio. We moderately increased our investment in medium- and long-term bonds and flexibly adjusted our investments in short-term bonds when the yield of the bonds was relatively high in 2017.

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

In millions of RMB, except for percentages

	31 December 2017		31 December 2016	
Item	**Amount**	**Percentage (%)**	Amount	Percentage (%)
RMB	**5,233,831**	**95.3**	4,546,871	94.9
USD	**190,976**	**3.5**	191,831	4.0
Other foreign currencies	**65,997**	**1.2**	50,995	1.1
Total	**5,490,804**	**100.0**	4,789,697	100.0

In 2017, our non-restructuring-related debt securities investments were mainly denominated in RMB. Meanwhile, the Bank optimized the currency structure of our investment portfolio by making appropriate investments in debt securities in USD and other foreign currencies issued by sovereign and non-sovereign entities in light of the movement of domestic and overseas bond markets.

Distribution of Investments by Holding Purpose

In millions of RMB, except for percentages

Item	31 December 2017		31 December 2016	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Financial assets at fair value through profit or loss[1]	**577,965**	**9.4**	417,955	7.8
Available-for-sale financial assets	**1,426,420**	**23.2**	1,408,881	26.5
Held-to-maturity investments	**3,489,135**	**56.7**	2,882,152	54.0
Debt securities classified as receivables	**659,223**	**10.7**	624,547	11.7
Total	**6,152,743**	**100.0**	5,333,535	100.0

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

Investment in Financial Bonds

Financial bonds refer to debt securities issued by the policy banks, commercial banks and other financial institutions, the principals and interests of which are to be repaid pursuant to a pre-determined schedule. At 31 December 2017, the balance of financial bonds held by the Bank was RMB2,416,408 million, including bonds of RMB1,526,936 million issued by the policy banks and bonds of RMB889,472 million issued by commercial banks and other financial institutions.

The table below presents the top ten financial bonds held by the Bank in terms of face value at 31 December 2017.

In millions of RMB, except for percentages

Bond	Face value	Annual interest rate	Maturity date	Allowance[1]
2017 policy bank bond	29,446	3.85%	2027/1/6	–
2017 policy bank bond	25,502	3.83%	2024/1/6	–
2017 policy bank bond	20,675	4.11%	2027/3/20	–
2017 policy bank bond	19,214	4.13%	2022/4/21	–
2014 policy bank bond	18,248	5.44%	2019/4/8	–
2016 policy bank bond	17,855	2.65%	2019/10/20	–
2017 policy bank bond	17,660	3.70%	2022/1/6	–
2015 policy bank bond	16,412	3.97%	2025/2/27	–
2016 policy bank bond	14,864	3.43%	2021/12/8	–
2017 policy bank bond	14,788	3.54%	2020/1/6	–

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

Liabilities

At 31 December 2017, our total liabilities increased by RMB1,375,515 million, or 7.5%, over the end of the previous year to RMB19,623,985 million. Deposits from customers increased by RMB1,156,278 million or 7.7%. Deposits and placements from banks and other financial institutions decreased by RMB203,274 million, or 13.9%. Financial assets sold under repurchase agreements increased by RMB113,957 million, or 55.4%, primarily due to the increase in the debt securities sold under repurchase agreements. Debt securities issued increased by RMB86,802 million, or 22.4%, including the issuance of Tier 2 capital bonds of RMB40,000 million in 2017.

Key Items of Liabilities

In millions of RMB, except for percentages

Item	**31 December 2017**		31 December 2016	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Deposits from customers	**16,194,279**	**82.5**	15,038,001	82.4
Deposits and placements from banks and other financial institutions	**1,254,791**	**6.4**	1,458,065	8.0
Financial assets sold under repurchase agreements	**319,789**	**1.6**	205,832	1.1
Debt securities issued	**475,017**	**2.4**	388,215	2.1
Financial liabilities at fair value through profit or loss	**391,772**	**2.0**	301,170	1.7
Other liabilities	**988,337**	**5.1**	857,187	4.7
Total	**19,623,985**	**100.0**	18,248,470	100.0

Deposits from Customers

At 31 December 2017, the balance of deposits from customers increased by RMB1,156,278 million, or 7.7%, over the end of the previous year to RMB16,194,279 million. In terms of customer structure, the proportion of retail deposits decreased by 1.5 percentage points over the end of the previous year to 57.1%. In terms of maturity of deposits, the proportion of demand deposits increased by 2.4 percentage points over the end of the previous year to 58.3%.

Distribution of Deposits from Customers by Business Lines

In millions of RMB, except for percentages

Item	31 December 2017 Amount	31 December 2017 Percentage (%)	31 December 2016 Amount	31 December 2016 Percentage (%)
Domestic deposits	**16,118,044**	**99.5**	14,937,670	99.3
Corporate deposits	**6,379,447**	**39.4**	5,599,743	37.2
Time	**1,836,635**	**11.3**	1,707,628	11.4
Demand	**4,542,812**	**28.1**	3,892,115	25.8
Retail deposits	**9,246,510**	**57.1**	8,815,148	58.6
Time	**4,351,017**	**26.9**	4,279,398	28.5
Demand	**4,895,493**	**30.2**	4,535,750	30.1
Other deposits[1]	**492,087**	**3.0**	522,779	3.5
Overseas and others	**76,235**	**0.5**	100,331	0.7
Total	**16,194,279**	**100.0**	15,038,001	100.0

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

Distribution of Deposits from Customers by Geographic Region

In millions of RMB, except for percentages

Item	31 December 2017 Amount	31 December 2017 Percentage (%)	31 December 2016 Amount	31 December 2016 Percentage (%)
Head Office	**72,960**	**0.5**	82,577	0.5
Yangtze River Delta	**3,612,588**	**22.3**	3,309,192	22.0
Pearl River Delta	**2,250,015**	**13.9**	2,100,051	14.0
Bohai Rim	**2,870,864**	**17.7**	2,681,161	17.8
Central	**2,759,875**	**17.0**	2,536,899	16.9
Northeastern China	**792,119**	**4.9**	773,462	5.1
Western China	**3,759,623**	**23.2**	3,454,328	23.0
Overseas and others	**76,235**	**0.5**	100,331	0.7
Total	**16,194,279**	**100.0**	15,038,001	100.0

Distribution of Deposits from Customers by Remaining Maturity

In millions of RMB, except for percentages

Item	31 December 2017 Amount	31 December 2017 Percentage (%)	31 December 2016 Amount	31 December 2016 Percentage (%)
Demand	**10,030,752**	**61.9**	9,007,828	59.9
Less than 3 months	**1,785,447**	**11.0**	1,685,789	11.2
3-12 months	**2,551,584**	**15.8**	2,637,833	17.6
1-5 years	**1,826,342**	**11.3**	1,705,965	11.3
More than 5 years	**154**	**–**	586	–
Total	**16,194,279**	**100.0**	15,038,001	100.0

Shareholders' Equity

At 31 December 2017, our shareholders' equity amounted to RMB1,429,397 million, comprised ordinary shares of RMB324,794 million, preference shares of RMB79,899 million, capital reserve of RMB98,773 million, investment revaluation reserve of RMB -19,690 million, surplus reserve of RMB134,348 million, general reserve of RMB230,750 million and retained earnings of RMB577,573 million. Net assets per ordinary share were RMB4.15, representing an increase of RMB0.34 compared to the end of the previous year.

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

In millions of RMB, except for percentages

Item	**31 December 2017**		31 December 2016	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Ordinary shares	**324,794**	**22.7**	324,794	24.6
Preference shares	**79,899**	**5.6**	79,899	6.0
Capital reserve	**98,773**	**7.0**	98,773	7.5
Investment revaluation reserve	**(19,690)**	**(1.4)**	3,578	0.3
Surplus reserve	**134,348**	**9.4**	115,136	8.7
General reserve	**230,750**	**16.1**	198,305	15.0
Retained earnings	**577,573**	**40.4**	496,083	37.5
Foreign currency translation reserve	**(32)**	**–**	1,625	0.1
Non-controlling interests	**2,982**	**0.2**	3,398	0.3
Total	**1,429,397**	**100.0**	1,321,591	100.0

Off-balance Sheet Items

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

Composition of Credit Commitments

In millions of RMB, except for percentages

Item	**31 December 2017**		31 December 2016	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Loan commitments	**727,562**	**41.6**	588,401	36.0
Bank acceptances	**233,788**	**13.4**	312,255	19.1
Guarantees and letters of guarantee	**220,826**	**12.6**	229,177	14.0
Letters of credit	**140,034**	**8.0**	181,284	11.1
Credit card commitments	**426,668**	**24.4**	323,217	19.8
Total	**1,748,878**	**100.0**	1,634,334	100.0

Other Financial Information

Changes in Accounting Policies

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

Differences between the Consolidated Financial Statements prepared under IFRSs and those prepared in accordance with CASs

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

Business Review

Corporate Banking

In 2017, we actively served the real economy, accelerated corporate banking business transformation, and continued improving our capability for integrated financial service.

We continued to support the "Belt and Road Initiative" and the major regional strategies in relation to the coordinated development of Beijing-Tianjin-Hebei Region, the Yangtze Economic Belt, and the Guangdong-Hong Kong-Macao Bay Region. We actively engaged in the construction of the Xiongan New Area, with a focus on supporting the 165 major projects under the "13th Five-Year Plan" and the PPP projects. We launched marketing campaigns to provide integrated financial services to state-owned enterprises upon mixed ownership reform and offered the service solutions to 168 state-owned enterprises. We actively provided services to develop the new businesses and foster the new driving forces for economic development. By exploring new financial service models in the areas of strategic emerging industries, advanced manufacturing and green finance, we strived to lead our competitors to develop some "Unicorn" enterprises. We supported Chinese enterprises to "Going Global" and offered financial services to major customers and key projects under the "Belt and Road Initiative". Therefore, we succeeded in marketing a number of overseas acquisitions. To actively serve people's livelihood, we increasingly bolstered the rebuilding of shanty areas, old city renovation and building government-subsidized housing projects through the provision of integrated financial services related to housing lease and sale. We stepped up efforts in innovating corporate financial products and continued to improve our online marketing in areas of debt products, supply chain finance and mobile payment. We successfully launched the marketing and management system for corporate customers (CMM) to promote an in-depth integration of "finance+technology".

As at the end of December 2017, we had 4.1227 million corporate banking customers, of which 56.6 thousand customers had outstanding loan balances.

Corporate Loans and Deposits

During the reporting period, we continued to promote the cross-selling of our products to corporate customers, to promote fund utilization efficiency within the Bank. Through accelerating product research and development and leveraging on intelligent deposit products such as certificates of deposit and "Huoli Feng", the market competitiveness of our products was enhanced and our corporate deposits maintained a steady growth. At 31 December 2017, the balance of the domestic corporate deposits amounted to RMB6,379,447 million, representing an increase of RMB779,704 million or 13.9% over the end of the previous year.

We increased financing support to and reserves for major marketing projects. We financed a number of major projects in construction of infrastructures, upgrade of traditional industries and advanced manufacturing and the new economy, which had good economic benefits and broad social influences. At 31 December 2017, the balance of the domestic corporate loans and discounted bills amounted to RMB6,335,086 million, representing an increase of RMB396,888 million or 6.7% over the end of the previous year. 8,423 projects were included in our major marketing projects pool, up by 2,612 projects as compared to the end of the previous year. In 2017, new loans granted to these major marketing projects amounted to RMB567,831 million, representing an increase of RMB208,075 million over the previous year.

We continued to optimize our business structures in terms of customer, region and product and strengthen post-disbursement management, in order to facilitate the healthy development of our corporate real estate business. Accordingly, we primarily extended loans to the first-tier cities and the second-tier cities with advanced economy or enjoying notable regional clustering effects. Besides, we selectively extended loans to the central cities located in the three major economic belts and areas as well as the provincial capitals in the middle and west China, while strictly controlling loans extended to the third-tier and fourth-tier cities with unreasonable supply-demand ratio. We preferentially supported small- and medium-sized condominiums with reasonable pricing and large market demand and shanty area rebuilding projects located in core areas, while strictly controlling loans offered to projects related to low-density and high-end residences, commercial real estates and operating properties. In accordance with the requirements of Chinese government to accelerate the establishment of a housing system which encourages both lease and sale of properties, we actively supported the development of the rental housing business in the large- and medium-sized cities with population inflow. At the end of 2017, the balance of real estate loans to corporate customers amounted to RMB238,071 million, representing an increase of RMB4,545 million over the end of the previous year. The balance of loans for rebuilding of shanty areas amounted to RMB327,122 million, representing an increase of RMB177,485 million over the end of the previous year.

Institutional Banking

As at the end of 2017, with the expanding areas of cooperation between banks, the number of our cooperative Chinese banks reached 187. We also offered third-party depositary services to 100 securities firms and the number of contracted customers reached 36.71 million, with the average daily balance of funds under depositary amounting to RMB165.5 billion. As banking cooperation with futures companies goes deeper, the number of our cooperative futures companies reached 153 and the depository amount of futures deposits amounted to RMB24.4 billion. With the increasingly improved service provided to government customers, agency financial business on behalf of the central government recorded a sum of RMB118.3 billion. Our influence in the bancassurance market was continuously strengthened and we entered into cooperation with 95 insurance companies for agency insurance business at the end of 2017. New insurance premiums reached RMB182,868 million and service income from bancassurance businesses reached RMB7,507 million, ranking first among the four major banks in China both in terms of premiums and service income.

Transaction Banking

During the reporting period, the Bank accelerated the construction of a transaction banking system, which was based on our settlement accounts and mainly included cash management business and supply chain financing, in order to effectively facilitate the development of our transaction banking business.

With an aim to promote the initiative of "adding accounts and raising quality", we innovated functions of settlement products and carried out marketing campaigns by making full use of various electronic channels. As at the end of 2017, we had 5.041 million RMB-denominated corporate settlement accounts, representing an increase of 7.0% over the end of the previous year.

We continued to promote the innovation of cash management products and successfully launched new collection and payment products such as agency cross-bank collection and two-way guaranteed payment. We continued to strengthen the integrated management of cash management business, at home and abroad, to improve our management on settlement business and allocation of funds. As at the end of 2017, the Bank had 2.112 million active cash management customers, representing an increase of 32.5% over the end of the previous year.

In 2017, the Bank won the Most Innovative Treasury Solution and Top Funding Solution at the "Taozhu Gong Awards 2016-2017".

Investment Banking

During the reporting period, we focused on enhancing our comprehensive service capabilities in investment banking business. We established seven core product lines including bond underwriting, assets securitization, industrial funds, debt financing plans, syndication financing, merger and acquisition as well as equity financing, so as to promote the transformation of investment banking business towards high-end service featuring "financing+talents+credit". To actively support the supply-side structural reforms and major national development strategies, we formulated several investment banking service plans for the coordinated development of Beijing-Tianjin-Hebei Region, the "Belt and Road Initiative", the Yangtze Economic Belt, Sannong, Xiongan New Area and etc.

During the reporting period, we underwrote 276 tranches of bonds in 2017, with RMB301.8 billion proceeds raised. We successfully issued new types of bonds, such as the construction bonds for the "Belt and Road initiative" in several provinces in Western China and medium-term notes for poverty alleviation. We also successfully issued the debt financing instrument under "Bond Connect"[1], which was the first to complete the payment procedures.

During the reporting period, we operated several asset-backed securitization projects, including the "Lucid Waters and Lush Mountains" credit assets securitization, a 5A natural scenic spot assets securitization and accounts receivables of state-controlled enterprises assets securitization, as well as the world's first asset-backed securitization for sustainable development. We promoted the securitization of non-performing assets. During the reporting period, we successfully issued the first securitization program of non-performing assets related to credit card business, named "The 2017 2nd Tranche Nongying Non-performing Asset-backed Security" in the inter-bank market and disposed of non-performing loans related to credit card business with principals and interests totaling RMB2.13 billion.

Merger and acquisition business grew rapidly with continuous improvement in its structure. Loans newly extended for merger and acquisition amounted to RMB47.81 billion in 2017 and the balance of loans for merger and acquisition amounted to RMB71.228 billion.

The capabilities of designing structured financing transactions continued to improve. We designed 336 investment banking service plans to support the key national strategies of the "Belt and Road Initiative", the coordinated development of Beijing-Tianjin-Hebei Region, Yangtze Economic Belt, Guangdong-Hong Kong-Macao Bay Region and the construction of Xiongan New Area, as well as the development in key areas related to Sannong and Poverty alleviation. At the end of 2017, the balance of our syndicated loans increased by RMB42.55 billion, representing an increase of 5.60% over the end of the previous year.

The Bank was named the "Best Green Domestic National Commercial Bank in China" and "Best Green Chinese Bank in Overseas Markets" by *Asia Money* and awarded the "2017 Banking Junding Award among Financial Advisors in China" by *Securities Times*, whereas its syndicate business received the "Best Performance Prize" from the China Banking Association.

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1 *"Bond Connect" is a new initiative launched for the Collaboration in Mutual Bond Market Access and Connection between Hong Kong and Mainland China, allowing global investors to invest in China's inter-bank bond market through the offshore financial business platform in Hong Kong.*

Retail Banking

In 2017, responding to the changes in customer demands and the development trend of FinTech and fully leveraging on technologies such as big data and artificial intelligence, we accelerated transformation of our retail banking business so as to steadily enhance our market competitiveness. By actively facilitating intelligent transformation of our branch outlets, we accelerated the construction of modernized service channels with integrated online and offline channels. We widely promoted the standardization transformation of our branch outlets to continuously improve our customer experience. We implemented customer intellectual management, data mining and targeted sales, and refined and upgraded the marketing management system for retail customers. As such, the cross-selling rate of our products realized a steady increase.

Retail Loans

At 31 December 2017, the balance of retail loans of the Bank amounted to RMB4,000,273 million, representing an increase of RMB659,394 million over the end of the previous year. During the reporting period, we strictly implemented the regulatory requirements and maintained steady development in our retail residential mortgage loans business. At the end of December 2017, the balance of retail residential mortgage loans amounted to RMB3,133,474 million, representing an increase of RMB575,358 million over the end of the previous year. Seizing the opportunity arising from upgrade of consumption and technology, we promoted scene-sensitive retail consumption loans and cross-industry collaboration, achieving significant increase in customer coverage. We also implemented policies to support the real economy and inclusive finance and formulated differentiated polices according to various products, regions and market demands, so as to promote healthy development of loans to private business.

Retail Deposits

In 2017, based on the markets of Urban Areas and County Areas, leveraging on comprehensive advantages of our brand reputation, integrated operation and featured products, we were capable of satisfying diversified financial needs of our customers, including savings, payment and settlement, and investment and wealth management. We strengthened our marketing and promotions to customers, maintaining a steady growth of our retail deposits. At 31 December 2017, the balance of domestic retail deposits reached RMB9,246,510 million, representing an increase of RMB431,362 million over the end of the previous year.

Bank Cards

As at the end of December 2017, the number of debit cards issued by the Bank amounted to 910 million, representing an increase of 30 million over the end of the previous year, and the Bank ranked the first among the four major banks in terms of cumulative number of debit cards issued. Among them, the cumulative number of issued debit IC cards amounted to 568 million, representing an increase of 59 million compared to the end of the previous year. We also introduced new payment products such as QR code, Huawei Pay, Mi Pay and password-free small payment. Meanwhile, we collaborated with domestic large airlines, car-hailing platforms, hotel chains and other industry leaders to carry out various marketing activities such as consumption by debit cards and Cloud Quick Pay, which effectively lifted up the utilization rate of the debit cards and the engagement of the customers.

As at the end of 2017, the number of credit cards[1] cumulatively issued reached 84.81 million with newly issued credit cards in 2017 amounted to 16.18 million, representing an increase of 23.6% compared to the previous year. We launched the Credit Currency, a virtual credit card product, and issued co-brand credit cards with six airlines, including Air China, China Eastern Airlines, China Southern Airlines and other airlines, through which the credit card product lines were further improved. We carried out intellectual marketing with big data and various themed promotion activities such as Happy Saturday, Happy World, and Happy Bonus Points, which steadily improved our brand influence. The transaction volume of credit cards for the year amounted to RMB1,516.3 billion, representing an increase of 13.3% compared to the previous year. The installment transaction amount reached RMB202.3 billion, representing an increase of 51.1% as compared to the previous year.

Item	31 December 2017	31 December 2016	Growth rate (%)
Number of debit cards issued (unit: 10,000)	**90,964.16**	88,046.72	3.3
Number of credit cards issued (unit: 10,000)	**8,480.89**	6,863.00	23.6

Item	2017	2016	Growth rate (%)
Transaction volume for debit cards (RMB100 million)	**63,322.03**	62,533.63	1.3
Transaction volume for credit cards (RMB100 million)	**15,163.02**	13,384.13	13.3

Private Banking Business

As at the end of 2017, the number of our private banking customers was 106 thousand and the balance of their assets under our management amounted to RMB1,028.6 billion. During the reporting period, we continued the brand building for our private banking business and continuously enhanced our capabilities to provide professional services to private banking customers. We accelerated the exclusive services and introduced the green diamond credit card for private banking customers. We vigorously promoted our family trusts services by way of researching and innovating insurance premium trusts and cross-border finance business. We made significant efforts in building an exclusive product portfolio for private banking business. The existing scale of various exclusive products amounted to RMB187,618 million, representing an increase of RMB41,695 million over the end of the previous year.

In 2017, the Bank won several awards and honors, including the "Best Private Bank in China" awarded by the China Banking Association and the "Best Private Bank of the Year" awarded by the *National Business Daily*.

Treasury Operations

The treasury operations of the Bank include money market activities and investment portfolio management activities. Adhering to the principles of stable operations while flexibly adapting to changes in the domestic and foreign financial markets, we made timely adjustments to our investment strategies, and continuously enhanced our risk management. Our investment return on assets remained at a relatively high level in the banking industry.

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

Money Market Activities

In 2017, the PBOC continued its prudent and neutral monetary policies. On condition of securing capital overall sufficient in the market, the PBOC moderately tightened the market liquidity through various tools, such as Open Market Operations (OMO), Medium-term Lending Facility (MLF), Pledged Supplementary Lending (PSL), Standing Lending Facility ("SLF"), Temporary Liquidity Facility (TLF), and treasury cash management. Financial regulations were tightened to lower the leverage level of the financial system and strengthen the regulation on financial industries.

Based on research on monetary policies and forecast of market liquidity, we expanded our financing channels by using various financial instruments to secure our liquidity while improving the efficiency of fund utilization. In 2017, our RMB-denominated financing transactions amounted to RMB18,803.836 billion, including RMB13,169.624 billion in lending and RMB5,634.213 billion in borrowing. We paid close attention to market changes caused by changes in monetary policies of developed economies and political situation of European countries and American, and maintained a prudent strategy for foreign currency financing activities.

Investment Portfolio Management

As at 31 December 2017, our net investment in securities and other financial assets amounted to RMB6,152,743 million, representing an increase of RMB819,208 million or 15.4%, compared to the end of the previous year.

Trading Activities

The Bank held leading positions among the peers in respect of both the market-making business in the inter-bank market and the trading business in the exchange market. The yield of the domestic bond market experienced an overall upward trend with fluctuations in 2017. By closely monitoring changes in the bond market, we moderately shortened the maturities of portfolio to reduce risk exposures, while flexibly adjusting the trading portfolio to increase income when the yields were on a sharp rise.

In 2017, the Bank won various awards, including the "Core Dealer", "Outstanding Bond Trader" and "Outstanding Contribution to Opening-up" award granted by China Foreign Exchange Trade System, "Outstanding Proprietary Trader", "Outstanding Clearing Agent" and "Outstanding Teller Trader", awarded by China Government Securities Depository Trust & Clearing Company Limited and "Outstanding Bond Trader" by the Shanghai Stock Exchange.

Banking Book Activities

In 2017, by rationally seizing investment opportunities, we increased investment when the yield was high and actively invested in bonds with higher investment value. Conforming to the national fiscal and taxation system reforms, we moderately increased investment in local government debts. To serve the real economy, we invested in high-quality credit bonds in line with the national strategies. We dynamically adjusted our investment structure to reduce risk of portfolios and increase the yield of portfolio.

Adhering to a foreign currency investment strategy of making progress while maintaining stability, we further strengthened the research with the anticipation of the raising of interest rates and balance sheet normalization by U.S. Federal Reserve and the trend of monetary policies by the ECB. We adjusted the duration of portfolios, strictly controlled credit risk, and improved liquidity of the portfolios, so that the structure of our foreign currency investment portfolios was optimized continuously.

Asset Management

Wealth Management

During the reporting period, we actively carried out research and development and innovation of wealth management products, and introduced exclusive products for new customers and new funds, multiple dividend payments products, structured products and foreign currency products with fixed-frequency of value date. We pushed forward the transformation of our wealth management products towards net worth type. Through refinement of online channels, we made significant efforts to enhance customer experience in using online banking and mobile banking. We actively supported national strategies and served the real economy, through enhancing the investment in projects related to PPP, debt-to-equity swap, the "Belt and Road Initiative" and Xiongan New Area. As at the end of 2017, the scale of the wealth management products in the Bank reached RMB1,760,838 million, representing an increase of 7.9% over the end of the previous year, which included personal wealth management products of RMB1,356,041 million and corporate wealth management products of RMB404,797 million.

Structure of wealth management products

In millions of RMB, except for percentages

	Item	Balance of product	Percentage (%)
By target	Personal wealth management	1,356,041	77.0
	Corporate wealth management	404,797	23.0
By type	Principal guaranteed products	391,960	22.3
	Non-principal guaranteed products	1,368,878	77.7
	Total	**1,760,838**	**100.0**

The Bank won many awards in 2017, including the "Annual Excellence Asset Management Award" and "Annual Excellence Innovative Wealth Management Products Award" awarded by *Shanghai Securities News*, the "2017 Wealth Management Brand Junding Award in China", "2017 Wealth Management Brand Junding Award among Banks in China" and "2017 Wealth Management Product Junding Award among structural banks in China" awarded by *Securities Times*, and named as the "Most Competitive Asset Management Bank for 2017" by *the 21st Century Business Herald*.

Custody Service

In 2017, we strengthened our marketing and risk control, to enhance our custody service capabilities continuously. As at the end of 2017, we had RMB10,293,143 million of assets under custody, representing an increase of 14.3% over the end of the previous year; the Bank's commission income from custody service and other fiduciary services amounted to RMB3,368 million in 2017, representing an increase of 8.0% over the previous year.

Pension

In 2017, our corporate annuity, semi-annuity businesses and custodian service for the SSF achieved steadily growth, and the occupation pension recorded positive performance. As at the end of 2017, pension funds under the Bank's custodian amounted to RMB433,432 million, representing an increase of 16.5% over the end of the previous year.

Precious Metals

Influenced by the higher interest rates policy of the U.S. Federal Reserve and risk adverse aversion among investors, the prices of precious metal experienced an overall upward trend with fluctuations in 2017. The Bank's account-based products and gold leasing business achieved rapid development. In 2017, we traded 4,319.25 tons of gold and 68,959.14 tons of silver for our own account as well as on behalf of customers, representing an increase of 29.7% and 37.7% over the previous year, respectively.

Treasury Transactions on Behalf of Customers

In 2017, as a large bank and market-maker, our inter-bank spot market-making business remained first in the market. By actively optimizing quotation strategies for foreign exchange settlements, we promoted balanced development between our foreign exchange settlements and foreign exchange sales, which resulted in a surplus in foreign exchange on behalf of customers. During the reporting period, the transaction volume of foreign exchange sales and settlements as well as foreign exchange trading on behalf of customers[1] amounted to USD348.4 billion, representing an increase of 26.9% over the previous year.

As one of the first batch of "Bond Connect" market-makers in China, we actively participated in the market-making business with overseas institutions and established counterparty relationships with nearly half of the market entrants, leading among our peers in terms of the number of counterparties and the amount of transactions. We were awarded "Outstanding Contribution to Opening-up" by China Foreign Exchange Trade System, and "Outstanding Clearing Agency" by China Central Depository & Clearing Co., Ltd. We broadened the bond distribution business of medium and small investors. In 2017, bonds of Zhaishibao amounting to RMB30,608 million were distributed at the primary market and the trading volume at secondary market reached RMB13,449 million, both ranked first among our peers. We were awarded "Counter Business Progress Agency Award" and "Counter Business Excellence Agency Award" by China Central Depository & Clearing Co., Ltd..

Agency Distribution of Fund Products

In 2017, we closely co-operated with a number of outstanding fund companies, and put great efforts into research and development of innovative market-oriented products to cater customers' needs. We carried out activities such as "Bai Cheng Wan Jia" Customers Salon and Fund Tours to further improve our customer marketing and consulting services. We improved our research teams and nurtured outstanding fund managers, so as to enhance professional services of our fund business. The functions of IT systems and business process were optimized to improve customer experiences. The agency distribution business of fund products grew steadily, with cumulatively distributing fund products accumulating to RMB337.3 billion throughout the year, representing an increase of 31.2% over the previous year.

Agency Sales of PRC Government Bonds

In 2017, as an agent to the PRC Government, we distributed 18 tranches of savings treasury bonds in the amount of RMB52.482 billion, including 10 tranches of savings treasury bonds (in electronic form) of RMB31.807 billion and 8 tranches of treasury bonds (in certificate form) of RMB20.675 billion. In 2017, the Bank won "2017 Outstanding Member of CCDCC – savings treasury bonds (in electronic form)" awarded by China Central Depository & Clearing Co., Ltd..

Internet Finance

During the reporting period, we continued to promote the transformation and upgrading of our internet finance business. We achieved improvement in network traffic and a good start of "No.1 Project" for Providing Internet Financial Service for Sannong. The number of internet finance customers and their transaction volume both achieved stable growth. In 2017, we recorded 44.786 billion financial transactions through electronic channels, representing an increase of 42.3% over the same period of the last year.

1 *The transaction volume of foreign exchange sales and settlements as well as foreign exchange trading on behalf of customers includes that of spot foreign exchange sales and settlements as well as foreign exchange trading on behalf of customers, and the total contract amount of forward/swapped foreign exchange sales and settlements as well as foreign exchange trading.*

Strengthen Business-end Business

We continued to improve corporate financial services platform by launching account management products such as "group business" and multi-layer ledgers, and introducing featured products such as "online bill pool financing and RMB cross-border remittance for corporate customers. For mobile banking for corporate customers, we introduced E-corporate account-opening, mobile transfer, to strengthen our financial service capability in mobile banking.

We actively promoted "No. 1 Project" for Providing Internet Financial Service for Sannong and continued to improve and promote the "Huinong e-Tong"[1] platform, which offered customized services tailored to upstream and downstream supply chain enterprises, professional markets, Huinongtong service stations and rural households. For more information, please refer to "Discussion and Analysis – County Area Banking Business".

Revitalize Consumer-end Business

We continued to innovate and upgrade our mobile banking. We launched a series of featured products such as "ABC Quick E Pay", "ABC Quick E Wealth Management" and "ABC Quick E Loan", aiming to construct a mobile financial ecosystem that caters customers' needs for clothing, food, housing, transportation and entertainment. The "ABC Quick E Wealth Management" supported automatic investment of account balance to facilitate flexible use of funds. The business process of "ABC Quick E Loan" was restructured to broaden the types of loan collaterals, and expand the customer network.

We actively explored consumption financing scenes. With an emphasis on Pay Center and Consumption Mall, we innovated "internet finance+e-commerce" service model to accelerate the development of consumption and e-commerce financing business. During the reporting period, the total number of bill payment merchants of the Bank accumulatively reached 10,104, representing an increase of 514% from the end of the previous year. The total transaction amount reached RMB25.47 billion. We constructed a Consumption Mall covering 20 consumption financing scenes, including retail shopping, gaming and entertainment, travel and tourism, medical insurance, car and lifestyle, housekeeping and furnishing, and culture and leisure, with a daily average page view of nearly 1.2 million times.

We launched 2.0 version of WeChat banking and took the lead to introduce WeChat mini program named "ABC WeChat Service", which realized the synergistic operation between online and offline scenes covering reservations, discounts and credit card payment.

Strengthen Supporting System

We established professional teams and optimized product design. A user experience laboratory was set up, inviting users to participate in product prototype testing. We carried out customer satisfaction research project, so as to optimize product design and development process, and continuously improve user experience of the internet finance products. We consolidated our data foundation and innovated scenes of data application. We explored targeted marketing management mechanism via big data and built targeted marketing models. Internet finance strongly supported our branch outlets transformation. We developed an online marketing service platform named "Online Customer Relationship Manager" to enhance our online marketing and service capability.

We established a risk control mechanism that managed issues before, during and after business operations. We introduced Bluetooth Key and upgraded security assistant for internet banking to enhance the security of customer identity authentication. We improved our monitoring mechanism for online financial transactions, to monitor and control customers on suspicious lists and suspicious transactions. We introduced a commercial insurance payment mechanism and innovated after-event compensation plan.

We established in-depth co-operation with Baidu Group on financial technology, financial products and customers from different channels for the development of our "Smart Banks" through the development of our businesses in terms of targeted marketing, risk control, credit assessment, smart customer services and smart investment consultancy services.

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1 *"Huinong e-Tong" is a new platform providing internet financial service for Sannong, based on the "ABC e-steward" platform.*

Inclusive Finance

Inclusive finance refers to the provision of appropriate and effective financial services to all walks of life and society groups in need of financial services at an affordable cost based on the principle of equal opportunity and commercial sustainability. Relying on offline channels such as branch outlets covering the Urban and County Areas and online channels such as internet banking, mobile banking, telephone banking and self-service banking, the Bank provide comprehensive financial services to key customers of inclusive finance business, such as small and micro enterprises, rural households, low-income groups in cities and towns, the poor, the disabled and the elderly. Those services include payment and settlement, financing and credit management, investment and wealth management.

Organizational Structure

During the reporting period, we actively established an inclusive finance service system supported by "County Areas Banking Division+Inclusive Finance Banking Division". We established the County Area Banking Business/Inclusive Finance Development Committee at the Board level and the County Area Banking Division/Inclusive Finance Banking Division Management Committee at senior management level. A "1 Department and 8 Centers" system was set up under the Inclusive Finance Banking Division of the Head office, "1 Department" referred to Inclusive Finance Banking Division, whereas "8 Centers" referred to eight supporting centers for the middle and back offices of the Head office, covering human resources management, accounting and assessment, capital and fund management, risk management, credit management, credit approval, channel management and Internet finance management. We set up Inclusive Finance Banking Division at all tier 1 branches and fully developed inclusive finance service organizations in the first batch of 16 "Made in China 2025" pilot demonstration cities (clusters). We also developed specialized agencies named "Small and Micro Enterprise Financial Services Demonstration Branch" and technology branch. In addition, our inclusive finance service organizations will be gradually extended to tier-2 branches as well as counties and towns.

For more information about the County Area Banking Division, please refer to "Discussion and Analysis – County Area Banking Business – Management Structure and Management Mechanism".

Operating Mechanism

The Bank endeavored to create the "Five Specialties" management mechanism of inclusive finance. In accordance with the vision of retail-oriented, small-value, standardization and mass production, a credit management system dedicated for small and micro enterprises was set up to enhance operational efficiency. A dedicated statistical and accounting mechanism was established to clarify the cost allocation and revenue sharing between Inclusive Finance Banking Division and other departments so as to reasonably determine the price of funds transferred internally and to truly reflect the operating conditions of Inclusive Finance Banking Division. A dedicated risk management mechanism was established to continuously improve risk management of Inclusive Finance Banking Division and effectively prevent business risks. A dedicated resource allocation mechanism was established to ensure the allocation of resources aligns with our business development. A dedicated assessment mechanism was established to optimize the specific assessment methods and assessment content of Inclusive Finance Banking Division, so as to guide all levels of institutions to enhance their inclusive finance service capabilities.

Products and Services

We strengthened innovation in respect of business model and product and service to continuously improve the coverage rate, availability and satisfaction of inclusive finance services. We built a quality brand of "credit factory" for small and micro enterprises and continuously upgraded our financial services and risk prevention and control capabilities for small and micro enterprises. We accelerated the construction of a new business model for the joint development of inclusive finance services by "Bank and Government". Leveraging the new guarantee methods such as policy guarantee, risk compensation fund and credit insurance provided by government-led credit enhancement agencies, we provided government credit enhancement financing for customers in the field of inclusive finance. Backed by financial technologies such as the Internet, big data, cloud computing and artificial intelligence, we launched the "Internet Loan Based on Big Data" for small and micro enterprises in the service supply chain, the 24x7 hours online opening of corporate account and the online loans application platform for small and medium enterprises, to improve service efficiency and user experience.

At the end of 2017, the balance of loans to small and micro enterprises amounted to RMB1.36 trillion, representing an increase of 13.3%, 3 percentage points higher than that of the total loans of the Bank. The number of loan borrowers of small and micro enterprises was 0.388 million, representing an increase of 16.9% over the end of the previous year. New loans granted to to small and micro corporate customers amounted to RMB663.6 billion, and the average rate was 5.01%.

During the reporting period, the Bank was successively honored with "Excellence Bank for Inclusive Finance Business for 2017" by *21st Century Business Herald* and "Best Bank for Inclusive Finance Service for 2017" by *Financial Times*.

Green Finance

Green Credit

During the reporting period, adhering to the philosophy of sustainable development, we regarded green credit as the important direction for business development and credit structural adjustment and proactively supported the green development.

More green credit was granted. We actively supported key sectors including clean energy, green transport and green agriculture, and promoted green credit products such as energy-efficiency credit and environmental rights mortgage and pledged financing. As at the end of 2017, the balance of loans related to our green credits business was RMB747,625 million, representing an increase of 15.1% compared to the end of the previous year.

Green credit policies were further improved. We specified the development direction and management requirements for green credit business in our annual guideline for credit policies, to provide guidance for healthy and sustainable development of our green credit business. With a focus on five categories of green indicators, namely efficiency, benefits, environment protection, resource consumption and social management, we timely modified the industry-specific credit policies. At present, our green credit indicators had already covered 19 industry-specific credit policies.

Environmental and social risk management capabilities were continuously strengthened. The environmental and social risk assessment was used as an important standard for customer rating, access, management and exit. As for those who failed to exert sufficient control over environmental and social risks, we resolutely refused to do business with them. We set limits to high energy consumption and high pollution industries such as coal, iron and steel as well as thermal power, formulated the annual plan for cutting their credit exposure and strictly implemented credit limit management for these industries.

Product Portfolio Related to Green Investment Banking Business

We further improved product portfolio related to green investment banking business, which covered a series of products including green debt financing instruments, securitization of green assets, green asset-backed notes and green fund, and focused on areas such as clean energy, rail traffic, sewage discharge and waste harmless treatment.

We actively engaged in the underwriting and issuance of green debt financing instruments. We successfully issued green debt financing instruments of RMB4.0 billion and underwrote 10 green financial bonds with RMB38.3 billion being raised.

We carried out securitization of green asset innovatively. Serving the major national strategy of prevent and control pollution, we successfully issued the first certified securitization product of green credit asset in the inter-bank market, namely Nongying 2017 1st Tranche securitization product of green credit asset specially for "Lucid Waters and Lush Mountains", amounting to RMB1,434 million.

We issued green asset-backed notes. We successfully issued renewable energy tariff subsidies asset-backed notes of RMB530 million, as well as registered green asset-backed notes of RMB1,347 million.

Cross-border Financial Service

In 2017, the Bank proactively served China's economic and diplomatic strategies with a focus on steadily advancing the institutional layout in countries and regions along the "Belt and Road Initiative" to establish a featured and differentiated overseas service platform. The scope of business, operation level, and cross-border financial service capability were steadily improved. During the reporting period, the Bank's Dubai Branch and RMB clearing bank in United Arab Emirates officially commenced operation. The applications for the establishment of a representative office in Sao Paulo, branches in London, Macau and Hanoi were officially approved by the local regulatory authorities. The overseas applications for the establishment of the Vancouver Branch ran smoothly. As at the end of 2017, the Bank had established 22 overseas institutions and a bank through equity joint venture in 17 countries and regions, forming an overseas network covering Asia, Europe, America, Oceania and Africa. As at the end of 2017, the total assets of our overseas branches and subsidiaries reached USD122,207 million, representing an increase of 11.8% compared to the end of the previous year. Net profit for 2017 was USD501 million, representing an increase of 77.1% compared to the previous year.

In 2017, the Bank refined its cross-border financial service system, proactively supported the "Belt and Road Initiative" and national strategies, such as "Going Global" of Enterprises and Internationalization of RMB. The Bank proactively promoted products including export credit insurance and financing, financing under short-term export special risk insurance, letter of guarantee concerning foreign transactions, cross-border RMB and other products. Businesses of international settlement and trade financing developed steadily and healthily, and the market competitiveness of cross-border financial services were further enhanced. The infrastructure construction for cross-border RMB business was constantly ramped up. The online cross-border RMB remittance service for corporate customers was launched, and RMB capital account convertibility business was steadily promoted. The Bank successfully carried out the cross-border RMB settlement for the first corporate "Panda Bonds" issued in countries along the "Belt and Road Initiative". The Bank's Mongolia cross-border RMB business center successfully carried out the first interbank transaction between RMB and Mongolia Tugrik. In 2017, the total volume of international trade financing conducted by the domestic branches reached USD93.3 billion. The total volume of international settlement conducted reached USD895.898 billion. The foreign guarantees issued amounted to USD22.535 billion.

Diversified Operation

We have established an integrated business platform consisting of fund management, securities and investment banking, financial leasing, life insurance and debt-to-equity swap business, in an effort to continuously implement our integrated operation strategy.

In 2017, our five subsidiaries of integrated operation (namely ABC-CA Fund Management Co., Ltd., ABC International Holdings Limited, ABC Financial Leasing Co., Ltd., ABC Life Insurance Co., Ltd. and ABC Financial Asset Investment Co., Ltd.) focused on principal businesses, delved into respective professional territory and operated prudently, in alignment with the Group's development strategy. Their market competitiveness steadily improved and synergy of the Group's integrated operation was achieved gradually. The total assets managed by ABC-CA Fund Management Co., Ltd. amounted to over RMB537.7 billion, representing an increase of 28.0% compared to the end of the previous year. The core investment banking business of ABC International Holdings Limited expanded with a significant increase in profit. Concurrently, ABC Financial Leasing Co., Ltd. advanced its business transformation and promoted asset structure adjustment. The industry competitiveness of ABC Life Insurance Co., Ltd. had improved with total premium income of RMB24.8 billion. During the reporting period, ABC Financial Asset Investment Co., Ltd. was established and commenced operation. By exploring a diversified business model that includes converting customers' bank debt into ordinary shares, increasing minority shareholders' equity at the client group level, and investing renewable bonds of customers, it implemented various debt-to-equity swap projects in a safe and orderly manner to help corporate customers with temporary difficulties but with good prospects of development to navigate through their difficult stages. As at the end of 2017, ABC Financial Asset Investment Co., Ltd. signed debt-to-equity swap framework agreements with 26 companies and implemented debt-to-equity swap business amounted to a total of over RMB40 billion, ranking second in the banking industry. ABC Financial Asset Investment Co., Ltd. successfully implemented the first non-performing loan-to-equity swap project in domestic banking industry.

As at the end of 2017, total assets of our five subsidiaries of integrated business operations amounted to RMB157.3 billion, representing an increase of RMB9.2 billion compared to the end of the previous year. Net profit for 2017 amounted to RMB1.602 billion, representing an increase of 37.9% compared to the previous year.

Distribution Channels

Offline Channels

In 2017, we continuously optimized the layout of branch outlets and widely promoted standardized management. Through increasing trainings to employees and enhancing the publicity on transformation, we consolidated the fruitful results brought by standardized transformation of branch outlets. We continued to reduce inefficient branch outlets and implemented standardization transformation in more than 6,800 branch outlets to motivate their operational efficiency. We proactively explored ways to transform our branch outlets towards intelligent, light and online and offline integrated ones. A light and intelligent "counter-less branch outlet" was introduced on a pilot basis, and more than 700 branch outlets completed intelligent upgrades. We managed to maintain the total number of branch outlets in County Areas while adjusting and optimizing coverage of financial services.

Online Channels

Internet Banking

We continued to upgrade our retail internet banking and corporate internet banking. The product lines through internet banking were gradually improved and customer experience was steadily enhanced. As at the end of 2017, we had a total of 223 million registered customers on retail internet banking, representing an increase of 18.0% as compared to the end of the previous year, and achieved a transaction volume of RMB47.7 trillion for the year. We also had 5.318 million corporate internet banking customers, representing an increase of 18.7 % as compared to the end of the previous year, and recorded a transaction volume of RMB72.7 trillion for the year. The coverage rate of public products through online channels reached 85%, representing an increase of 14% as compared to the end of the previous year.

Mobile Banking

Adhering to our service beliefs in "Openness, Customization, Integration and Sharing", we continued to enhance innovation in mobile banking products and services. Financial services offered through our mobile banking covered deposits, loans, transfer, investment and wealth management and credit cards. As at the end of 2017, we had a total of 206 million mobile banking users, representing an increase of 21.9% as compared to the end of the previous year, and achieved a transaction volume of RMB31.8 trillion for the year, representing an increase of 116.3% as compared to the previous year.

Telephone Banking

During the reporting period, we continued to improve call-answering and voice self-services of the telephone banking to enhance customer experience. In 2017, we had received 477 million calls from customers, among which 126 million calls were transferred to customer service center and 105 million calls were handled by customer service staff with the completion rate and the satisfactory rate of 83.76% and 98.84%, respectively.

Self-service Banking

During the reporting period, we continued to advance the development of integrated service and intelligent management through self-service facilities. Cash withdrawal by face-recognition authentication, and targeted sales through self-service facilities were launched. As at the end of 2017, we had 125.9 thousand units of cash-related self-service banking facilities, and 42.6 thousand units of self-service banking facilities in service. We maintained the first among our peers in terms of number and amount of inter-bank transactions.

In 2017, the financial transactions through electronic channels accounted for 97.2% of total financial transactions, representing an increase of 1.2 percentage points over the previous year.

Information Technology

We stepped up innovation in FinTech and provided strong technical support for our operation and management. During the reporting period, eight achievements were honored with the Technology Development Award from the PBOC, and four achievements were awarded the Project Research Achievement Award for Risk Management of Information Technology from the CBRC.

FinTech Innovation

Regarding application of mobile internet technology, our mobile banking service newly supported fingerprint login and QR code payment to improve customer experience. A mobile phone application specifically designated for the "Huinongtong" service stations that offered online services including agriculture procurement, agricultural products information releases, wealth management and loans, to establish a mobile financial service system with our own feature of "Internet+Sannong".

Regarding application of artificial intelligence technology, we promoted cash withdrawal upon face scan at ATMs. It utilized the most advanced bio detection technology with face recognition accuracy rate reaching 98%, which effectively reduced risk in card counterfeit and the number of cards swallowed by ATM and accelerated intelligent upgrade of our self-service channels. The intelligent transfer through "voice navigation + face scanning" was piloted in our mobile banking.

Regarding application of blockchain, we were the first in the domestic banks to apply blockchain into the e-commerce supply chain financing. The E-chain Loan, an agriculture related internet e-commerce financing product, was launched to provide unsecured financing services to merchants on the e-commerce platform. It offered functions including automatic approval, entrusted payment and auto-repayment. We promoted the construction of a financial digital points (referred to as "Hey Beans") system, to create a leading blockchain scoring system in the banking sector in order to enhance customer participation.

Regarding application of big data technology, we piloted 14 big data analysis projects and supported by our data analysis platform, to preliminarily develop our supporting capacity for centralized services through big data application. A credit card data laboratory was established to upgrade our anti-fraud and risk management.

Regarding application of network security technologies, we pushed forward research and development of quantum communication, dynamic defense, situation awareness, threat intelligence and other new technologies, and implementation of the related projects, in order to further enhance our capabilities of maintaining network security in terms of monitoring, defense and handling.

We encouraged innovation proposed by all the employees and joint innovation. A crowd innovation platform named ABC E-innovation was established to collect, select and release product ideas from all the employees. We entered into cooperation with the Baidu Group to explore interface between our mobile banking and Baidu AI. We also worked with Huawei to jointly establish a new generation of cloud infrastructure platform to allow flexible scalability, flexible scheduling, and agile delivery of the infrastructure, which effectively improved our efficiency to utilize resources.

Improvement of Technological Level of Our Operation and Management

We promoted "No. 1 Project" for Providing Internet Financial Service for Sannong with a service platform namely "Huinong e-Tong", building a new model for Sannong financial services through online and offline channels coordinately. We promoted the "Three Lines and One Grid" management system to strengthen management by means of technology, specify responsibilities and improve management on employees' behavior to prevent and control cases of violations. We developed a unified view of credit risk that effectively improved our anti-fraud capabilities by accessing external data, and enhanced our abilities in intelligent risk monitoring and pre-warning. In implementation of the regulatory requirements by PBOC related to reporting large-sum and suspicious transactions, the first phase of comprehensive analysis platform for anti-money laundering was put into operation to improve our management on anti-money laundering. We continued to refine our operation risk monitoring system by upgrading the centralized monitoring platform of operation risk, enlarging model database of the risk monitoring, optimizing our procedure of risk warning and disposal, as well as refine the function of performance appraisal. The first phase of the marketing and management system for corporate customers was launched, so that our standardized and regular procedure of marketing corporate customers and integrated marketing capabilities of our customer managers were improved.

The Safe Running of Information System

We promoted the construction of 'two cities and three centers' project, that included a Production Center in Shanghai and a City-wide Disaster Recovery Center in Shanghai, and a Remote Disaster Recovery Center in Beijing. We led the peers in conducting field trainings for remote disaster recovery while the core systems were still in full operation, to enhance the emergency response capacity of our information system. During the reporting period, our transaction volume generated by our operation system increased rapidly with 433 million transactions being handled by our core operation system per working day. The highest daily transaction volume reached 581 million. Therefore, our information system was sustainable in providing continuous stable services.

Human Resources Management and Organization Management

Human Resources Management

Human Resources Reform

During the reporting period, persisting with a market-oriented approach, we continued to deepen the reform of human resources, so as to refine the structure of employees and personnel development system and improve efficiency of our human resources continuously. We established an Inclusive Banking Business Division and built an inclusive banking service system supported by the "Inclusive Finance Banking Division+County Areas Banking Division". ABC Financial Asset Investment Co., Ltd. was established to promote the market-oriented operation of debt-to-equity swap business. We exerted more efforts in establishment of the anti-money laundering center and staffing, to establish an integrated anti-money laundering management system at home and abroad. We promoted management reform of our branches in provincial capitals, through which we renamed a number of business department in tier-1 branches as city branches and further clarified their market positioning, to improve their social recognition. The reform of direct management system and centralized operation of custody business department was completed. In response to the national strategy, we applied for the establishment of the Xiongan Branch, and upgraded 12 tier-2 branches related to the Free Trade Zones, the state-level new districts and the counties directly managed by provincial government.

During the reporting period, we accelerated the "Four Major Projects" of talent development, including cultivation of chief managers, development of professional staff, transformation and optimization of foundation-level teams and retaining talents. A series of reform measures were implemented in respect of selection of leading managers, promotion of professionals and incentives to backbone employees in order to inspire our employees with enthusiasm, initiative and creativity. We innovated in the selection approach of leading managers, which included carrying out open selections for managers directly managed by the Head Office and directing branches and sub-branches to select and cultivate young leaders, so as to rejuvenate the leadership. We implemented the talent retention program by selecting high-level professionals in the Head Office and expanding their career path. During the process of branch outlets transformation, we optimized the staffing in branch outlets by providing directions for surplus employees to transfer to new posts, so as to vitalize human resources in foundation-level branches.

Development and Cultivation of Human Resources

During the reporting period, adopting a more active, open and effective talent development strategy, we strengthened the cultivation of talents in key areas and co-ordinated the development of all kinds of talents. Focusing on integration of FinTech and our business, we actively cultivated Fintech talents. Focusing on development of emerging business, we introduced and trained more talents for the departments directly managed by the Head Office, the overseas institutions and subsidiaries. For international development, we formulated an international talent development plan to accelerate the cultivation of international talents. In line with our market positioning of serving Sannong, we pushed forward the young talents development program in County Areas.

During the reporting period, we continued to develop the Agricultural Bank of China University. We held the training programs, including national policy trainings, business trainings highlighting business transformation and FinTech and a series of demonstration trainings. We held "Agricultural Bank of China Lectures", and overseas high-end trainings and party school rotation trainings for senior management. For professional talents, we carried out thematic trainings that comprises operation, training and research, job qualifications grading examination, and held corporate finance financial adviser trainings and emerging businesses seminars. For backbone employees in foundation-level institutions, we conducted induction trainings for new employees and internal transfer trainings for counter managers. In 2017, we held 29,900 trainings and trained 1.6137 million employees.

Management of Remuneration and Benefit

During the reporting period, the overall remuneration level of the Bank was determined in accordance with factors including the efficiency and personnel of the Bank, as required by the national authorities. Pursuant to our remuneration management system, the total remuneration allocated to institutions at all levels under the Bank was on the basis of their operating efficiency and performance assessment result, while the individual remuneration of employees was determined on the basis of the performance assessment results of the institutions and the employee himself.

We continued to deepen the reform of remuneration allocation mechanism, to optimize the allocation of resources and to reinforce the centralized management and control of total payroll of branch outlets and subsidiaries. We also formulated annual remuneration plan in strict compliance with the regulatory requirements and corporate governance. We strengthened the linkage of remuneration allocation to the creation of economic value, business transformation and risk management, to promote comprehensive, coordinated and sustainable development of the Bank.

We refined the approach of remuneration allocation. By encouraging performance contribution, improving long-term incentives, and implementing the deferred payment system of remuneration, we linked employees' current and long-term responsibilities and contribution to the development of the Bank and follow-up risk. We improved benefits and increased the payroll incentives for key posts and core talents in order to promote the development of talents. The remuneration allocation gave favor to employees in foundation-level institutions by the establishment of minimum wages and differentiated allowance policies to improve sense of belonging and loyalty of these employees. Meanwhile, we improved the management for annuity scheme and retirement benefits fund and steadily pushed forward the market-oriented management of annuity scheme, so as to increase the long-term investment return. The benefits for retired staff of the Bank were borne by the retirement benefits fund and annuity scheme.

For details of the remuneration policy of the Bank, please refer to the *2017 Capital Adequacy Ratio Report* published on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange by the Bank.

Information on Employees

We had 487,307 employees (and 8,541 dispatched employees) as at the end of 2017, representing a decrease of 9,391 compared to the end of the previous year. Among our employees, 8,007 persons were employed at our major domestic subsidiaries and 812 persons were local employees at our overseas institutions.

Distribution of Employees by Regions

	31 December 2017	
	Number of Employees	Percentage (%)
Head Office	8,757	1.8
Yangtze River Delta	66,504	13.6
Pearl River Delta	53,016	10.9
Bohai Rim	70,054	14.4
Central China	102,383	21.0
Northeastern China	50,190	10.3
Western China	127,584	26.2
Subtotal of Domestic Branch Outlets	478,488	98.2
Major Domestic Subsidiaries	8,007	1.6
Overseas Institutions	812	0.2
Total	**487,307**	**100.0**

Distribution of Employees by Education Background

	31 December 2017	
	Number of Employees	Percentage (%)
Doctorate's Degree	482	0.1
Master's Degree	25,002	5.1
Bachelor's Degree	225,018	46.2
Associate Degree and Vocational School	148,628	30.5
Below College	88,177	18.1
Total	**487,307**	**100.0**

Distribution of Employees by Departments

	31 December 2017	
	Number of Employees	Percentage (%)
Management	125,298	25.7
Risk management	17,904	3.7
Finance	21,997	4.5
Administration	18,293	3.8
Sales	110,110	22.6
Trading	253	0.1
Information technology	6,256	1.3
Tellers	138,438	28.4
Technicians	32,915	6.8
Others	15,843	3.1
Total	**487,307**	**100**

Distribution of Employees by Age

	31 December 2017	
	Number of Employees	Percentage (%)
30 or below	100,899	20.7
31 – 40	75,900	15.6
41 – 50	191,248	39.2
51 or above	119,260	24.5
Total	**487,307**	**100.0**

Management of Branch Outlets

Domestic Branch Outlets

As at the end of 2017, we had 23,661 domestic branch outlets, including the Head Office, Major Clients Department at the Head Office, three specialized institutions managed by the Head Office, three training institutes, 37 tier-1 branches (including five branches directly managed by the Head Office), 378 tier-2 branches (including business departments of provincial branches), 3,485 tier-1 sub-branches (including business departments in municipalities, business departments of branches directly managed by the Head Office and business departments of tier-2 branches), 19,701 foundation-level branch outlets and 52 other establishments.

Number of Domestic Branches and Branch Outlets by Regions

	31 December 2017	
	Number of Domestic Branch Outlets	Percentage (%)
Head Office[1]	8	0.03
Yangtze River Delta	3,100	13.10
Pearl River Delta	2,546	10.76
Bohai Rim	3,403	14.38
Central China	5,268	22.26
Northeastern China	2,287	9.67
Western China	7,049	29.80
Total of Domestic Branch Outlets	**23,661**	**100.00**

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

Overseas Branch Outlets

As of the end of 2017, we had 13 overseas branches and four overseas representative offices, namely the Hong Kong, Singapore, Seoul, New York, Dubai International Financial Center, Tokyo, Frankfurt, Sydney, Luxembourg, Dubai, London, Macao and Hanoi branches, as well as the Vancouver, Hanoi, Taipei and Sao Paulo representative offices.

Major Subsidiaries

ABC-CA Fund Management Co., Ltd.

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

At 31 December 2017, the total assets and net assets of ABC-CA Fund Management Co., Ltd. amounted to RMB1,048 million and RMB914 million, respectively. It recorded a net profit of RMB223 million for 2017.

ABC International Holdings Limited

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

At 31 December 2017, the total assets and net assets of ABC International Holdings Limited amounted to HKD37,761 million and HKD7,143 million, respectively. It recorded a net profit of HKD1,335 million for 2017.

ABC Financial Leasing Co., Ltd.

ABC Financial Leasing Co., Ltd. was established in September 2010 and its registered capital was RMB3 billion, 100% of which was held by the Bank. The principal scope of business includes financial leasing, transfer and accept of financing and leasing finance lease assets, fixed-income securities investments business, acceptance of lease deposit from lessee, intake of fixed deposits with maturity of three months or above from non-bank shareholders, absorbing time deposit with a term no less than three months from non-bank shareholders, inter-bank lending, borrowing from financial institutions, overseas loan, selling of disposal of leased items, financial consultation, establish project companies in domestic bonded zones to carry out financial leasing business, provide guarantee for external facilities to subsidiaries and project companies and other business approved by the CBRC.

At 31 December 2017, the total assets and net assets of ABC Financial Leasing Co., Ltd. amounted to RMB41,588 million and RMB4,711 million, respectively. It recorded a net profit of RMB113 million for 2017.

ABC Life Insurance Co., Ltd.

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

At 31 December 2017, ABC Life Insurance Co., Ltd. had total assets of RMB83,095 million, net assets of RMB4,253 million and a net profit for the year of RMB111 million.

China Agricultural Finance Co., Ltd.

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

ABC Financial Asset Investment Company Limited

The registered capital of ABC Financial Asset Investment Company Limited is RMB10 billion, which is 100% held by the Bank. The principal scope of business of ABC Financial Asset Investment Company Limited includes: focusing on debt-to-equity conversion and ancillary supporting business, conducting public fund raising from qualified public investors for debt-to-equity conversion in accordance with relevant laws and regulations, issuance of financial bonds specifically for debt-to-equity conversion, as well as other businesses as approved by the CBRC.

As at 31 December 2017, ABC Financial Asset Investment Company Limited had total assets of RMB10,100 million, net assets of RMB10,080 million and a net profit for the year of RMB80 million.

Agricultural Bank of China (UK) Limited

Agricultural Bank of China (UK) Limited is a wholly-owned subsidiary of the Bank incorporated in the United Kingdom, with a registered capital of USD100 million. It engages in the corporate financing business, including corporate deposits, bilateral loans, syndicated loans, trade financing, international settlement, foreign exchange and derivatives. At 31 December 2017, Agricultural Bank of China (UK) Limited had total assets of USD1,080 million. It recorded a net profit of USD773.5 thousand for 2017.

Agricultural Bank of China (Luxembourg) Limited

Agricultural Bank of China (Luxembourg) Limited is a wholly-owned subsidiary of the Bank incorporated in Luxembourg, with a registered capital of EUR20 million. Its scope of business includes financing businesses such as retails, wholesales and treasury transactions. At 31 December 2017, Agricultural Bank of China (Luxembourg) Limited had total assets of USD24 million. It recorded a net profit of USD1,033.1 thousand for 2017.

Agricultural Bank of China (Moscow) Limited

Agricultural Bank of China (Moscow) Limited is a wholly-owned subsidiary of the Bank incorporated in Russia, with a registered capital of RUB1.400 billion. It engages in wholesale banking businesses including international settlements, corporate deposits, syndicated loan, bilateral loans, trade financing and exchange transactions. At 31 December 2017, Agricultural Bank of China (Moscow) Limited had total assets of USD101 million.

ABC Hubei Hanchuan Rural Bank Limited Liability Company

ABC Hubei Hanchuan Rural Bank Limited Liability Company was established in August 2008 in Hanchuan, Hubei Province with registered capital of RMB31 million, 50% of which was held by the Bank. At 31 December 2017, ABC Hubei Hanchuan Rural Bank Limited Liability Company had total assets of RMB276 million, net assets of RMB62 million and a net profit for the year of RMB4,372.5 thousand.

ABC Hexigten Rural Bank Limited Liability Company

ABC Hexigten Rural Bank Limited Liability Company was established in August 2008 in Hexigten Banner, Chifeng City, Inner Mongolia Autonomous Region with registered capital of RMB19.60 million, 51.02% of which was held by the Bank. At 31 December 2017, ABC Hexigten Rural Bank Limited Liability Company had total assets of RMB195 million, net assets of RMB38 million and a net profit for the year of RMB3,630.8 thousand.

ABC Ansai Rural Bank Limited Liability Company

ABC Ansai Rural Bank Limited Liability Company was established in March 2010 in Ansai County, Yanan City, Shaanxi Province with registered capital of RMB40.00 million, 51% of which was held by the Bank. At 31 December 2017, ABC Ansai Rural Bank Limited Liability Company had total assets of RMB626 million, net assets of RMB57 million and a net profit for the year of RMB5,057.6 thousand.

ABC Jixi Rural Bank Limited Liability Company

ABC Jixi Rural Bank Limited Liability Company was established in May 2010 in Jixi County, Xuancheng City, Anhui Province with registered capital of RMB29.40 million, 51.02% of which was held by the Bank. At 31 December 2017, ABC Jixi Rural Bank Limited Liability Company had total assets of RMB182 million, net assets of RMB41 million and a net loss for the year of RMB5.1885 million.

ABC Zhejiang Yongkang Rural Bank Limited Liability Company

ABC Zhejiang Yongkang Rural Bank Limited Liability Company was established in June 2012 in Yongkang City, Jinhua City, Zhejiang Province with registered capital of RMB210 million, 51% of which was held by the Bank. At 31 December 2017, ABC Zhejiang Yongkang Rural Bank Limited Liability Company had total assets of RMB579 million, net assets of RMB244 million and a net profit for the year of RMB5,210 thousand.

ABC Xiamen Tong'an Rural Bank Limited Liability Company

ABC Xiamen Tong'an Rural Bank Limited Liability Company was established in June 2012 in Tong'an District, Xiamen City, Fujian Province with registered capital of RMB100 million, 51% of which was held by the Bank. At 31 December 2017, ABC Xiamen Tong'an Rural Bank Limited Liability Company had total assets of RMB1,017 million, net assets of RMB142 million and a net profit for the year of RMB12,593.2 thousand.

Major Investee

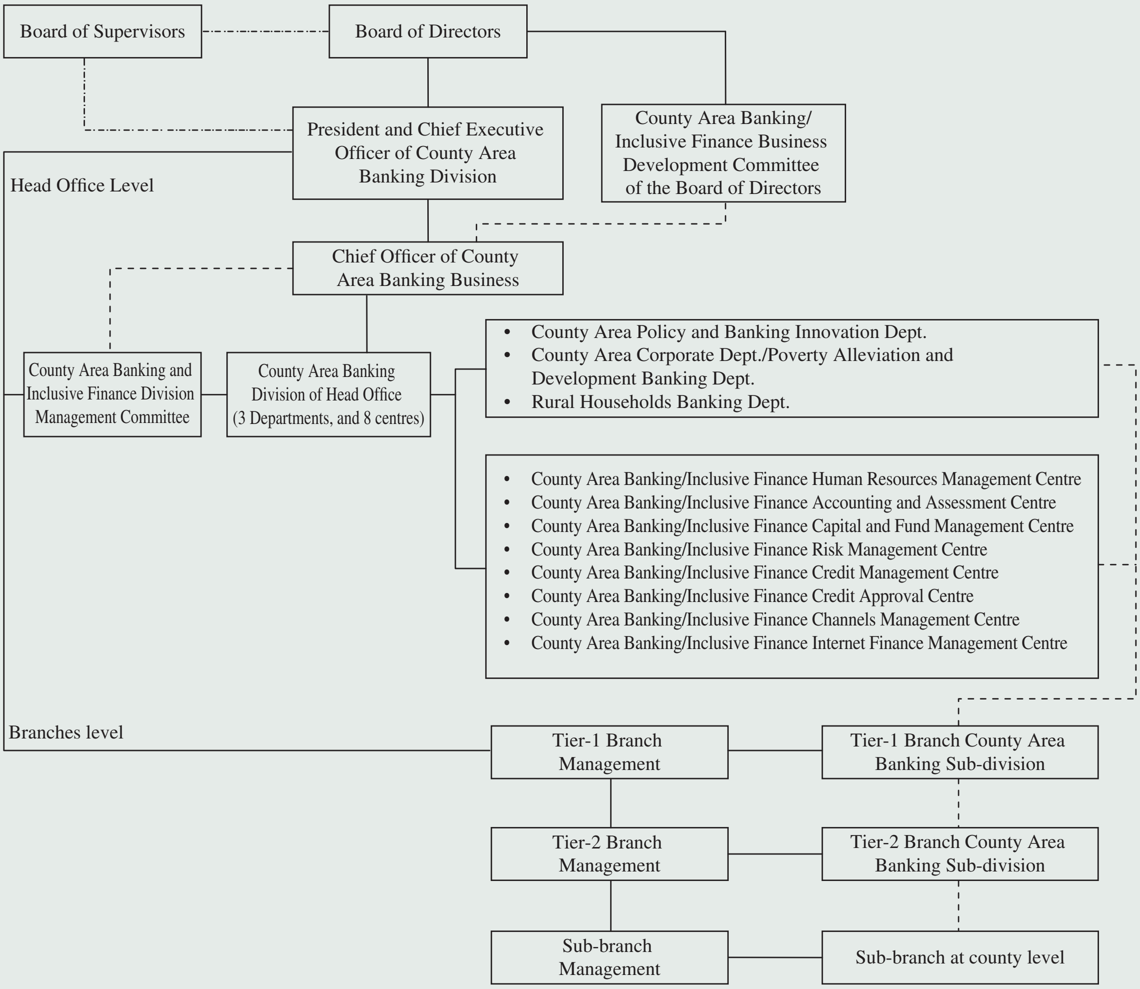
Sino-Congolese Bank for Africa was established by the Bank in the Republic of Congo, in which the Bank invested Franc CFA26,671.40 million, with a shareholding of 50%.

County Area Banking Business

We provide customers in County Areas with comprehensive financial services through all our branch outlets in County Areas in China. We refer to such banking business as the County Area Banking Business or Sannong Banking Business. During the reporting period, following our business positioning of serving Sannong to promote businesses in County Areas, we actively served the supply-side structural reform of agriculture. Through continuing to deepen the reform of the County Areas Banking Division and innovate Sannong products and service models, we enhanced service capabilities and market competitiveness of our County Area Banking Business.

Management Structure and Management Mechanism

Management Structure



Management Structure Chart of County Area Banking Business

We established the County Area Banking/Inclusive Finance Business Development Committee at the level of Board of Directors and the County Area Banking and Inclusive Finance Division Management Committee at the level of senior management. A "3 Departments and 8 Centers" system was set up under the County Area Banking Division of the Head Office. "3 Departments" included three dedicated departments, namely, County Area Policy and Banking Innovation Department, County Area Corporate Banking Department/Poverty Alleviation and Development Banking Department, Rural Households Banking Department, whereas "8 Centers" referred to eight supporting centers for the middle and back offices of the Head Office, covering human resources management, accounting and assessment, capital and fund management, risk management, credit management, credit approval, channel management and internet finance management. The County Area Banking Sub-Divisions were set up at tier-1 and tier-2 branches according to the structure of the Head Office and the actual circumstances of relevant branches. Sub-branches in County Areas were the basic operation unit of County Area Banking Division.

Management Mechanism

We constructed the management mechanism of County Areas Banking Division with our own features of "County+Agriculture-related", "Departments+Centers", "Double Committees+Double Reporting Paths"[1], "Internal Policies+External Policies"[2] and "Six Separate Managements"[3]. During the reporting period, we successively formulated a number of supporting policies and measures such as the division of customer management boundaries, credit policies and authorization management in County Areas, assessment and incentive, resource allocation, delegating to sub-branches in Country Areas, development of major sub-branches in County Areas and the nurturing of talents in County Areas, which optimized our management mechanism of County Areas Banking Division.

Focused on the supply-side structural reform of agriculture, we strengthened the research in key agriculture-related industries and regional credit policies. We formulated the annual credit policies for Sannong and targeted poverty alleviation, and revised credit policies on animal husbandry, feed processing and other agriculture-related industries and the regional credit policies for five advantageous agricultural regions related to grain farming and flower planting. As such, the credit policies for Sannong has seen further improvements. We developed review standards for rural infrastructure construction projects, revised review standards for high-standard farmland improvement and water conservancy construction projects, and optimized the priority handling and the emergency mechanism. As such, the quality and efficiency of credit approval for Sannong has been significant improved.

We continued to strengthen risk control over County Area Banking Business. We strictly implemented the industrial credit policies, controlled risk exposure of industries with overcapacity, executed tight control over project loans related to hotels, commercial properties and operating properties, and strengthened control over credit granting and credit exposure on enterprises with potential high risk. We exerted more efforts in resolving and disposal of non-performing loans in County Areas, to ensure that the risks of County Area Banking Business are manageable.

County Area Corporate Banking Business

During the reporting period, we improved financial services in key areas of Sannong, and made great effort in the innovation of featured products for County Areas, so as to continuously consolidate and improve the competitiveness of our corporate banking business in County Areas.

Financial services in key areas of Sannong had new achievements. Focusing on the key areas related to the supply-side structural reform of agriculture, we continued to enhance financial support to key areas such as new-type urbanization, water conservancy construction and growing industries in County Areas. As at the end of 2017, the balance of loans for urbanization in County Areas amounted to RMB562.5 billion, representing an increase of RMB162.5 billion or 40.6% as compared to the end of the previous year. The balance of loans for water conservancy in County Areas amounted to RMB335.3 billion, representing an increase of RMB60.7 billion or 22.1% as compared to the end of the previous year. The balance of loans for tourism industry in County Areas amounted to RMB28.9 billion, representing an increase of RMB10.6 billion or 57.9% as compared to the end of the previous year.

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1 "Double Committees" refer to the County Area Banking/Inclusive Finance Business Development Committee established at the level of Board of Directors and the County Area Banking and Inclusive Finance Division Management Committee established at the level of senior management. "Double Reporting Paths" means that the 8 Centres are required to report to both the presidents of the Bank in charge of their departments and the presidents of the Bank in charge of Sannong business for matters in relation to Sannong.

2 "Internal Policies" refer to the supportive preferential policies for the County Area Banking Division implemented by us, including separate allocation for credit plans of County Areas, separate arrangements for Sannong fixed assets investment budget, separate approval for total wages. "External Policies" refers to the special supportive policies for us implemented by the Chinese government, including preferential value-added tax rates, differentiated deposit reserve ratio and regulatory fee deduction.

3 "Six Separate Managements" refer to separate capital management, separate credit management, separate accounting, separate risk allowance and write-off, separate fund balance and operation, separate assessment and incentive & constraint.

The innovation of Sannong products for corporate customers achieved a new breakthrough. We continuously enriched Sannong products and service models to satisfy the financial needs of corporate customers in County Areas. We launched the "Supporting Loans for Income Right of Tourism Areas", and optimized various service models including the model of "Tourism+Leading Enterprises" and "Tourism+Featured Small Towns", which effectively supported the tourism development in County Areas. We innovatively launched regional products such as "Farm-herd Loan" and "Loan for Beautiful and Inhabitable Cities and Villages", developing a series of lightspots and brands that serve Sannong.

The capabilities to provide financial services for Sannong had saw new improvements. We enhanced the management of marketing key customers, and provided personalized and comprehensive financial service plans for each key customer. We strengthened our cooperation with government and collaborated closely with governmental departments such as the Ministry of Agriculture, the Ministry of Commerce and the State Forestry Administration to support key national projects, including green development of agriculture, the commodity circulation tracing system, the forest tenure reform and the construction of forestry ecology.

At the end of 2017, the balance of corporate customer deposits in County Areas was RMB2,059.1 billion, representing an increase of RMB198.7 billion as compared to the end of the previous year. Loans for corporate customers in County Areas (excluding discount) amounted to RMB2,129.2 billion, representing an increase of RMB255.9 billion as compared to the end of the previous year.

County Area Retail Banking Business

During the reporting period, we continued to promote innovation in product and service model in line with the rural property reform and the new trend in mobile internet in the agriculture and rural areas. We further promoted the internet upgrade of "Huinongtong" project, driving the healthy and rapid development of County Area retail banking business.

We further increased credit support for new agricultural business entities. At the end of 2017, the balance of loans extended to new agricultural business entities including large-scale professional operators and family farmers was RMB65.6 billion, representing an increase of RMB12.8 billion as compared to the end of the previous year. We steadily advanced in the pilot program of loan business pledged with "Two Rights" in rural areas (rural land contractual operation rights and property rights of rural households' houses). As at the end of 2017, the pilot program of loans secured by rural land contractual operation rights had expanded to 31 branches, while the loans secured by property rights of rural households' houses had expanded to 21 branches, with the balance of loans amounting to RMB2.9 billion.We continued to promote innovative products, such as Anjiadai loans and Nongjiale loans for rural households. At the end of 2017, the balance of Anjiadai loans for rural households reached RMB349.7 billion, representing an increase of 108.65% as compared with the end of the previous year.

We further advanced in the "Jinsui Huinongtong" project. As of the end of 2017, the coverage of the Bank's electronic machines in administrative villages reached 74.4%. 206 million Huinong Cards were issued, representing an increase of 12 million cards as compared with the end of the previous year. The balance of deposits in Huinong card was RMB164.9 billion, representing an increase of RMB44.7 billion as compared with the end of the previous year. We secured the agency business of pension insurance in 1,425 counties for the urban and rural residents and new rural cooperative medical insurance in 920 counties, representing an increase of 19 counties and 23 counties, respectively, as compared to the end of the previous year. We also secured the agency business of 5,586 agricultural-related financial subsidies projects, representing an increase of 636 projects as compared with the end of the previous year.

At the end of 2017, the balance of retail customer deposits in County Areas amounted to RMB4,722.6 billion, representing an increase of RMB291.8 billion as compared to the end of previous year. Loans for retail customers in County Areas amounted to RMB1,405.8 billion, representing an increase of RMB206.7 billion as compared to the end of the previous year.

"No.1 Project" for Providing Internet Financial Services for Sannong Achieved Economies of Scale

During the reporting period, we comprehensively promoted the "No.1 Project" for Providing Internet Financial Services for Sannong in line with new trends in Internet development. Under the project, the "Huinong e-Tong" platform was established, its online features fit with the online operation scenes of production and operation activities of merchants in the agricultural industrial chain. The "Huinong e-Tong" platform strived to build three modules of "Huinong e-loan", "Huinong e-payment" and "Huinong e-commerce", to provide platform-based, standardized, integrated and scene-sensitive financial services for agricultural enterprises and rural households. As at the end of 2017, the accumulated number of online merchants on the platform reached 1.56 million, representing an increase of 1.18 million as compared to the end of the previous year. The transaction amount was RMB249.2 billion on the platform, representing an increase of 177% as compared to the previous year.

The internet financing business "Huinong e-loan" achieved a breakthrough. We accelerated the innovation of the operation mode and business models for Sannong financial services. We also innovated the rural household loan products under "Huinong e-loan", and realized the distribution of rural household loans in batches and in a standardized manner. As at the end of 2017, our 31 tier-1 branches and 868 sub-branches started the rural household loan business "Huinong e-loan", with the loan balance reaching RMB15.18 billion.

Internet payment and settlement provided through "Huinong e-payment" expanded rapidly. We developed integrated cashier introducing a variety of online and offline payment methods, including QR code payment. We also provided convenient payment services for new agricultural insurance, new rural cooperative medical insurance and utility bills. Based on the platform, 245,000 Huinongtong service stations completed Internet-based upgrades, and 176,000 agricultural enterprises and rural households in 767 state-level poverty counties were able to operate their business through Internet, which effectively facilitated poor households to alleviate poverty and increase income.

The rural e-commerce financial service model based on "Huinong e-commerce" had made good market appeals. We provided a whole series of e-commerce financial services for all types of users on the agricultural production, supply and marketing chain, based on the conditions of commercial and trading circulation in County Areas, focused on customers in the agriculture-related industrial chain, including leading agricultural industrialization enterprises, agricultural products wholesale market, wholesalers in County Areas, Huinongtong service stations and rural households, in the fields of "industrial products to the countryside" and "agricultural products to the city".

The market effect and social effect of our "No.1 Project" for Providing Internet Financial Services for Sannong was gradually emerging. The "E-commerce Poverty Alleviation Zone" covered 9 provinces and 13 state-level poverty counties, which directly drove the direct sales of more than 160 kinds of specialty products, providing convenience for online sales of featured products in poor areas. We supported the "Information Entering Villages and Rural Households" project by the Ministry of Agriculture, and provided rural households agricultural technology and production and living information services, effectively promoting information to enter villages and services to reach households.

Financial Poverty Alleviation

During the reporting period, focused on our five-year plan for financial poverty alleviation determined by the *Opinion on Enhancing the Financial Poverty Alleviation during the 13th Five-year Plan Period*, we continued to push forward financial services in relation to development-oriented and targeted poverty alleviation, assisting the country in its strategy to fight against poverty.

2017 Annual Plan

In 2017, following the principles of "targeted poverty alleviation, adaptability to local conditions, service in place and making risk under control", we set a number of goals, including no less than RMB75 billion of new loans to 832 key counties of national poverty alleviation, as well as new loans for targeted poverty alleviation of no less than RMB40 billion and no less than 1 million poor people newly benefiting from loans and services for targeted poverty alleviation. We formulated special credit plans for 832 sub-branches in key counties of national poverty alleviation and prioritized credit rating of poor households, access to government credit-adding projects, poverty alleviation bridge loans and lending rates. We further improved evaluation mechanism, assessed new loans and poor people newly benefiting from targeted poverty alleviation for 832 sub-branches in key counties of national poverty alleviation, and meanwhile included all loans extended to 832 key counties of national poverty alleviation into the assessment for County Area Banking Division.

Major Achievements

Loans to poor areas continued to increase. At the end of 2017, our balance of loans to 832 key counties of national poverty alleviation reached RMB815.1 billion, representing an increase of RMB110.7 billion or 15.7% over the end of previous year, which is 5.4 percentage points higher than the growth rate of loans of the Bank.

The targeted financial poverty alleviation improved significantly. At the end of 2017, the balance of loans for targeted poverty alleviation amounted to RMB287.8 billion, representing an increase of RMB84.4 billion or 41.5% over the end of previous year. 6.65 million poor people benefited from loans and services for the targeted poverty alleviation, representing an increase of 1.05 million people over the end of previous year. The balance of loans for ratified and registered poor people reached RMB22.2 billion, representing an increase of 36.1% over the end of previous year, and directly supporting 1.233 million poor people.

We achieved positive results in poverty alleviation in designated areas. At the end of 2017, the balance of loans granted to the four designated poverty alleviation counties, including Wuqiang County and Raoyang County in Hebei, Huang Ping County in Guizhou and Xiushan County in Chongqing, and Fuping County in Hebei (Enjoy the same poverty alleviation policy) amounted to RMB7.8 billion, representing an increase of RMB2.9 billion or 58.1% over the end of the last year. Throughout the year, RMB12 million of assistance funds and RMB13 million of special party fees were allocated by us to above 5 counties for the purpose of fighting against poverty. In 2017, there were 66,000 poor people in 5 counties as well as Xiushan County were lifted out of poverty.

We encompassed various featured products for poverty alleviation. We preliminarily established a small loan product line for poverty alleviation including photovoltaic poverty alleviation, anti-poverty relocation, and production and operation of poor households. At the end of 2017, the loan balance of photovoltaic poverty alleviation reached RMB2.5 billion, covering 235 photovoltaic poverty alleviation projects and boosting the income of 156,000 poor people and directly supporting the installation of photovoltaic power generation systems for residential use for 17,000 poor households. Efforts had been made to extend loans to industry-targeted poverty alleviation, which utilised featured agriculture products in poor areas to further alleviate poverty. Competitive industries such as navel orange from Jiangxi, sugar cane from Guangxi, livestock from Qinghai Plateau and kiwi from Shaanxi received our financial support. At the end of 2017, the balance of loans of the Bank for industry-targeted poverty alleviation reached RMB72.8 billion, representing an increase of 44.7% over the end of the last year, boosting the income of 388,000 poor people.

2018 Annual Plan

In 2018, we endeavored to fulfill the goals, including no less than RMB80 billion of new loans to 832 key counties of national poverty alleviation, as well as new loans for targeted poverty alleviation of no less than RMB40 billion and no less than 1 million poor people newly benefiting from loans and service for targeted poverty alleviation.

We adopted various strategies to ensure the completion of the 2018 financial poverty alleviation plan. In terms of customer and project access, the facts of benefiting poor people will continue to be the focus in investigation for credit granting and lending, in order to make accurate choices to help customers and projects. In respect of resource allocation, we continued to develop a separate credit plan to 832 sub-branches in key counties of national poverty alleviation and rationally prioritized their business expenses, staff recruitment, business training, bilateral exchanges and donation resources, to enhance their financial capability for poverty alleviation. We focused to carry out financial poverty alleviation in seriously disadvantaged regions through targeting poverty, increasing investment, promoting innovative products, improving services, prioritizing resources and strengthening assessment. For designated counties which was lifted out of poverty, the policies for their poverty alleviation will remain unchanged. In terms of channel construction, we further improved the functions of the branch outlets and Huinongtong service stations, and increased their coverage in administrative villages in poor areas. We speeded up the implementation of the "No.1 Project" for Providing Internet Financial Service for Sannong in poor areas and made effective use of "Huinong e-Tong" platform, which provided convenience for online sales of featured products in poor areas and comprehensive financial services to agricultural enterprises and rural households in agriculture-related industry chains, assisting the poor people to fight against poverty and increase income.

Statistics of targeted financial poverty alleviation based on PBOC Standards for the year 2017

I.	Loans for targeted financial poverty alleviation (balance at the end of the period, in hundred millions of RMB)	
1.1	Retail loans for targeted poverty alleviation	287.90
	1.1.1 Loans for ratified and registered poor people	221.83
	1.1.2 Other retail loans for targeted poverty alleviation	66.07
1.2	Corporate loans for targeted poverty alleviation	2,590.00
	1.2.1 Loans related to industry-targeted poverty alleviation	728.40
	1.2.2 Loans related to projects for targeted poverty alleviation	1,861.60
	Of which: Loans for improving ecological environment	61.99
	Loans for improving rural infrastructure	1,772.96

II.	People benefiting from loans for targeted financial poverty alleviation (number of existing loan customers, in ten thousands of people)	
2.1	Number of people benefiting from loans for ratified and registered poor people at the end of the reporting period	123.29
2.2	Number of people benefiting from other loans for targeted poverty alleviation at the end of reporting period	12.248
2.3	Number of people benefiting from loans related to industry-targeted poverty alleviation at the end of reporting period	38.82
2.4	Number of people who were served by project loans for targeted poverty alleviation at the end of reporting period	490.82

Financial Position

Assets and Liabilities

At 31 December 2017, the total assets of the County Area Banking Business reached RMB7,585,643 million, representing an increase of 7.7% compared to the end of the previous year. The total loans and advances to customers reached RMB3,568,363 million, representing an increase of 12.3% which was 2.0 percentage points higher than that of the Bank compared to the end of the previous year. The balance of deposits from customers reached RMB6,915,672 million, representing an increase of 7.7% compared to the end of the previous year.

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

In millions of RMB, except for percentages

	31 December 2017		31 December 2016	
Item	**Amount**	**Percentage (%)**	Amount	Percentage (%)
Total loans and advances to customers	**3,568,363**	**–**	3,178,345	–
Allowance for impairment losses on loans	**(163,246)**	**–**	(162,590)	–
Loans and advances to customers, net	**3,405,117**	**44.9**	3,015,755	42.8
Intra-bank balance[1]	**3,561,280**	**46.9**	3,435,785	48.8
Other assets	**619,246**	**8.2**	588,876	8.4
Total assets	**7,585,643**	**100.0**	7,040,416	100.0
Deposits from customers	**6,915,672**	**97.4**	6,421,067	97.3
Other liabilities	**182,302**	**2.6**	177,792	2.7
Total liabilities	**7,097,974**	**100.0**	6,598,859	100.0

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

Profit

In 2017, the profit before tax of our County Area Banking Business increased by 26.2% to RMB83,211 million compared to the previous year, primarily due to the increase in net interest income.

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

In millions of RMB, except for percentages

	2017	2016	Increase/ (decrease)	Growth Rate (%)
External interest income	**157,305**	143,479	13,826	9.6
Less: External interest expense	**86,537**	88,268	(1,731)	-2.0
Interest income from intra-bank balance[1]	**106,176**	102,598	3,578	3.5
Net interest income	**176,944**	157,809	19,135	12.1
Net fee and commission income	**30,019**	31,887	(1,868)	-5.9
Other non-interest income	**4,637**	4,615	22	0.5
Operating income	**211,600**	194,311	17,289	8.9
Less: Operating expenses	**83,915**	84,205	(290)	-0.3
Impairment losses on assets	**44,474**	44,186	288	0.7
Total profit before tax	**83,211**	65,920	17,291	26.2

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

Key Financial Indicators

In 2017, the return on average total assets of the County Area Banking Business was 0.92%, representing an increase of 12 basis points compared to the previous year. The interest spread between deposits and loans was 3.27%, 35 basis points higher than that of the Bank. At 31 December 2017, the non-performing loan ratio of the County Area Banking Business was 2.17%, representing a decrease of 0.83 percentage point compared to the end of the previous year. The allowance to non-performing loans was 211.30% and the allowance to total loans was 4.57%.

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

Unit: %

Item	2017	2016
Return on average total assets	**0.92**	0.80
Average yield of loans	**4.55**	4.73
Average cost of deposits	**1.28**	1.40
Net fee and commission income to operating income	**14.19**	16.41
Cost-to-income ratio	**39.18**	42.54

Item	31 December 2017	31 December 2016
Loan-to-deposit ratio	**51.60**	49.50
Non-performing loan ratio	**2.17**	3.00
Allowance to non-performing loans	**211.30**	170.30
Allowance to total loans	**4.57**	5.12

Risk Management and Internal Control

Risk Management

Comprehensive Risk Management System

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

In 2017, in face of the complicated and ever-changing risk management condition, the Bank continued to work towards building a comprehensive risk management system. Under the general requirement of "Comprehensively Preventing Risks and Fighting against Risks" and continuously following the guideline of "Mitigating Existing Risks while Controlling Emerging Risks", we attached more importance to risk prevention and control, and adhered to our limitation of risk tolerance. We further optimized the departments' responsibilities for risk management and improved accountability and performance appraisal mechanisms for risk management. We focused on strengthening the mitigation of credit risk in key areas, so that our quality of credit assets continued to improve and our level of resilience to risk kept the leading position among comparable peers. We optimized our market risk management on bond, wealth management, interbank business and other businesses. We also continued to facilitate prevention of cases of violations and operational risk management, aiming to avoid behaviors violating laws and regulations.

In January 2017, the CBRC officially approved our application to implement the Internal Models Approach (IMA) for market risks, unify the major benchmarks of non-retail rating among domestic and overseas branches, and abolish the regulatory restriction which provides that retail risk weighted assets shall not be less than those calculated using the weighted approach, so that the implementation and application of the advanced approach of capital management further deepened. In respect of credit risk, we continued to advance the implementation and management of unification of the non-retail Internal Rating Systems (IRS) among domestic and overseas branches, optimize our rating system of non-retail customer and carried out early warning and identification of fraud risk related to retail loans based on big data. In respect of market risk, we strengthened our application of IMA, as well as enhanced our management of exposure limit and improved data quality by expanding the monitoring scope of our market risk management system. In respect of operational risk, we deepened the internal application of measurement approaches for operational risk, and improved the measurement of cases of violations and money laundering risks.

In 2017, the Risk Management Committee under the Bank's senior management held six meetings, where various proposals and reports were discussed and considered, including the implementation of guidelines of comprehensive risk management, the administrative measures on limit management of industry-specific exposures, the risk management policies of subsidiary companies, the risk management policies of overseas branches and subsidiary banks, the working rules of the Risk Management Committee under the senior management, and the report on information technology risk evaluation and inspection.

Risk Appetite

Risk appetite is a term that refers to the types and levels of risks acceptable to the Bank as determined by the Board of Directors, which depends on the expectations and constraints of our major stakeholders, external operating environment and the conditions of the Bank, in order to achieve strategic targets and effective risk management. The Bank amended the *Risk Appetite Statement* in 2017. The amended risk appetite statement, from the aspect of the group level, covered all the subsidiaries and overseas institutions, involved new types of risks such as information technology risk and money-laundering risk, optimized risk quantitative indicators, and improved risk appetite transmission mechanism. The Bank conducted monthly supervision on the performance of risk appetite indicators and annual review on risk appetite, as well as established the mechanism to rectify a deviation in respect of the risk appetite, in order to enhance the effectiveness of risk appetite management continuously.

Generally speaking, the Bank is devoted to building ourselves into an international first-class commercial banking group and maintaining a prudent risk appetite. The Bank operates strictly in compliance with regulatory and legal requirements and insists on having an appropriate balance among capital, risk and revenue. At the same time, adopting a neutral risk bearing policy which is neither aggressive nor conservative, the Bank seeks to achieve moderate returns with reasonable levels of risk by maintaining security, profitability and liquidity. The Bank maintains a sufficient risk allowance and capital adequacy, aims to improve its overall risk management capability for business development and innovation and create value through risk management, so as to effectively support the fulfillment of our strategic targets.

Risk Management Organizational Structure

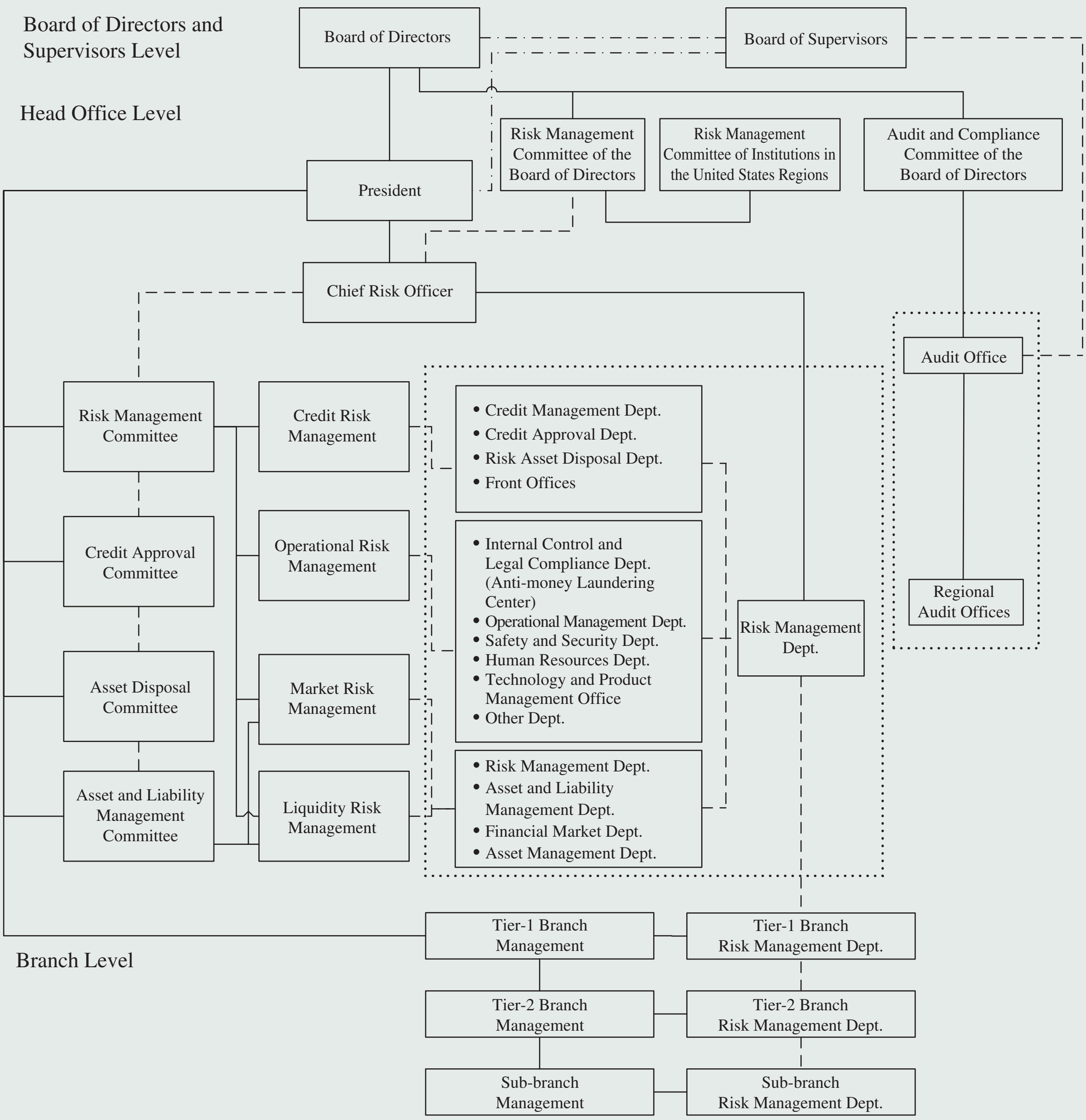
The Board of Directors assumes the ultimate responsibility for risk management. The Risk Management Committee, the Audit and Compliance Committee and the Risk Management Committee of Institutions in the United States Regions under the Board of Directors perform the risk management functions, review the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

Senior management is the organizer and executor of risk management of the Bank. Under the senior management, the Bank has various risk management committees with different functions, including Risk Management Committee, Credit Approval Committee, Asset and Liability Management Committee and Asset Disposal Committee. Risk Management Committee is primarily responsible for considering material risk management issues, studying and drafting risk management policies, adopting risk management tools, analyzing and evaluating the overall risk condition of the Bank, and coordinating, guiding and reviewing the risk management of all the departments and branches.

The Board of Supervisors is responsible for supervising the Board of Directors and the senior management in respect of the establishment and implementation of risk management and internal control of the Bank.

Based on the principle of "centralized management, matrix distribution, comprehensive coverage and full participation", the Bank established the "Three Lines of Defense" of the risk management which are comprised of business departments (departments bearing risk), risk management departments and internal audit departments. In 2017, we further improved the organizational structure of risk governance, strengthened the functions of departments which were responsible for the comprehensive risk management, as well as the major risks management such as credit risk, market risk, operational risk, etc., so that the professional management for various major risks was continuously improved.

Risk Management Structure



Risk Management System

In 2017, the Bank continued to refine its risk management policy system. For the organizational structure of risk management, we amended the working rules of the Risk Management Committee under the senior management, the administrative measures on the qualifications of responsible personnel of Tier-1 Branch Risk Management Department, as well as the operating rules of due diligence supervisory works of risk management departments. For credit risk management, we formulated the administrative measures on classification of credit asset risks of overseas branches and revised the administrative measures on limit management of industry-specific credit exposures. At the same time, we set out policies for annual customer rating, asset classification, treasury trading and market risk management, thereby providing effective guidance for daily risk management.

Risk Analysis and Reporting

In 2017, closely following the changes of macro-economic situations and national industrial policies and requirements of regulatory policies, we enhanced risk identification, monitoring and pre-warning for key areas, industries, products and customers to enhance the pertinence, timeliness and comprehensiveness of risk analysis and reporting. We utilized IRB, risk limit, economic capital and stress testing and other tools, to continuously broaden and deepen of risk reporting.

Credit Risk

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

Credit Risk Management

In 2017, following the national macro-control policies, we improved the construction of the credit risk management system. We continuously optimized our credit structure, as well as strengthened the risk prevention and control in key areas and limit management of industry-specific credit exposures, thereby mitigating various potential risks timely. We diversified the ways of collection and disposal of non-performing loans, thus maintaining stable assets quality.

Credit Risk Management Structure

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

Risk Management of Corporate Banking Business

We refined the policy system for risk management. We issued credit policies for high-standard farmlands, animal husbandry and strategic emerging industries so as to continuously optimize our industry-specific credit policies. We formulated rules for duty performance and exemption with respect to credit business to further standardize the operational procedures of relevant businesses and enhance risk management capability.

We strengthened risk management in key areas. We continued to strictly implement loan access management and customer list-based management, and strengthened limit management of industry-specific exposures. We further reduced loans granted to industries with overcapacity and directed credit resources invested to high-quality customers. We strictly implemented the regulatory and control policies on real estate industry and different regulatory requirements, and adopted a differentiated management strategy of "One Policy for One City". We strictly controlled our engagement in residential projects in cities with high stockpile and high-cost projects with exceedingly high land price. We strengthened the management of existing loans to government financing vehicles and constantly optimized the structure of such loans.

We strengthened the post-disbursement management and the collection and disposal of non-performing assets. We strengthened post-disbursement management of key customers and monitoring customers with large credit exposures, to mitigate potential risks timely. We exerted more effort in the collection and the disposal of non-performing loans. While based on self-collection and accelerated write-offs, we actively expanded ways of disposal, including transferring out the non-performing loans in batches, pushing forward securitization of the non-performing assets and debt-to-equity swaps.

We optimized our credit management system. We optimized our monitoring system for corporate customers by successfully launching the first phase of the centralized risk monitoring project, which introduced external data related to judicial authorities, customs and public opinions into our system, thereby facilitating the application of big data in credit risk management, and enhancing the intelligence of risk management.

Risk Management of Retail Banking Business

We accelerated the construction of retail loan operation center, optimized our operating procedures, and promoted the professional and centralized operation for retail loans. We formulated the administrative measure on risk management for coordination between front office, middle office and back office for retail credit banking business, the operating rules for due diligence supervisory work and other measures, thus enhancing risk management and control in front office, middle office and back office in aspect of regulations and rules. We formulated the annual scoring management policy for retail loans to raise access standard for loans with high risk. We strengthened the collection and write-offs of non-performing loans, and the assets quality of retail loans was further improved.

Risk Management of Credit Card Business

We strengthened the credit granting management of credit card business, which screened out high-quality credit card customers and accurately granted credit lines, as well as strictly controlled large-sum credit granting and credit granted to high risk customers. We enhanced the authorization management of credit card issuance approval, in order to build more standardized and regulated credit card issuance business. We launched monitoring platform of loan risk and commenced online alert of customer risk. We also optimized our recognition rules of arbitrage transactions and enhanced the control over capital flow. We put greater effort in collection of overdue loans, enhanced the efficiency of outsourcing business of loan collection. We diversified the methods of disposal of non-performing loans, including issuing securitization product of non-performing assets related to credit card business.

Risk Management of Treasury Business

We conducted in-depth research on the credit condition of key industries and major customers, and formulated targeted risk control strategy. We closely followed the changes in market and valuation, and focused on investing in assets with high rating. We optimized the monitoring and response mechanism on negative news, by timely following market risk related incidents and dynamically adjusted the related capital businesses of major customers as affected by negative news. We enhanced the management of pre-investment access and post-investment monitor, thus further secure customers' performance of contracts.

Loan Risk Classification

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

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

Credit Risk Analysis

Distribution of Loans by Collaterals

In millions of RMB, except for percentages

Item	31 December 2017 Amount	31 December 2017 Percentage of total loans (%)	31 December 2016 Amount	31 December 2016 Percentage of total loans (%)
Loans secured by mortgages	**4,945,683**	**46.1**	4,594,468	47.3
Loans secured by pledges	**1,499,489**	**14.0**	1,485,633	15.3
Guaranteed loans	**1,359,512**	**12.7**	1,293,680	13.3
Unsecured loans	**2,915,927**	**27.2**	2,345,858	24.1
Total	**10,720,611**	**100.0**	9,719,639	100.0

Distribution of Overdue Loans by Overdue Period

In millions of RMB, except for percentages

Item	31 December 2017 Amount	31 December 2017 Percentage of total loans (%)	31 December 2016 Amount	31 December 2016 Percentage of total loans (%)
Overdue for less than 90 days (including 90 days)	**91,100**	**0.8**	79,545	0.8
Overdue for 91 to 360 days	**49,520**	**0.5**	86,468	0.9
Overdue for 361 days to 3 years (including 3 years)	**65,325**	**0.6**	98,427	1.0
Overdue for more than 3 years	**18,121**	**0.2**	10,195	0.1
Total	**224,066**	**2.1**	274,635	2.8

Loan Concentration

In millions of RMB, except for percentages

Top ten borrowers	Industry	Amount	Percentage of total loans (%)
Borrower A	Transportation,logistics and postal services	125,703	1.17
Borrower B	Finance	28,000	0.26
Borrower C	Others	24,250	0.23
Borrower D	Transportation,logistics and postal services	23,976	0.22
Borrower E	Transportation,logistics and postal services	21,890	0.21
Borrower F	Transportation,logistics and postal services	19,556	0.18
Borrower G	Transportation,logistics and postal services	19,485	0.18
Borrower H	Production and supply of power, heat, gas and water	18,616	0.17
Borrower I	Transportation,logistics and postal services	18,126	0.17
Borrower J	Transportation,logistics and postal services	16,875	0.16
Total		**316,477**	**2.95**

At 31 December 2017, we fulfilled the regulatory requirements that total loans to our largest single borrower represented 7.26% of our net capital and total loans to our ten largest borrowers represented 18.27% of our net capital.

Distribution of Loans by Five-category Classification

In millions of RMB, except for percentages

Item	31 December 2017 Amount	31 December 2017 Percentage of total loans (%)	31 December 2016 Amount	31 December 2016 Percentage of total loans (%)
Normal	**10,175,764**	**94.92**	9,111,457	93.75
Special mention	**350,815**	**3.27**	377,348	3.88
Non-performing loans	**194,032**	**1.81**	230,834	2.37
Substandard	**38,877**	**0.36**	57,550	0.59
Doubtful	**131,479**	**1.23**	151,587	1.56
Loss	**23,676**	**0.22**	21,697	0.22
Total	**10,720,611**	**100.00**	9,719,639	100.00

During the reporting period, we continued to strengthen the management of credit risk in key areas, and effectively mitigated existing risk by creating tailored solutions for different problems to maintain our assets quality stable with a favourable trend. (1) We adjusted our credit structure and consolidated credit management basics. Focusing on the supply-side structural reform, we actively met the demand of key national strategies and major projects, and conducted management of industry-specific exposures to reduce the exposures to industries with high risk. (2) We optimized our credit risk monitoring system, strengthened the daily monitoring and analyzed of key industries, regions and clients, as well as enhanced the risk pre-warning. We carried out risk investigations regularly to identify all customers with potential risk precisely and developed plans for mitigating risk. (3) We continued to implement credit risk mitigation and governance, with a focus on areas with high risks, by strengthening governance on risk related to excessive borrowing from banks, excessive credit granting and loans to "zombie" enterprises. (4) We pushed forward the "clean-up plans" for improvement of asset quality and strengthened our effort in self-collection and enhanced the collection and the disposal of non-performing loans by actively applying various market-oriented approaches of transferring out non-performing loans in batches, securitization and debt-to-equity swaps.

At 31 December 2017, the balance of non-performing loans of the Bank was RMB194,032 million, representing a decrease of RMB36,802 million compared to the end of the previous year. The non-performing loan ratio decreased by 0.56 percentage point to 1.81% compared to the end of the previous year. The balance of special mention loans was RMB350,815 million, representing a decrease of RMB26,533 million compared to the end of the previous year. Special mention loans accounted for 3.27% of total loans, representing a decrease of 0.61 percentage point compared to the end of the previous year.

Distribution of Non-Performing Loans by Product Type

In millions of RMB, except for percentages

Item	31 December 2017 Amount	31 December 2017 Percentage (%)	31 December 2017 Non-performing loan ratio (%)	31 December 2016 Amount	31 December 2016 Percentage (%)	31 December 2016 Non-performing loan ratio (%)
Corporate loans	**156,380**	**80.6**	**2.54**	188,767	81.8	3.52
Of which: Short-term corporate loans	**113,076**	**58.3**	**4.89**	146,138	63.3	6.73
Medium- and long-term corporate loans	**43,304**	**22.3**	**1.13**	42,629	18.5	1.33
Discounted bills	**–**	**–**	**–**	1	–	–
Retail loans	**34,204**	**17.6**	**0.86**	37,980	16.4	1.14
Residential mortgage loans	**11,268**	**5.8**	**0.36**	11,014	4.8	0.43
Credit card balances	**6,335**	**3.3**	**1.99**	6,982	3.0	2.88
Personal consumption loans	**1,732**	**0.9**	**1.26**	2,252	1.0	1.89
Loans to private business	**8,753**	**4.5**	**4.28**	10,672	4.6	4.68
Loans to rural households	**6,044**	**3.1**	**2.93**	6,955	3.0	3.63
Others	**72**	**–**	**7.19**	105	–	8.61
Overseas and others	**3,448**	**1.8**	**0.89**	4,086	1.8	0.93
Total	**194,032**	**100.0**	**1.81**	230,834	100.0	2.37

At 31 December 2017, the balance of corporate non-performing loans was RMB156,380 million, representing a decrease of RMB32,387 million over the end of the previous year. The non-performing corporate loan ratio decreased by 0.98 percentage point compared to the end of the previous year to 2.54%. The balance of retail non-performing loans decreased by RMB3,776 million to RMB34,204 million over the end of the previous year, and the non-performing loan ratio decreased by 0.28 percentage point compared to the end of the previous year to 0.86%.

Distribution of Non-Performing Loans by Geographic Region

In millions of RMB, except for percentages

	31 December 2017			31 December 2016		
Item	Amount	Percentage (%)	Non-performing loan ratio (%)	Amount	Percentage (%)	Non-performing loan ratio (%)
Head Office	7	–	–	7	–	–
Yangtze River Delta	29,460	15.2	1.22	35,471	15.4	1.63
Pearl River Delta	26,957	13.9	1.65	30,530	13.2	2.08
Bohai Rim	39,031	20.1	2.32	45,728	19.8	3.05
Central China	27,377	14.1	1.80	30,194	13.1	2.31
Northeast China	8,438	4.3	1.97	8,772	3.8	2.22
Western China	59,314	30.6	2.46	76,046	32.9	3.52
Overseas and others	3,448	1.8	0.89	4,086	1.8	0.93
Total	**194,032**	**100.0**	**1.81**	230,834	100.0	2.37

During the reporting period, a decline in our non-performing loan ratio was seen in all regions, among which, the non-performing loan ratio decreased largely in Western China and Bohai Rim, by 1.06 percentage points and 0.73 percentage point, respectively, compared to the end of the previous year.

Distribution of Corporate Non-Performing Loans by Industry

In millions of RMB, except for percentages

	31 December 2017			31 December 2016		
Item	Amount	Percentage (%)	Non-performing loan ratio (%)	Amount	Percentage (%)	Non-performing loan ratio (%)
Manufacturing	70,771	45.3	5.70	77,124	40.9	6.29
Production and supply of power, heat, gas and water	4,234	2.7	0.53	3,247	1.7	0.49
Real estate	5,789	3.7	1.13	11,086	5.9	2.47
Transportation, logistics and postal services	4,734	3.0	0.39	3,951	2.1	0.39
Wholesale and retail	42,925	27.4	12.05	63,140	33.4	15.62
Water, environment and public utilities management	1,051	0.7	0.29	810	0.4	0.34
Construction	5,674	3.6	2.54	6,004	3.2	3.31
Mining	10,348	6.7	4.62	13,275	7.0	5.77
Leasing and commercial services	5,502	3.5	0.69	3,783	2.0	0.68
Finance	224	0.1	0.16	177	0.1	0.10
Information transmission, software and IT service	147	0.1	0.33	140	0.1	0.59
Others	4,981	3.2	2.31	6,030	3.2	2.77
Total	**156,380**	**100.0**	**2.54**	188,767	100.0	3.52

At 31 December 2017, the non-performing loan ratio decreased most in wholesale and retail industry and mining industry, by 3.57 percentage points and 1.15 points, respectively, compared to the end of the previous year.

Changes to the Allowance for Impairment Losses on Loans

In millions of RMB

Item	Individually assessed	Collectively assessed	Total
At 1 January 2017	133,605	266,670	400,275
Charge for the year	67,430	25,434	92,864
– Addition	87,588	107,125	194,713
– Reversal	(20,158)	(81,691)	(101,849)
Write-offs and transfer-out	(82,283)	(12,010)	(94,293)
Transfer-in			
– Recoveries of loans and advances written-off in previous years	4,758	2,343	7,101
– Unwinding of discount on allowance	(1,077)	(353)	(1,430)
– Exchange difference	(122)	(95)	(217)
At 31 December 2017	**122,311**	**281,989**	**404,300**

Market Risk

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

During the reporting period, the Bank formulated annual market risk management policies, promulgated annual strategies for trading and investment as well as related market risk management, and amended some administrative measures on market risk management including segregation of trading book and banking book, as well as measurement of Value at Risk (VaR), thereby further improving its market risk management system. The Bank continued to enhance various functions of its market risk management IT system including pre-warning of limits and parameter management. The Bank also continued to carry out comprehensive validation of Internal Model Approach. The Bank strengthened its management over derivative transactions and secured customers' performance of derivative transaction contracts. The Bank appropriately controlled the size and duration of available-for-sale assets, keeping exposures from different transactions on the Bank's behalf at a relatively low level. As a result, the Bank's exposures to market risk were under control.

Market Risk Exposure Limit Management

The market risk exposure limits of the Bank are classified into directive limits and indicative limits. In 2017, the Bank further enhanced market risk exposure limit management and refined the categorization of limits by setting different market risk exposure limits based on the types of products and risks. The Bank also measured, monitored and reported risk exposure automatically through the systems. During the reporting period, the risk exposure limits of the Bank were within the designated ranges.

Segregation of Trading Book and Banking Book

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

Market Risk Management for Trading Book

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

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

VaR Analysis for the Trading Book

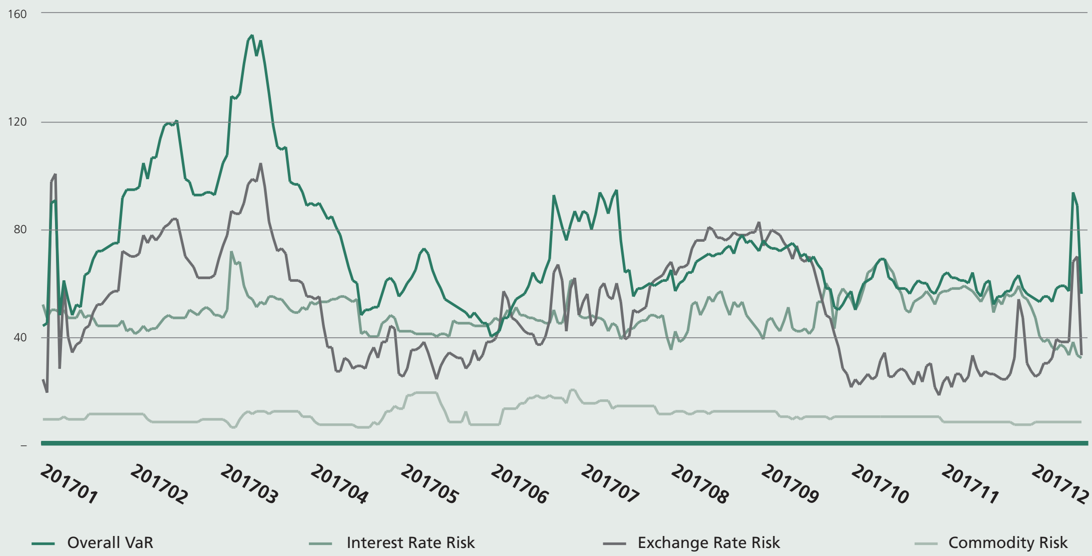
In millions of RMB

Item	2017				2016			
	At the end of the period	Average	Maximum	Minimum	At the end of the period	Average	Maximum	Minimum
Interest rate risk	**32**	**49**	**72**	**32**	53	63	71	39
Exchange rate risk[1]	**33**	**51**	**105**	**18**	20	86	213	14
Commodity risk	**8**	**11**	**20**	**6**	9	13	28	3
Overall VaR	**56**	**73**	**153**	**40**	44	96	213	44

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

Change in VaR of Trading Book in 2017

In millions of RMB



During the reporting period, the size of bond portfolio of the Bank was decreased with duration structure shortened, resulting in a decrease in the Bank's VaR of interest rate risk. The gold position was reduced over the previous year, therefore the VaR of foreign exchange risk was decreased over the previous year. Besides, the size of silver portfolio was slightly decreased, which resulted in a slight decrease in the VaR of commodity risk.

Market Risk Management for Banking Book

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

Interest Rate Risk Management

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

In 2017, the Bank officially launched the system for interest rate risk of banking book, thus significantly enhanced the accuracy and promptness of interest rate risk measurement. The Bank deepened its reform on management of internal funds transfer pricing, and enhanced the effectiveness of internal funds transfer pricing on reflecting fund value, optimization of resources allocation, guidance for external pricing, strengthening risk management and other aspects.

Exchange Rate Risk Management

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

In 2017, the Bank performed exchange rate risk exposure monitoring and sensitivity analysis regularly, and continued to optimize exchange rate risk measurement and strengthen system construction. Through proper matching of foreign currency exposures, the Bank flexibly adjusted the trading exchange rate risk exposure, while maintaining the structural exchange rate risk exposure stable. Therefore, the risk exposure of exchange rate of the Bank was controlled within a reasonable range.

Interest Rate Risk Analysis

At 31 December 2017, the accumulative negative gap with interest rate sensitivity due within one year amounted to RMB1,860,183 million, representing an increase of RMB473,033 million in absolute terms compared to the end of the previous year.

Interest Rate Risk Gap

In millions of RMB

	Within 1 month	1-3 Months	3-12 Months	Sub-total of 1 year and below	1-5 years	Over 5 years	Non-interest earning
31 December 2017	**(3,415,357)**	**430,009**	**1,125,165**	**(1,860,183)**	**1,141,827**	**2,040,189**	**(123,398)**
31 December 2016	(3,577,103)	392,162	1,797,791	(1,387,150)	595,675	1,991,228	(137,593)

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

Interest Rate Sensitivity Analysis

In millions of RMB

	31 December 2017		31 December 2016	
Movements in basis points	**Movements in net interest income**	**Movements in other comprehensive income**	Movements in net interest income	Movements in other comprehensive income
Increased by 100 basis points	**(24,928)**	**(37,095)**	(24,271)	(40,354)
Decreased by 100 basis points	**24,928**	**37,095**	24,271	40,354

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

Based on the composition of our assets and liabilities at 31 December 2017, if the interest rates instantaneously increase (or decrease) by 100 basis points, our net interest income and other comprehensive income would decrease (or increase) by RMB24,928 million and RMB37,095 million, respectively.

Exchange Rate Risk Analysis

Our exchange rate risk is mainly the exposure risk arising from the exchange rate of USD against RMB. In 2017, the mid-point rate of RMB against USD appreciated accumulatively by 4,028 basis points or 6.16%. At the end of 2017, our foreign exchange positive exposure of on-and off-balance sheet was USD3,448 million, representing a decrease of USD5,489 million in absolute terms compared to the end of the previous year.

Foreign Exchange Exposure

In millions of RMB (USD)

	31 December 2017		31 December 2016	
	RMB	**USD equivalent**	RMB	USD equivalent
Net foreign exchange exposure of on-balance sheet financial assets/liabilities	**(40,320)**	**(6,171)**	69,050	9,954
Net foreign exchange exposure of off-balance sheet financial assets/liabilities	**62,851**	**9,619**	(7,052)	(1,017)

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

Exchange Rate Sensitivity Analysis

In millions of RMB

Currency	**Increase/decrease in Exchange rate of foreign Currency against RMB**	**Impact on profit before tax 31 December 2017**	31 December 2016
USD	+5%	**(122)**	881
	-5%	**122**	(881)
HKD	+5%	**673**	863
	-5%	**(673)**	(863)

Non-RMB denominated assets and liabilities of the Bank were primarily denominated in USD and HKD. Based on the exchange exposure of on-and off-balance sheet at the end of the reporting period, the profit before tax would decrease (or increase) by RMB122 million if USD appreciates (or depreciates) by 5% against RMB.

Liquidity Risk

Liquidity risk refers to the risk of being unable to timely acquire sufficient funds at a reasonable cost to settle amounts due, fulfill other payment obligations or satisfy other funding needs during the ordinary course of business. Major factors affecting liquidity risk include: negative impacts of market liquidity, deposit withdrawal by customers, loans withdrawal by customers, imbalance between asset and liability structure, debtor's default, difficulty in asset realization, weakening in financing ability, etc.

Liquidity Risk Management

The liquidity risk management of the Bank consists of the decision-making system, the execution system and governance structure of the supervision system. Among which, the decision-making system consists of the Board of Directors and the Risk Management Committee under the Board of Directors, and senior management of the Head Office and the Asset and Liability Management Committee and Risk Management Committee under senior management of the Head Office; the execution system consists of all liquidity management departments and asset and liability business department of the Bank; and the supervision system consists of the Board of Supervisors as well as two functional departments, namely the Audit Office and the Internal Control and Legal Compliance Department. The above system conduct decision-making, execution and supervision functions, respectively, in accordance with the division of responsibilities.

The Bank adhered to a prudent liquidity management strategy and stipulated the general goals and management mode of liquidity management. Based on regulatory requirements, external macroeconomic environment and business development, the Bank formulated its liquidity risk management policy, which effectively maintained balance between liquidity, security and profitability, provided that the security of liquidity was guaranteed.

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

The Bank continued to monitor the development and liquidity of asset and liability businesses across the Bank. The Bank refined its asset and liability structure, managed cash flows and mitigated risk related to term mismatching. The Bank also secured the sources of core deposits, and strengthened debt management to expand channels of funding sources. By ensuring efficient market financing channels and maintaining the sufficient reserve of assets with high liquidity, the Bank satisfied various payment demands. The Bank improved the reporting mechanism for transactions involving large sums of money, strengthened the real-time monitoring, early warning and flexible allocation of fund to ensure reasonable buffers and addressed market fluctuations effectively. The Bank conducted joint emergency drills across the Head Office and branches, thereby enhancing the capability in handling liquidity-related emergency cases. The Bank also continued to refine the liquidity management IT system, to raise the effectiveness of monitoring, warning and control, and constantly enhance the sophisticated management.

Based on the market condition and actual business operation, the Bank formulated stress scenarios on liquidity risk after full consideration of various risk factors which may affect liquidity. The Bank conducted stress testing quarterly. According to the test results, the Bank has passed the shortest survival period testing under the prescribed stress scenarios as required by regulatory authorities.

Liquidity Risk Analysis

During the reporting period, the Bank regulated cash flows due to be paid properly and the overall liquidity of the Bank was sufficient, secured and under control. At the end of 2017, the Bank fulfilled the regulatory requirements that the liquidity ratio for RMB and foreign currency were 50.95% and 106.74%, respectively. The average of the liquidity coverage ratio over the fourth quarter in 2017 decreased by 7 percentage points to 121.2% compared to the last quarter.

Liquidity Gap Analysis

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

In millions of RMB

	Past due	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
31 December 2017	**29,774**	**(10,417,627)**	**169,469**	**(689,320)**	**(155,304)**	**3,009,691**	**6,494,599**	**2,757,153**	**1,198,435**
31 December 2016	52,387	(9,355,146)	(62,220)	(510,004)	643,576	2,295,700	5,409,806	2,588,061	1,062,160

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

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

Operational Risk

Operational Risk Management

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

During the reporting period, the Bank further refined the governance structure and responsibility segregation of departments for operational risk management and reinforced professional management of operational risk. The Bank thoroughly carried out the investigation relating to prevention and control of risk related to cases of violation. In accordance to the regulatory inspections as required by CBRC, the Bank conducted self-inspection and rectification and continued to carry out self-evaluation of risk within business lines, and strengthened the management and control of operational risk in key areas. Moreover, the Bank improved key risk indicator system, thus enhancing the sensitivity of operational risk monitoring. The Bank also optimized the economic capital measurement policies for operational risk and put focused effort in the measurement of cases of violations and anti-money laundering risk. In addition, the Bank conducted special assessment on information technology risk, formulated general proposal for business continuity, sped up the construction of the disaster recovery center, and enhanced the capabilities of managing information technology risk and ensuring business continuity.

Legal Risk Management

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

In 2017, the Bank continued to promote the construction of "Governing Agricultural Bank of China according to the Law", optimized the mechanism for legal risk management, and continuously improved its capability to prevent and control legal risk across the Bank. The Bank became the first among domestic peers to set up the position of Chief Legal Advisor, aiming to promote business operation compliance and strengthen the legal risk management for material decisions. Moreover, the Bank revised the administrative measures on legal review, and formulated the annual working guidance for legal review to regulate legal review in all aspects. The Bank also improved the mechanism for seeking advice publicly on draft systematic documents, and focused on facilitating daily review on different system, thus continuously refining system across the Bank. Moreover, the Bank enhanced contract management in terms of the whole process, and put continuous effort in perfecting the texts of various standard contracts and demonstrative contracts, in order to enable contract to play a fundamental role in business expansion effectively. The Bank strengthened its management on overseas intellectual properties application, optimized intellectual properties management procedures, and gradually promoted management on intellectual properties. In addition, the Bank conducted in-depth investigation on the root of the cases being sued thereby specifically preventing legal risk in daily operation. The Bank also proactively collected non-performing assets through litigations, and accelerated legal handling procedures in relation to non-performing assets.

Reputation Risk

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

In 2017, the Bank formulated the Administrative Measures on Responsibilities for Prevention and Control of Risk from Public Opinions, which specified the responsibility segregation of different business lines and departments responsible for prevention and control of risk from public opinions and optimized its appraisal system. The Bank also conducted inspection on reputation risk across the Bank to identify potential reputation risk and provide risk warning.

The Bank put greater effort into monitoring new media, focused on collecting public opinions more timely and dealing with incidents that may affect our reputation in advance and specified reporting procedure and response procedures. In addition, the Bank enhanced the emergency plan to control material reputation events, optimized prevention and control systems, and actively responded to public concerns. The Bank conducted training programs on spokesmen of the Bank, and strengthened the training programs on skills of prevention and management of reputation risk in branches and sub-branches and management of media relationship.

Country Risk

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

The Bank strictly complied with the regulatory requirements of CBRC, involved country risk management into our comprehensive risk management system. The Bank constantly monitored and reported country risk. The Bank managed country risk through a series of methods and tools such as country risk rating, risk limit approval, risk exposure calculation, market research analysis, monitoring and analysis of risk factors and stress testing. By optimizing management system, improving working procedures and strengthening system construction, the Bank continued to enhance its country risk management standard.

Consolidated Risk Management

During the reporting period, the Bank requested its subsidiaries to formulate their own risk appetite and comprehensive risk management system based on the framework of the overall risk appetite and comprehensive risk management system of the Group, so as to ensure the unity and effectiveness of risk management of the Group. For the Group's Head Office, the Bank formulated different systems such as the consolidation management measures, risk management measures for subsidiary companies, risk management measures for overseas branches and subsidiary banks, which provided guidance for subsidiaries to establish comprehensive risk management system. The Bank continued to monitor the risk exposures of its subsidiaries, alert and warn risk information. In addition, the Bank carried out quarterly risk appraisal on subsidiaries in order to provide guidance on strengthening risk control in key fields. For the Bank's subsidiaries, they established the comprehensive risk management system covering different businesses and major risk exposures. They also formulated or amended their respective risk appetite statements and established risk appetite management framework. The Bank's subsidiaries continuously optimized their risk management structure, improved risk management procedures and methods, and reported risk level and performance of risk management to the Head Office on a regular basis.

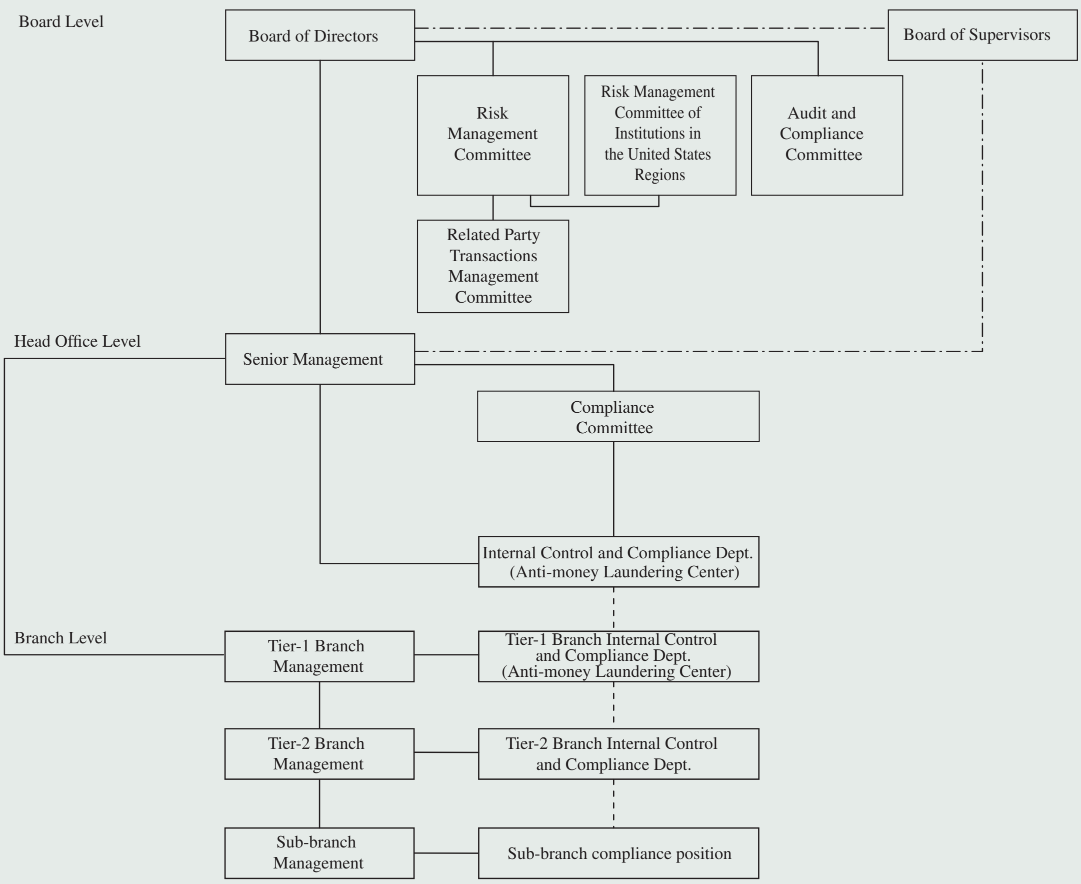
Internal Control

Internal Control Management System

During the reporting period, adhering to our compliance culture, we continued to optimize our internal control mechanism and improve our internal control system, with the support of information technology.

(1) Aiming to enhance the effectiveness of internal control, we continuously optimized our internal control organizational structure. The Board of Directors of the Bank is responsible for developing sound and efficient internal control. The Audit and Compliance Committee, the Risk Management Committee, the Risk Management Committee of Institutions in the United States Regions and the Related Party Transactions Management Committee established under the Board of Directors are responsible for handling corresponding matters relating to internal control and assessing the effectiveness of the Bank's internal control. Our senior management is responsible for the daily operation of the Bank's internal control with support of the Compliance Committee established under it. The Board of Supervisors supervises the establishment and implementation of internal control by the Board of Directors and the senior management. Internal Control and Compliance departments at the Head Office, tier-1 and tier-2 branches are responsible for organizing and coordinating the implementation of the internal control and the relevant daily operation. We establish anti-money laundering center under the Internal Control and Compliance Departments of the Head Office and tier-1 branches. We set up compliance positions at our sub-branches to handle the daily operation relating to implementation of the internal control.

Internal Control Management Structure



(2) We continuously optimized our multi-level regulations system which consists of the Articles of Association, basic systems, administrative measures and operating rules in accordance with our corporate governance mechanism. We implemented strict management on approval of setting up projects for formulating new rules, regulated the management on issuing new system and documents. We improved quality of our regulations through panel discussion, establishing contact stations at foundation-level branches and online public consultation, as well as conducted the evaluation and improvement and post-appraisal of regulations, so as to improve the sophisticated management of regulations.

(3) We strengthened our synergy of internal control by adopting multi-pronged measures to facilitate the development of our quality control system. We implemented the sophisticated post-based authorization, which exerted the controlling role of authorization in resource allocation. We established a multi-level and comprehensive internal control and assessment mechanism to enhance the construction of internal control at different levels of branches. We also included rectification work into our integrated performance evaluation, implemented the rectification mechanism, which consists of self-inspection and self-rectification by the accountable units, review and confirmation by departments in charge of oversight of rectification, and accountability by supervisory departments, so as to ensure the deficiencies in internal control can be solved thoroughly.

(4) We established an internal supervision system which consists of due diligence supervision by functional departments, overall management and inspection by the Internal Control Compliance Department, and double-supervision by the Audit Office. We defined the main body responsibilities of the risk disclosure, inspection and supervision for the "Three Lines of Defense". Different departments were responsible for different duties and performed their own duties, thus effectively covering risk management in different procedures, business lines and institutions under operating management.

Construction of Internal Control System

In 2017, with the comprehensive implementation of various regulatory requirements, we continued to strengthen the "Management Basics and Foundation-level Management", and pushed forward reform of our internal control mechanism, thus offering a strong foundation for compliance operation of the Bank.

(1) We encouraged to build our compliance culture. We adhered to the idea of enhancing compliance value, thus delivering the directive, restriction, unity and incentive functions of compliance culture. We organized the activity of "Year of Compliance Management" for overseas institutions and business in 2017, to promote a regular and long effective compliance management overseas.

(2) We optimized our rules and regulations. We amended the basic rules of internal control, and established rules and regulations adapting to our business development and risk control. We optimized our post-appraisal mechanism for regulations, and carried out evaluation and improvement for all the regulations, so as to timely amend, optimize and abolish inappropriate rules. We issued the list of effective rules and regulations quarterly and strictly controlled the quantity and quality of our rules and regulations.

(3) We carried out the "Year to Strengthen Management Basics and Foundation-level Management" activity. Adopting a coordinated management model of "comprehensive risk investigation + specialized rectification + construction of long-term mechanism", we promoted the specialized rectification with a focus on major fields such as credit management, product sales and cross-industry cooperation, and staff management. We conducted in-depth investigation relating to prevention of cases of violations and control of risks, thoroughly investigated potential risks, and carried out in-depth inspection and evaluation on internal control deficiencies, thus strengthening the foundation of risk prevention and control.

(4) We promoted the development of our information technology. We continuously optimized the functions of our internal control and compliance management information system. We improved the functions of our compliance risk monitoring platform and refined the risk monitoring models for key businesses, in order to improve our ability to monitor, warn and resolve risks.

(5) We enhanced our accountability mechanism. We promoted the management mode of "Three Line and One Grid", specified main body responsibilities of prevention of cases of violation, and enhanced accountability and assessment. We continued to facilitate rectification and accountability works, and implemented rectification and accountability on material risk issues, so that rectification could be made systematically and thoroughly.

(6) We strengthened our talent team construction. We increased the number of compliance management personnel in overseas institutions, and enhanced trainings on supervision and inspection, off-site investigation, operational risk management and other fields, thus continuously enhancing our internal control and management.

Anti-money Laundering (AML)

In 2017, money-laundering and sanction compliance risks were included in our comprehensive risk management system. We continuously promoted the compliance management of AML, anti-terrorism financing and sanctions. We optimized our organizational structure for AML and set up an Anti-money Laundering Center at our Head Office and tier-1 branches, thus centralizing our AML detection and analysis. We formulated specialized systems such as the administrative measures for large-sum and suspicious transactions reporting, the administrative measures for freezing assets related to terrorism etc., thus enhancing our mechanism and system for AML. We continued to focus on our works on customer identification and due diligence investigation, and optimized our suspicious transaction detection model, thereby enhancing the effectiveness of suspicious transactions reporting. We strictly implemented the sanction policies of the Chinese Government and the United Nations, fully deployed our sanction list detection system, implemented follow-up control measures related to AML and sanctions risks, and performed our legal duties for AML effectively. We enhanced our training on AML across the Bank, and continuously built up our AML team, thus further enhancing our AML management standard.

Self-appraisal Report on Internal Control

The Board of Directors has considered and approved the *2017 Self-appraisal Report on Internal Control of Agricultural Bank of China Limited* at the fifth meeting of the Board of Directors in 2018, details of which are published on the website of the Shanghai Stock Exchange.

Internal Control Audit Report

PricewaterhouseCoopers Zhong Tian LLP issued an unqualified *Internal Control Audit Report* based on its audit of the effectiveness of the Group's internal control over financial reporting as at 31 December 2017 in accordance with the relevant regulations, details of which are published on the website of the Shanghai Stock Exchange.

Capital Management

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

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

During the reporting period, the Bank expedited the establishment of internal capital adequacy assessment process (ICAAP), completed the internal capital adequacy assessment for 2017, and proceeded with the specialized audit of ICAAP for 2017 to continuously improve the foundation for capital governance.

On 17 October 2017, the Bank successfully completed the issuance of RMB40 billion tier-2 capital bonds in the inter-bank bond market of China. The bonds are 10-year fixed rate bonds with a coupon rate of 4.45%. The Bank has a conditional right to redeem the bonds at the end of the fifth year from the issuance.

During the reporting period, the Bank continued to optimize the allocation system of economic capital. Focusing on value creation, structural optimization and strategic objectives, the Bank consolidated the capital constraint and improved the efficiency of resource allocation. The Bank strengthened the in-progress monitoring and post-evaluation of economic capital, and promoted the in-depth application of economic capital measurement results, thus facilitating business and operation transformation across the whole Bank.

For details of the capital adequacy ratio of the Bank and credit risk exposures after risk mitigation, please refer to the *2017 Capital Adequacy Ratio Report* published on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange by the Bank. For details of the leverage ratio of the Bank, please refer to "Appendix II Leverage Ratio Information".

Changes in Share Capital of Ordinary Shares

Details of Changes in Share Capital

Unit: Share

	31 December 2016		Increase/decrease during the reporting period (+, -)			31 December 2017	
	Number of Shares	Percentage[3] (%)	New Shares Issued	Others	Subtotal	Number of Shares	Percentage[3] (%)
1) Shares subject to restrictions on sales[1]	–	–	–	–	–	–	–
2) Shares not subject to restrictions on sales	**324,794,117,000**	**100.00**	–	–	–	**324,794,117,000**	**100.00**
1. RMB-dominated ordinary shares	294,055,293,904	90.54	–	–	–	**294,055,293,904**	**90.54**
2. Foreign-invested shares listed overseas[2]	30,738,823,096	9.46	–	–	–	**30,738,823,096**	**9.46**
3) Total number of shares	**324,794,117,000**	**100.00**	–	–	–	**324,794,117,000**	**100.00**

Notes: 1. "Shares subject to restrictions on sales" refers to the shares held by shareholders who are subject to restrictions on sales in accordance with laws, regulations, rules or undertakings.

2. "Foreign-invested shares listed overseas" refers to the H shares as defined in the No.5 Standards on the Content and Format of Information Disclosure of Companies with Public Offerings – Content and Format of the Report of Change in Shareholding (Revision 2007) of the CSRC.

3. Rounding errors may arise in the "Percentage" column of the table above as the figures are rounded to the nearest decimal number.

Details of Issuance and Listing of Securities

Issuance of Securities

For issuance of securities of the Bank during the reporting period, please refer to "Note IV. 35. Debt Securities Issued" to the Consolidated Financial Statements for details.

Employee Shares

The Bank had no employee shares.

Particulars of Shareholders of Ordinary Shares

Number of Shareholders and Particulars of Shareholding

At the end of the reporting period, the Bank had a total of 352,423 shareholders, including 24,555 holders of H Shares and 327,868 holders of A Shares. As at 28 February 2018 (the last day of the month preceding the month in which the Bank's A Share annual report is published), the Bank had a total of 404,980 shareholders, including 23,630 holders of H Shares and 381,350 holders of A Shares.

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

Unit: Share

Total number of shareholders	352,423 (as set out in the registers of shareholders of A Shares and H Shares as at 31 December 2017)

Particulars of shareholding of the top 10 shareholders (the data below are based on the registers of shareholders as at 31 December 2017)

Name of shareholders	Nature of shareholders	Type of shares	Increase/ decrease during the reporting period (+, -)	Shareholding percentage (%)	Total number of shares held	Number of shares subject to restrictions on sales	Number of shares subject to pledge or locked-up
Huijin	State-owned	A Shares	–	40.03	130,005,103,782	–	None
MOF	State-owned	A Shares	–	39.21	127,361,764,737	–	None
HKSCC Nominees Limited	Overseas legal entity	H Shares	+1,226,093,535	9.40	30,539,495,771	–	Unknown
SSF	State-owned	A Shares	–	3.02	9,797,058,826	–	None
China Securities Finance Corporation Limited	State-owned legal entity	A Shares	-165,145,059	1.83	5,941,731,807	–	None
Central Huijin Asset Management Ltd.	State-owned legal entity	A Shares	–	0.39	1,255,434,700	–	None
Wutongshu Investment Platform Co., Ltd.	State-owned legal entity	A Shares	–	0.30	980,723,700	–	None
China Shuangwei Investment Corporation Limited	State-owned legal entity	A Shares	–	0.23	746,268,000	–	None
China Railway Construction Investment Corporation Limited	State-owned legal entity	A Shares	–	0.23	742,974,000	–	None
China Life Insurance Company Limited – Dividend distribution – Individual dividend – 005L – FH002 Hu	Other	A Shares	+408,408,500	0.19	629,222,489	–	None

Notes:

1. *The total number of shares held by HKSCC Nominees Limited represents the number of H Shares in aggregate held by it as a nominee on behalf of all institutional and individual investors registered with it as at 31 December 2017.*
2. *Central Huijin Asset Management Ltd. is a wholly-owned subsidiary of Huijin. Apart from this, the Bank is not aware of any connections between the shareholders above or whether they are parties acting in concert. The number of shares in aggregate held by Huijin and Central Huijin Asset Management Ltd., a wholly-owned subsidiary of Huijin, accounted to 131,260,538,482, accounting for 40.41% of the total share capital of the Bank.*
3. *The top 10 shareholders of ordinary shares of the Bank not subject to restrictions on sale are the same as the top 10 shareholders of ordinary shares of the Bank.*

Particulars of Substantial Shareholders

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

MOF

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

As at 31 December 2017, the MOF held 127,361,764,737 shares of the Bank, accounting for 39.21% of the total share capital of the Bank.

Huijin

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

As Huijin is not able to provide its audited financial report for 2017 until the completion of the audits of the financial statements of its investees, the following financial data are the audited data for 2016. As of 31 December 2016, the total assets of Huijin amounted to RMB4,113,771,468.5 thousand, total liabilities was RMB485,328,295.6 thousand, and the owners' equity was RMB3,628,443,172.9 thousand. The net profit for 2016 was RMB447,864,209.5 thousand. The net cash flows generated from operating activities, investment activities and financing activities for 2016 amounted to RMB-24,040,749.6 thousand.

As of 31 December 2017, the direct shareholdings of Huijin in its investees were as follows:

No.	Name of Institutions	Shareholding of Huijin
1	China Development Bank Corporation	34.68%
2	Industrial and Commercial Bank of China Limited ★☆[1]	34.71%
3	Agricultural Bank of China Limited ★☆	40.03%
4	Bank of China Limited ★☆	64.02%
5	China Construction Bank Corporation ★☆	57.11%
6	China Everbright Group Ltd.	55.67%
7	China Everbright Bank Company Limited ★☆	19.53%
8	China Export & Credit Insurance Corporation	73.63%
9	China Reinsurance (Group) Corporation ☆	71.56%
10	New China Life Insurance Company Limited ★☆	31.34%
11	China Jianyin Investment Limited	100.00%
12	China Galaxy Financial Holding Co., Ltd.[2]	78.57%
13	Shenwan Hongyuan Group Co., Ltd. ★[3]	25.03%
14	China International Capital Corporation Limited ☆[4]	58.58%
15	China Securities Co., Ltd. ☆	32.93%
16	Jiantou Zhongxin Asset Management Co., Ltd.	70.00%
17	Guotai Junan Investment Management Co., Ltd.	14.54%

Notes:

1. *★represents A share listed company; ☆represents H share listed company.*
2. *In February 2018, following the completion of change of business registration for consolidation between China Galaxy Financial Holding Co., Ltd. ("Galaxy Financial Holding") and China Galaxy Investment Management Company Limited, the shareholding in Galaxy Financial Holding directly held by Huijin changed to 69.07%.*
3. *On 12 December 2017, the private placement of no more than 2.5 billion new shares by Shenwan Hongyuan Group Co., Ltd. ("Shenwan Hongyuan Group") was approved by the CSRC. On 30 January 2018, such new shares were issued and listed on the Shenzhen Stock Exchange. Accordingly, the shareholding in Shenwan Hongyuan Group directly held by Huijin changed to 22.28%.*
4. *On 20 September 2017, China International Capital Corporation Limited ("CICC") and Tencent Mobility Limited entered into a subscription agreement, pursuant to which CICC shall conduct placement of additional H shares to it, representing approximately 4.95% of the total number of shares following the issuance. At the end of 2017, the relevant procedures were under processing.*
5. *Apart from the above investees, Central Huijin Asset Management Ltd. is a wholly-owned subsidiary of Huijin. Central Huijin Asset Management Ltd. was established and incorporated in Beijing in November 2015 with a registered capital of RMB5 billion. It is engaged in asset management business.*

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1 *Mr. DING Xuedong has been re-designated as the Deputy Secretary General of the State Council (minister-level). He has authorized Mr. TU Guangshao to act as the legal representative of CISC as well as the chairman and legal representative of Huijin, with effect from 2 March 2017 until any new appointment to be made by the State Council. Mr. TU Guangshao is currently the vice-chairman and general manager of CISC.*

Changes in Share Capital and Shareholdings of Substantial Shareholders

As at the end of the reporting period, Huijin held 130,005,103,782 shares of the Bank, accounting for 40.03% of the total share capital of the Bank. During the reporting period, Huijin nominated Mr. ZHANG Dinglong, Mr. CHEN Jianbo and Mr. XU Jiandong as Non-executive Directors of the Bank.

Except for the MOF and Huijin, as at 31 December 2017, there was no other corporate shareholder who held 10% or more equity interests in the Bank.

Interests and Short Positions Held by Substantial Shareholders and Other Persons

As at 31 December 2017, the Bank received notifications from the following persons regarding their interests or short positions in shares and underlying shares of the Bank. Such interests or short positions were recorded in the register required to be kept pursuant to Section 336 of the *Securities and Futures Ordinance of Hong Kong*, details of which are set out below:

Unit: Share

Name	Capacity	Interests and short positions	Nature	Percentage of issued class shares (%)	Percentage of total issued shares (%)
MOF	Beneficial owner/nominee[1]	138,682,352,926 (A Shares)[2]	Long position	47.16%	42.70%
Huijin	Beneficial owner	131,260,538,482 (A Shares)[3]	Long position	44.64%	40.41%
Qatar Investment Authority	Interest of controlled entity	2,448,859,255 (H Shares)[4]	Long position	7.97%	0.75%
Qatar Holding LLC	Beneficial owner	2,408,696,255 (H Shares)[4]	Long position	7.84%	0.74%
QSMA1 LLC	Beneficial owner	40,163,000 (H Shares)[4]	Long position	0.13%	0.01%
The Bank of New York Mellon Corporation	Interest of controlled entity	2,379,952,872 (H Shares)	Long position	7.74%	0.73%
		2,336,689,517 (H Shares)	Lending Pool	7.60%	0.72%
BlackRock, Inc.	Interest of controlled entity	2,154,970,851 (H Shares)	Long position	7.01%	0.66%
	Custodian – corporation/ approved lending agent	189,000 (H Shares)	Short Position	0.00%	0.00%

Notes:

1. *9,797,058,826 A Shares are held by the SSF, but the voting rights of these shares were transferred to the MOF according to the share subscription agreement dated 21 April 2010 and the Approval on the Proposed Transfer of State-owned Shares of the Agricultural Bank of China issued by the MOF on 5 May 2010.*
2. *According to the register of shareholders of the Bank as at 31 December 2017, the MOF held 127,361,764,737 A Shares of the Bank, accounting for 43.31% and 39.21% of the issued A Shares and the total issued shares of the Bank, respectively.*
3. *According to the register of shareholders of the Bank as at 31 December 2017, Huijin held 130,005,103,782 A Shares of the Bank, accounting for 44.21% and 40.03% of the issued A Shares and the total issued shares of the Bank, respectively.*
4. *Qatar Investment Authority is deemed to be interested in 2,448,859,255 H Shares in aggregate held by Qatar Holding LLC and QSMA1 LLC, both of which are the wholly owned subsidiaries of Qatar Investment Authority.*

Details of Preference Shares

Issuance and Listing of Preference Shares

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

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

Number of Holders of Preference Shares and their Shareholdings

As at the end of the reporting period, the Bank had a total of 25 holders[1] of the preference shares "農行優1" (stock code: 360001). As at 28 February 2018 (being the last day of the month preceding the month in which the Bank's A Share annual report is published), the Bank had a total of 25 holders of the preference shares "農行優1" (stock code: 360001).

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

Particulars of Shareholding of the Top 10 Holders of Preference Shares "農行優1" (Stock Code: 360001)

Unit: Share

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

Notes:

1. *The Bank is not aware of any connections between the above shareholders of preference shares, and between the above shareholders of preferences shares and the top 10 shareholders of ordinary shares, or whether they are parties acting in concert.*
2. *"Increase/decrease during the reporting period (+,-)" refers to the change of shareholding due to secondary market transactions.*
3. *"Shareholding percentage" refers to the percentage of "農行優1" held by the shareholders of preference shares to the total number of "農行優1" (i.e. 400 million shares).*

As at the end of the reporting period, the Bank had a total of 28 holders of preference shares "農行優2" (stock code: 360009). As at 28 February 2018 (being the last day of the month preceding the month in which the Bank's A Share annual report is published), the Bank had a total of 28 holders of preference shares "農行優2" (stock code: 360009).

Particulars of Shareholding of the Top 10 Holders of Preference Shares "農行優2" (Stock Code: 360009)

Unit: Share

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

Notes:

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

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

Profit Distribution of Preference Shares

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

During the reporting period, on 13 March 2017, the Bank paid cash dividends of RMB5.50 (tax inclusive) per preference share and RMB2.2 billion (tax inclusive) in aggregate (calculated by a coupon rate of 5.50%) to all holders of "農行優2" (stock code: 360009) whose names appeared on the register of members at the close of business on 10 March 2017. On 6 November 2017, the Bank paid cash dividends of RMB6.00 (tax inclusive) per preference share and RMB2.4 billion (tax inclusive) in aggregate (calculated by a coupon rate of 6%), to all holders of "農行優1" (stock code: 360001) whose names appeared on the register of members at the close of business on 3 November 2017.

On 12 March 2018, the Bank paid cash dividends of RMB5.50 (tax inclusive) per preference share and RMB2.2 billion (tax inclusive) in aggregate (calculated by a coupon rate of 5.50%) to all holders of "農行優2" (stock code: 360009) whose names appeared on the register of members at the close of business on 9 March 2018.

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

Redemption and Conversion of Preference Shares

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

Restoration of Voting Rights of Preference Shares

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

Accounting Policies

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

Basic Information

Name	Position	Gender	Age	Tenure
Incumbent Directors				
ZHOU Mubing	Chairman of the Board of Directors, Executive Director	Male	60	2016.07-2019.07
ZHAO Huan	Vice Chairman of the Board of Directors, Executive Director, President	Male	54	2016.03-2019.03
WANG Wei	Executive Director, Executive Vice President	Male	55	2018.02-2021.02
GUO Ningning	Executive Director, Executive Vice President	Female	47	2018.02-2021.02
ZHANG Dinglong	Non-executive Director	Male	61	2015.01-2020.12
CHEN Jianbo	Non-executive Director	Male	54	2015.01-2020.12
HU Xiaohui	Non-executive Director	Male	58	2015.01-present
XU Jiandong	Non-executive Director	Male	54	2015.02-2020.12
LIAO Luming	Non-executive Director	Male	54	2017.08-2020.08
WEN Tiejun	Independent Non-executive Director	Male	66	2011.06-present[2]
Francis YUEN Tin-fan	Independent Non-executive Director	Male	65	2013.03-2019.03
XIAO Xing	Independent Non-executive Director	Female	47	2015.03-2018.03
WANG Xinxin	Independent Non-executive Director	Male	65	2016.05-2019.05
HUANG Zhenzhong	Independent Non-executive Director	Male	53	2017.09-2020.09
Incumbent Supervisors				
WANG Xingchun	Supervisor Representing Shareholders	Male	53	2014.06-2020.06
LIU Chengxu	Supervisor Representing Employees	Male	55	2016.07-2019.07
XIA Zongyu	Supervisor Representing Employees	Male	53	2016.07-2019.07
LI Wang	External Supervisor	Male	53	2015.06-2018.06
LV Shuqin	External Supervisor	Female	67	2015.06-2018.06
Incumbent Senior Management				
ZHAO Huan	Vice Chairman of the Board of Directors, Executive Director, President	Male	54	2016.03-
GONG Chao	Secretary of the Party Discipline Committee	Male	58	2012.03-
WANG Wei	Executive Director, Executive Vice President	Male	55	2013.12-
GUO Ningning	Executive Director, Executive Vice President	Female	47	2016.06-
ZHANG Keqiu	Executive Vice President	Female	54	2017.07-
LI Zhicheng	Chief Risk Officer	Male	55	2017.02-
ZHOU Wanfu	Secretary to the Board of Directors	Male	52	2018.04-
Former Directors, Supervisors and Senior Management				
LOU Wenlong	Former Executive Director, Executive Vice President	Male	60	2012.12-2017.04[3]
ZHAO Chao	Former Non-executive Director	Male	59	2012.02-2018.02
ZHOU Ke	Former Non-executive Director	Male	51	2014.07-2017.07
LU Jianping	Former Independent Non-executive Director	Male	54	2015.06-2017.04
KANG Yi	Former Executive Vice President	Male	51	2017.01-2018.01
YUAN Changqing	Former Chairman of the Board of Supervisors, Supervisor Representing Shareholders	Male	56	2015.06-2017.06
XIA Taili	Former Supervisor Representing Employees	Male	55	2014.12-2017.12
ZHENG Xin	Former Supervisor Representing Employees	Male	59	2011.07-2017.01
ZHANG Keqiu	Former Secretary to the Board of Directors	Female	54	2015.06-2018.04

Notes: 1. *Please refer to "Changes in Directors, Supervisors and Senior Management" in this section for information relating to the changes in Directors, Supervisors and senior management of the Bank.*

2. *The term of office of Mr. WEN Tiejun expired in June 2017. Mr. WEN Tiejun will continue to perform his duty as an Independent Non-executive Director to meet the requirement that the Independent Non-executive Directors shall represent at least one-third of the Board of Directors.*

3. *The term of office of Mr. LOU Wenlong as an Executive Director of the Bank is set out in the table above. His term of office as an Executive Vice President of the Bank began in September 2012.*

Biography of Directors, Supervisors and Senior Management

Biography of Directors

ZHOU Mubing Chairman of the Board of Directors, Executive Director

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

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

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

WANG Wei Executive Director, Executive Vice President

Mr. WANG Wei received a doctor's degree in economics from Southwestern University of Finance and Economics and is a senior economist. He has served as a member of senior management of the Bank since December 2011 and an Executive Vice President of the Bank since December 2013. Mr. WANG has also served as an Executive Director and an Executive Vice President of the Bank since February 2018. Mr. WANG previously served in several positions in the Bank, including a deputy president of Ningxia Branch, a deputy president of Gansu Branch, the president of Gansu Branch, the president of Xinjiang Branch and the president of Xinjiang Production and Construction Corps Branch, the general manager of the Office of the Bank and the president of Hebei Branch, the general manager of the Internal Control and Compliance Department, the general manager of the Human Resources Department and the chief officer of the Sannong Business. He is concurrently the vice chairman of the fifth committee of Chinese Society of Financial Ideological and Political Work and a member of the fourth national standing committee of Chinese Financial Association.

GUO Ningning   Executive Director, Executive Vice President

Ms. GUO Ningning received a bachelor's degree in engineering, a master's degree in management and a doctor's degree in economics from Tsinghua University as well as an executive master degree of business administration from China Europe International Business School. She has served as an Executive Vice President of the Bank since June 2016. Ms. Guo has served as an Executive Director and an Executive Vice President of the Bank since February 2018. Ms. GUO previously served in several positions in Bank of China Limited ("BOC"), including a deputy general manager of the risk management department of the head office, a vice president of Jiangsu branch, the general manager of the financial markets unit of the head office, the general manager of the Hong Kong trading center, and the president of Hong Kong branch and the president of Singapore branch of BOC. She used to serve as the vice chairperson of Jiangsu Youth Federation, the vice president of Jiangsu Institute of International Finance and a standing committee member of the Youth Union of the Central Government Institutions and the National Financial Youth Union. Ms. GUO currently is the vice president of the National Association of Financial Market Institutional Investors, the vice president of the National Internet Finance Association of China, a director of China UnionPay Co., Ltd., a supervisor of UnionPay International Co., Ltd. and the Chairperson of Agricultural Bank of China (Luxembourg) Limited.

ZHANG Dinglong   Non-executive Director

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

CHEN Jianbo   Non-executive Director

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

HU Xiaohui Non-executive Director

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

XU Jiandong Non-executive Director

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

LIAO Luming Non-executive Director

Mr. LIAO Luming received a doctor's degree in public finance from the Public Finance Science Institute of the MOF. He currently works with Central Huijin Investment Ltd. Mr. Liao has served as a Non-executive Director of the Bank since August 2017. He started working at the MOF in August 1985, and served successively as a director clerk of the Research Division, a deputy director and a director of the Information Division, and a director of the News Division at the General Office of MOF. He was appointed as a deputy director of the General Office of MOF in January 2003, a bureau level cadre of the Party Committee of MOF in January 2012 and an executive vice secretary (bureau level) of the Party Committee of MOF in February 2012.

WEN Tiejun Independent Non-executive Director

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

Francis YUEN Tin-fan Independent Non-executive Director

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

XIAO Xing Independent Non-executive Director

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

WANG Xinxin Independent Non-executive Director

Mr. WANG Xinxin holds a master's degree in law and is currently a teacher in the Economic Law Teaching and Research Office of the School of Law, professor and supervisor for Ph.D. candidates of Renmin University of China. He has served as an Independent Non-executive Director of the Bank since May 2016. Previously, he worked in NPC Financial and Economic Committee as a member of the Drafting Group for Enterprise Bankruptcy Law. He serves concurrently as the director of Bankruptcy Law Research Center of Renmin University of China, the president of Beijing Bankruptcy Law Society, the honorary president of Enterprise Bankruptcy and Reorganization Panel of Shandong Law Society, a consultant for the Bankruptcy Law Research Institute of the Shanghai Law Society, and the managing director of Economic Law Research Institute of the China Law Society. Mr. WANG Xinxin is a consultant in the Drafting Group for Judicial Interpretations of Bankruptcy Law and one of the first chief researchers of Judicial Case Research Institute of the Supreme People's Court. He also serves as an independent director of each of Unisplendour Corporation Limited, Hainan Pearl River Holdings Co., Ltd. and Cnano Technology Limited (a private company).

HUANG Zhenzhong Independent Non-executive Director

Mr. HUANG Zhenzhong holds a doctor's degree in law. He is currently a professor and a supervisor for Ph.D. candidates of the School of Law in Beijing Normal University, and a deputy director of Chinese Entrepreneurs Crime Prevention Research Center. He has been serving as an Independent Non-executive Director of the Bank since September 2017. He previously served as a vice director and a senior economist of the Enterprise Reform Division at the Asset Management Department of Sinopec Group, a deputy head of School of Law and a director of the Legal Counsel Office in School of Law of Beijing Normal University, and a deputy chief prosecutor and a member of the Committee of Inspection of the Procuratorate of Tibet Autonomous Region. He is currently the vice chairman of China – ASEAN Legal Cooperation Center, an executive director of the Energy Law Research Committee of China Law Society, an arbitrator of China International Economic and Trade Arbitration Commission, a panel mediator with the Mediation Center of China Chamber of International Commerce, an arbitrator of Tianjin Arbitration Commission, an arbitrator of Hainan Arbitration Commission, a lifetime honorary director of Beijing Jingshi Law Firm, a member of the Chartered Institute of Arbitrators, and an independent director of Sinopec Oilfield Equipment Corporation, CECEP Solar Energy Technology Co., Ltd., Ciwen Media Co., Ltd. and Beijing Leadman Biochemistry Co., Ltd.

Biography of Supervisors

WANG Xingchun Supervisor Representing Shareholders

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

LIU Chengxu Supervisor Representing Employees

Mr. LIU Chengxu holds a master's degree and is a senior economist. He has served as a Supervisor Representing Employees of the Bank since July 2016. Mr. LIU Chengxu served as a deputy director of the Science, Research and Foreign Affairs Division, Education Department of the State Ministry of Machinery and Electronics Industry, and a deputy director of the College Division, Education Department of the Ministry of Machinery Industry. He then served in several positions in the State Administration of Machinery Industry, including a deputy director of the Education Division of the Enterprise Reform Department, a director-level consultant, and a vice director of the Intellectual Property Rights Office. Mr. LIU Chengxu also served as the director-level consultant of the Enterprise Cadre Office in the Organization Department of the CPC Central Committee, and a director-level consultant and concurrently a deputy director, a director and the vice counsel of the Fifth Cadre Bureau of the Organization Department of the CPC Central Committee. Mr. LIU Chengxu was appointed as the general manager of the Human Resources Department of the Bank in April 2012, and served as the chief officer and the general manager of the Human Resources Department of the Bank in February 2017.

XIA Zongyu　Supervisor Representing Employees

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

LI Wang　External Supervisor

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

LV Shuqin　External Supervisor

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

Biography of Senior Management

For detailed biographies of Mr. ZHAO Huan, Mr. WANG Wei and Ms. GUO Ningning, please see "Biography of Directors" in this section. The biographies of other senior management members are as follows:

GONG Chao Secretary of the Party Discipline Committee

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

ZHANG Keqiu Executive Vice President

Ms. ZHANG Keqiu received a master's degree in economics from Nankai University. Ms. ZHANG is a senior accountant and an expert entitled to Government Special Allowance granted by the State Council. She served as the secretary to the Board of Directors of the Bank since June 2015. Ms. ZHANG also served as an Executive Vice President and the Secretary to the Board of Directors of the Bank since July 2017, and the Executive Vice President of the Bank since April 2018. Ms. ZHANG had previously served in various positions in the Bank, including the general manager of Asset and Liability Management Department, the general manager of Finance and Accounting Department and the chief financial officer. Ms. ZHANG is currently a director of our Shanghai Management Department, a deputy secretary-general of executive committee of the Banking Accounting Society of China and the vice chairperson of the fifth session of the board of directors of China National Bond Association.

LI Zhicheng Chief Risk Officer

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

ZHOU Wanfu Secretary to the Board of Directors

Mr. ZHOU Wanfu, received a master's degree in economics from the Postgraduate School of the People's Bank of China and a master's degree in business administration from Nanyang Technological University, Singapore. Mr. Zhou has served as the Secretary to the Board of Directors of the Bank since April 2018. Mr. Zhou previously served as the executive vice president of Ningbo Branch, deputy general manager of the Assets and Liabilities Management Department and deputy general manager of Planning and Finance Department of the Bank. From October 2008, Mr. Zhou successively served as the general manager of Assets and Liabilities Management Department, the executive vice president of Chongqing Branch, the general manager of Strategic Planning Department and the president of Tianjin Training Institute of the Bank. Mr. Zhou has been the general manager of Strategic Planning Department of the Bank since September 2015.

Changes in Directors, Supervisors and Senior Management

Changes in Directors

On 18 April 2017, Mr. LOU Wenlong resigned as an Executive Director of the Bank due to changes in work arrangements. Meanwhile, Mr. LU Jianping ceased to be an Independent Non-executive Director.[1]

On 28 June 2017, Mr. LIAO Luming was elected as a Non-executive Director of the Bank, and Mr. HUANG Zhenzhong was elected as an Independent Non-executive Director of the Bank at the 2016 Annual General Meeting of the Bank. The qualifications of Mr. LIAO Luming and Mr. HUANG Zhenzhong were ratified by the CBRC on 31 August 2017 and 25 September 2017, respectively.

On 31 July 2017, Mr. ZHOU Ke ceased to be a Non-executive Director of the Bank due to the expiration of his term of office.

On 15 December 2017, Mr. WANG Wei and Ms. Guo Ningning were elected as Executive Directors of the Bank at the first extraordinary general meeting of the Bank for 2017. The qualifications of Mr. WANG Wei and Ms. Guo Ningning were ratified by the CBRC on 13 February 2018.

On 28 February 2018, ZHAO Chao ceased to be a Non-executive Director of the Bank due to the expiration of his term of office.

Changes in Supervisors

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

On 6 June 2017, Mr. YUAN Changqing resigned as a Supervisor Representing Shareholders, the Chairman of the Board of Supervisors and the Chairman of each of the Due Diligence Supervision Committee and the Finance and Internal Control Supervision Committee of the Board of Supervisors of the Bank due to work arrangements.

On 28 June 2017, Mr. WANG Xingchun was re-elected as a Supervisor Representing Shareholders of the Bank at the 2016 annual general meeting of the Bank.

On 4 December 2017, Mr. XIA Taili ceased to be a Supervisor Representing Employees and a member of the Due Diligence Supervision Committee of the Board of Supervisors of the Bank due to the expiration of his term of office.

Changes in Senior Management

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

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

On 18 April 2017, Mr. LOU Wenlong resigned as an Executive Vice President of the Bank due to adjustment in work arrangements.

On 9 June 2017, Ms. ZHANG Keqiu was appointed as an Executive Vice President of the Bank by the Board of Directors of the Bank. The qualification of Ms. ZHANG Keqiu was ratified by the CBRC on 28 July 2017.

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1 *On 31 December 2015, the Board of Directors of the Bank considered and approved the resignation of Mr. LU Jianping as an Independent Non-executive Director of the Bank. As the number of Independent Non-executive Directors of the Bank became no less than one-third of the members of the Board of Directors upon the resignation of Mr. LOU Wenlong, and thus according to relevant laws and regulations and relevant requirements of the Articles of Associations of the Bank, Mr. LU Jianping's resignation took effect then.*

On 22 January 2018, Mr. KANG Yi resigned as an Executive Vice President of the Bank due to adjustment in work arrangements.

On 12 March 2018, Mr. ZHOU Wanfu was appointed as the Secretary to the Board of Directors of the Bank, the company secretary and an authorised representative of the Bank by the Board of Directors of the Bank. The appointments of Mr. ZHOU Wanfu took effect on 12 April 2018, and Ms. ZHANG Keqiu ceased to be the Secretary to the Board of Directors of the Bank.

Annual Remuneration

According to relevant government regulations, since 1 January 2015, the remuneration of the Chairman of the Board of Directors, the President, the Chairman of the Board of Supervisors as well as the Executive Vice Presidents of the Bank shall be paid in line with the *Interim Administration Measures for the Remuneration of Person in-charge in State-controlled Financial Enterprises*, and we followed accordingly. Remuneration of Directors, Supervisors and senior management for 2017 is subject to confirmation and will be disclosed in further announcement.

The remuneration paid to Directors, Supervisors and senior management of the Bank for 2017 is set out in the table below.

			Remuneration paid in 2017 (before tax) (Unit: RMB Ten Thousand)				
Name	Position	Tenure	Salaries paid (1)	Social insurance, enterprise annuity and housing fund payable by the Bank (2)	Director's fee/ Supervisor's fee (3)	Total (4)=(1)+(2)+(3)	Whether receiving remuneration from shareholders or other related parties (Y/N)
ZHOU Mubing	Chairman of the Board of Directors, Executive Director	2016.07-2019.07	51.91	14.37	–	66.28	N
ZHAO Huan	Vice Chairman of the Board of Directors, Executive Director, President	2016.03-2019.03	51.91	14.37	–	66.28	N
WANG Wei	Executive Director, Executive Vice President	2018.02-2021.02	46.72	14.08	–	60.80	N
GUO Ningning	Executive Director, Executive Vice President	2018.02-2021.02	46.72	14.08	–	60.80	N
ZHANG Dinglong	Non-executive Director	2015.01-2020.12	–	–	–	–	Y
CHEN Jianbo	Non-executive Director	2015.01-2020.12	–	–	–	–	Y
HU Xiaohui	Non-executive Director	2015.01 – present	–	–	–	–	Y
XU Jiandong	Non-executive Director	2015.02-2020.12	–	–	–	–	Y
LIAO Luming	Non-executive Director	2017.08-2020.08	–	–	–	–	Y

Name	Position	Tenure	Remuneration paid in 2017 (before tax) (Unit: RMB Ten Thousand) Salaries paid (1)	Social insurance, enterprise annuity and housing fund payable by the Bank (2)	Director's fee/ Supervisor's fee (3)	Total (4)=(1)+(2)+(3)	Whether receiving remuneration from shareholders or other related parties (Y/N)
WEN Tiejun	Independent Non-executive Director	2011.06 – present	–	–	41.00	41.00	Y
Francis YUEN Tin-fan	Independent Non-executive Director	2013.03-2019.03	–	–	38.00	38.00	Y
XIAO Xing	Independent Non-executive Director	2015.03-2018.03	–	–	38.00	38.00	Y
WANG Xinxin	Independent Non-executive Director	2016.05-2019.05	–	–	36.00	36.00	Y
HUANG Zhenzhong	Independent Non-executive Director	2017.09-2020.09	–	–	9.67	9.67	Y
WANG Xingchun	Supervisor Representing Shareholders	2014.06 -2020.06	–	–	–	–	N
LIU Chengxu	Supervisor Representing Employees	2016.07 -2019.07	–	–	5.0	5.0	N
XIA Zongyu	Supervisor Representing Employees	2016.07 -2019.07	–	–	5.0	5.0	N
LI Wang	External Supervisor	2015.06 -2018.06	–	–	28.00	28.00	Y
LV Shuqin	External Supervisor	2015.06 -2018.06	–	–	28.00	28.00	Y
GONG Chao	Secretary of the Party Discipline Committee	2012.03-	46.72	14.08	–	60.80	N
ZHANG Keqiu	Executive Vice President	2017.07-	66.76	18.31	–	85.07	N
LI Zhicheng	Chief Risk Officer	2017.02-	86.28	14.59	–	100.87	N
ZHOU Wanfu	Secretary to the Board of Directors	2018.04-	0	0	0	0	N

Notes:

1. *The Directors, Supervisors and senior management members of the Bank who are also our employees are entitled to receive remuneration from the Bank. The remuneration include salary, bonus and contributions to all kinds of social insurance and housing fund payable by the Bank. The Independent Non-executive Directors of the Bank are entitled to receive director's fee. The External Supervisors of the Bank are entitled to receive supervisor's fee. The Chairman of the Board of the Directors, Executive Directors and senior management members of the Bank did not receive any remuneration from any subsidiary of the Bank. For Supervisors Representing Employees of the Bank, the amount set forth above only includes fee for their services as Supervisors.*
2. *Mr. ZHANG Dinglong, Mr. CHEN Jianbo, Mr. HU Xiaohui, Mr. XU Jiandong and Mr. LIAO Luming, as our Non-executive Directors, did not receive any remuneration from the Bank.*
3. *Mr. LOU Wenlong received a remuneration of RMB233.1 thousand during his term of office in the Bank in 2017.*
4. *Mr. ZHAO Chao and Mr. ZHOU Ke, former Non-executive Directors, did not receive any fee from the Bank in 2017.*
5. *Mr. LU Jianping, a former Independent Non-executive Director, did not receive any fee from the Bank in 2017.*

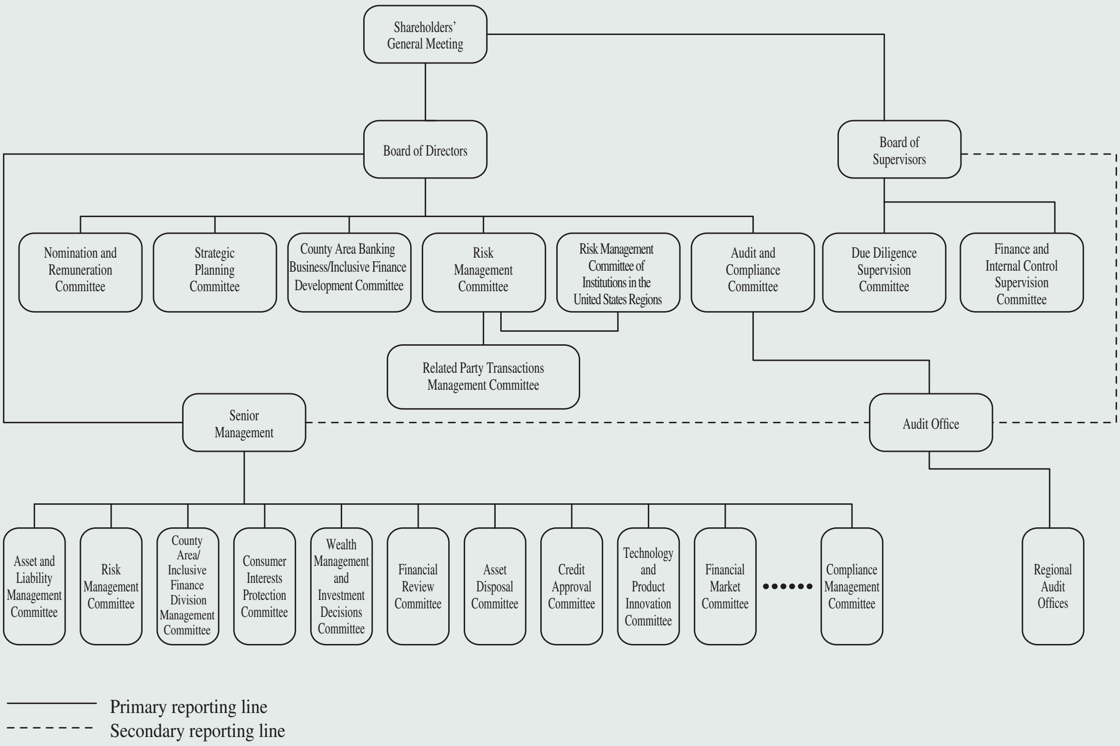
6. *Mr. YUAN Changqing, the former Chairman of the Board of Supervisors, received a remuneration of RMB329.0 thousand during his term of office in the Bank in 2017.*
7. *Mr. WANG Xingchun did not receive any fee from the Bank in 2017 as our Supervisor Representing Shareholders.*
8. *The supervisor's fee of Mr. XIA Taili, a former Supervisor Representing Employees, was RMB50.0 thousand in 2017.*
9. *The supervisor's fee of Mr. ZHENG Xin, a former Supervisor Representing Employees, was RMB4.2 thousand in 2017.*
10. *Mr. KANG Yi, a former Executive Vice President, received a remuneration of RMB608.0 thousand during his term of office in the Bank in 2017.*
11. *The total remuneration (before tax) paid to the Directors, Supervisors and senior management, including former Directors, Supervisors and Senior Management, by the Bank in 2017 was RMB8,520.0 thousand.*
12. *The term of office of Mr. WEN Tiejun expired in June 2017. In order to meet the requirement that the numbers of the Independent Non-executive Directors of the Bank is no less than one third of the total members of the Board of Directors, Mr. WEN Tiejun continued to perform his duty as an Independent Non-executive Director.*
13. *The term of office of Ms. ZHANG Keqiu as an Executive Vice President of the Bank is set out in the table above. Her term of office as the former secretary to the Board of Directors began in June 2015 and ended in April 2018. While concurrently assuming the positions of Executive Vice President and Secretary to the Board of Directors, Ms. ZHANG Keqiu only received the remuneration for her position as an Executive Vice President.*

At the beginning of the reporting period, Mr. ZHENG Xin, a former Supervisor of the Bank, held 375,000 A Shares of the Bank[1]. Other than him, no Directors, Supervisors or senior management members of the Bank held, purchased or sold any share of the Bank. During the reporting period, none of the Directors, Supervisors and senior management members of the Bank held any share option of the Bank, or were granted restricted shares of the Bank.

1 *In ordinary trading, Mr. ZHENG Xin sold 75,000 and 300,000 A Shares of the Bank on 13 July 2017 and 17 July 2017, respectively. At the end of the reporting period, Mr. ZHENG Xin did not hold any share of the Bank.*

We continuously promote the modernization of the corporate governance system and governance capacities, follow the principle that each governance body operates independently, counterbalances effectively, and cooperates and coordinates efficiently, and constantly optimize the rational decision-making of the Board of Directors, efficient execution by the senior management and strict supervision by the Board of Supervisors.

During the reporting period, we strictly complied with the requirements of applicable laws, regulations, and regulatory rules of places where the Bank's shares were listed. We continuously improved the corporate governance mechanism, and consistently enabled corporate governance to play a greater role in strategy control, risk management, internal control, transparency and other aspects. In accordance with the latest domestic and overseas regulatory requirements, we made amendments to corporate governance documents such as the Articles of Association, Rules of Procedures of the Shareholders' General Meeting, Rules of Procedures of the Board of Directors, Rules of Procedures of the Board of Supervisors, and formulated the working rules of the Risk Management Committee of Institutions in the United States Regions of the Board of Directors. We renamed the County Area Banking Business Development Committee under the Board of Directors as the County Area Banking Business/Inclusive Finance Development Committee and added the inclusive finance management duties. We also made adjustments to the composition of the Board of Directors, Board of Supervisors and the special committees of each of them.



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

Corporate Governance Structure Chart of the Bank

Corporate Governance Code

Upon the resignation of Mr. LU Jianping as an Independent Non-executive Director of the Bank becoming effective on 18 April 2017, the number of members of the Nomination and Remuneration Committee of the Board of Directors decreased to six, among which, the number of Independent Non-executive Directors reduced to three, which did not comply with Rule 3.25 of the Hong Kong Listing Rules and Code Provision A.5.1 of the *Corporate Governance Code* set out in Appendix 14 to the Hong Kong Listing Rules, which require a majority of the members to be independent non-executive directors. On 31 July 2017, Mr. ZHOU Ke ceased to be a Non-executive Director of the Bank due to the expiration of his term of office. Upon his leaving office, the number of members of the Nomination and Remuneration Committee of the Bank decreased to five, among which, the number of Independent Non-executive Directors was three, which complied with the above-mentioned requirement on the composition of such committee. Upon the ratification of Mr. LIAO Luming's qualification as a Director of the Bank on 31 August 2018, the number of members of the Nomination and Remuneration Committee of the Board of Directors of the Bank was six, among which, the number of Independent Non-executive Directors was three, which did not comply with Rule 3.25 of the Hong Kong Listing Rules and Code Provision A.5.1 of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules, which require a majority of membership in a nomination and remuneration committee to be independent non-executive directors. Upon the ratification of Mr. HUANG Zhenzhong's qualification as a Director of the Bank on 25 September 2017, the number of members of the Nomination and Remuneration Committee of the Board of Directors of the Bank increased to seven, among which, the number of Independent Non-executive Directors was four, representing the majority of membership of the Nomination and Remuneration Committee, thus was in compliance with the requirements mentioned above.

Save as disclosed above, the Bank fully complied with all the principles and code provisions of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules and observed most of the recommended best practices during the reporting period.

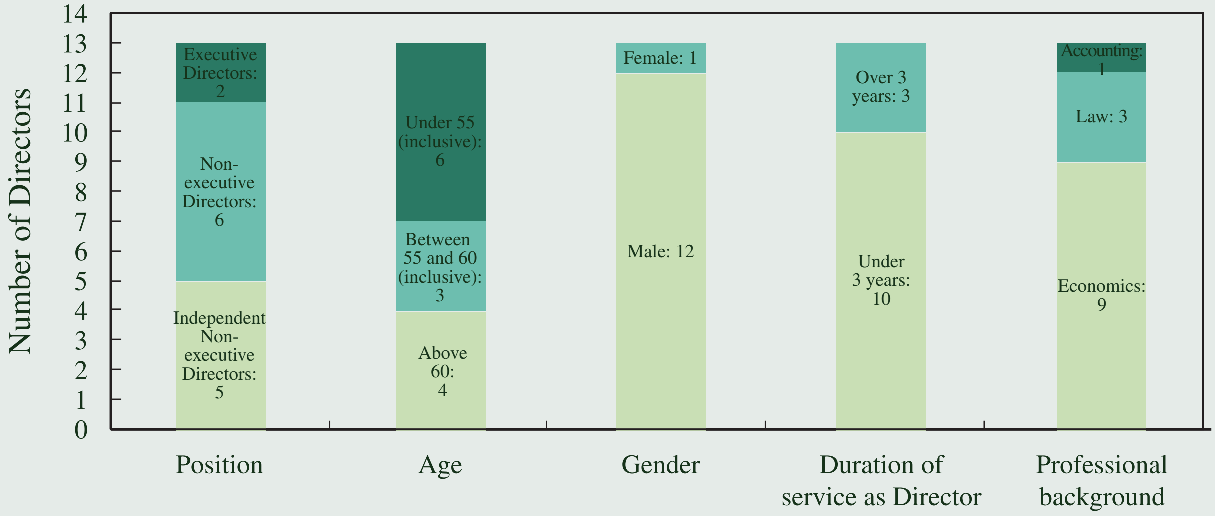
The Board of Directors actively performed its corporate governance duties. It is responsible for formulating the amendments to the Articles of Association, Rules of Procedures of the Shareholders' General Meeting and Rules of Procedures of the Board of Directors, establishing relevant corporate governance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

Board of Directors and Special Committees

Composition of the Board of Directors

As at the end of the reporting period, the Board of Directors comprised 13 directors, including two Executive Directors, namely Mr. ZHOU Mubing and Mr. ZHAO Huan; six Non-executive Directors, namely Mr. ZHAO Chao, Mr. ZHANG Dinglong, Mr. CHEN Jianbo, Mr. HU Xiaohui, Mr. XU Jiandong and Mr. LIAO Luming; and five Independent Non-executive Directors, namely Mr. WEN Tiejun, Mr. Francis YUEN Tin-fan, Ms. XIAO Xing, Mr. WANG Xinxin and Mr. HUANG Zhenzhong. Details of the incumbent Directors are set out in "Directors, Supervisors and Senior Management".

We have formulated the board diversity policy, which specifies our position in upholding the diversity of the Board of Directors, and the approaches adopted by us to achieve such diversity. We acknowledged and appreciated the benefits of diversity of the Board of Directors, and regards the diversity of the Board of Directors as a critical factor in achieving our strategic goals, maintaining our competitive strengths and achieving our sustainable development. We considered the diversity of the Board of Directors from various aspects, including talents, skills, industry experience, cultural and education background, gender, age, race and other factors, when deciding the composition of the Board of Directors. All appointments of Directors shall be decided after taking into consideration of talents, skills and experience required for the overall operation of the Board of Directors.



Particulars of Diversity of the Board of Directors

Functions of the Board of Directors

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

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

Meetings of the Board of Directors

The Board of Directors considers matters by way of board meetings. During the reporting period, the Board of Directors convened a total of 14 meetings, at which 67 proposals, including the operation plan for 2017, the fixed assets investment budget for 2017 and the nominations of Directors, were considered.

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

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

			Meetings of Special Committees of the Board of Directors						
Directors	Shareholders' General Meetings	Meetings of the Board of Directors	Strategic Planning Committee	County Area Banking Business/ Inclusive Finance Development Committee	Nomination and Remuneration Committee	Audit and Compliance Committee	Risk Management Committee	Related Party Transactions Management Committee	Risk Management Committee of Institutions in the United States Regions
Executive Directors									
ZHOU Mubing	2/2	14/14	7/7						
ZHAO Huan	2/2	13/14	7/7	3/3	4/5				
Non-executive Directors									
ZHAO Chao	2/2	14/14	7/7				5/5	3/3	5/5
ZHANG Dinglong	2/2	14/14	7/7	3/3		6/6			
CHEN Jianbo	2/2	14/14	7/7	3/3			5/5		5/5
HU Xiaohui	2/2	14/14	7/7	3/3		6/6			
XU Jiandong	2/2	14/14			5/5		5/5		5/5
LIAO Luming	1/1	5/5		1/1	1/1		1/1		2/2
Independent Non-executive Directors									
WEN Tiejun	2/2	13/14	6/7	3/3	5/5	5/6			
Francis YUEN Tin-fan	2/2	13/14				5/6	4/5	2/3	4/5
XIAO Xing	2/2	12/14		1/3	4/5	6/6			
WANG Xinxin	2/2	12/14			4/5		4/5	2/3	4/5
HUANG Zhenzhong	1/1	5/5			1/1		1/1	1/1	2/2
Resigned Directors									
LOU Wenlong	0/0	3/4	1/2	1/2					
LU Jianping	0/0	2/4			3/3		0/1	0/1	0/1
ZHOU Ke	1/1	8/8		2/2	2/2		3/3		2/2

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

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

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

During the reporting period, the Independent Non-executive Directors attended the meetings of the Board of Directors and the special committees thereof, and provided independent and objective advice on various important decisions, such as risk management and annual audit project plan by taking advantage of their professional capabilities and working experiences. The Independent Non-executive Directors actively strengthened the communication with the senior management, specialized departments and external auditors and thoroughly studied the operation and management of the Bank by attending important work meetings, listening to special reports of important businesses and having seminars with external auditors. They earnestly performed integrity and diligence duties, complied with the Work Measures for Independent Directors, provided strong support to the Board of Directors for making rational decisions, and safeguarded the interests of the Bank and its shareholders as a whole. We highly value the opinions and advice from the Independent Non-executive Directors and actively press ahead with such opinions and advice.

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

Special Committees of the Board of Directors

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

Mr. LOU Wenlong resigned as a member of the Strategic Planning Committee and the County Banking Business Development Committee;

Mr. LU Jianping resigned as a member of the Nomination and Remuneration Committee, the Risk Management Committee, the Risk Management Committee of Institutions in the United States Regions and the Related Party Transactions Management Committee;

Mr. LIAO Luming was appointed as a member of the County Area Banking Business/Inclusive Finance Development Committee, the Nomination and Remuneration Committee, the Risk Management Committee and the Risk Management Committee of Institutions in the United States Regions;

Mr. HUANG Zhenzhong was appointed as a member of the Nomination and Remuneration Committee, the Risk Management Committee, the Risk Management Committee of Institutions in the United States Regions and the Related Party Transactions Management Committee;

Mr. ZHOU Ke resigned as a member of the County Area Banking Business/Inclusive Finance Development Committee, the Nomination and Remuneration Committee, the Risk Management Committee and the Risk Management Committee of Institutions in the United States Regions.

Strategic Planning Committee

As at the end of the reporting period, the Strategic Planning Committee of the Board of Directors comprised seven Directors, including Mr. ZHOU Mubing (Chairman), Mr. ZHAO Huan (Vice Chairman), Mr. ZHAO Chao, Mr. ZHANG Dinglong, Mr. CHEN Jianbo, Mr. HU Xiaohui (all are Non-executive Directors) and Mr. WEN Tiejun (Independent Non-executive Director). Mr. ZHOU Mubing, the Chairman of the Board of Directors, is the chairman of the Strategic Planning Committee. The primary duties of the Strategic Planning Committee are to review the overall strategic development plan and specific strategic development plans, major investment and financing plans, to establishment of legal entities and other material matters critical to the development of the Banks and to make suggestions to the Board of Directors.

During the reporting period, the Strategic Planning Committee of the Board of Directors convened seven meetings and considered nine proposals, including the operation plan for 2017, the fixed assets investment budget for 2017, and listened to reports on the implementation of the *Reform and Development Plan for 2016-2020 of Agricultural Bank of China* in 2016. The Strategic Planning Committee provided relevant advice and suggestions on aspects including the Bank's overseas development plan, written-off of bad debts and the plan of informatization construction.

County Area Banking Business/Inclusive Finance Development Committee

On 24 July 2017, the Board of Director resolved to rename the County Area Banking Business Development Committee as the County Area Banking Business/Inclusive Finance Development Committee, and added the inclusive finance management duties. As at the end of the reporting period, the County Area Banking Business/Inclusive Finance Development Committee of the Board of Directors comprised seven Directors, including Mr. ZHAO Huan (Vice Chairman), Mr. ZHANG Dinglong, Mr. CHEN Jianbo, Mr. HU Xiaohui, Mr. LIAO Luming (all are Non-executive Directors) and Mr. WEN Tiejun and Ms. XIAO Xing (both are Independent Non-executive Director). Mr. ZHAO Huan, the Vice Chairman of the Board of Directors, is the chairman of the County Area Banking Business/Inclusive Finance Development Committee. The primary duties of the County Area Banking Business/Inclusive Finance Development Committee are to review the strategic development plan, policies and basic management rules of the County Area Banking Business and Inclusive Finance, as well as other major matters in relation to the development of the County Area Banking Business and Inclusive Finance, and to provide suggestions to the Board of Directors.

During the reporting period, the County Area Banking Business/Inclusive Finance Development Committee of the Board of Directors convened three meetings, considered the proposal on the development plan of Sannong and County Area Banking Business during the period of the "13th Five-year Plan", and studied six reports including the status of human resources in respect of Sannong and the next steps to be taken, and the estimates of the County Area Banking Division's financial target in 2018. The County Area Banking Business/Inclusive Finance Development Committee conducted thorough discussions and studies on the financial estimates for the County Area Banking Division as well as the human resources of Sannong, and provided relevant advice and suggestions.

Nomination and Remuneration Committee

As at the end of the reporting period, the Nomination and Remuneration Committee of the Board of Directors comprised seven Directors, including Mr. ZHAO Huan (Vice Chairman), Mr. XU Jiandong, Mr. LIAO Luming (both are Non-executive Directors), Mr. WEN Tiejun, Ms. XIAO Xing, Mr. WANG Xinxin and Mr. HUANG Zhenzhong (all are Independent Non-executive Directors). Mr. WEN Tiejun is the chairman of the Nomination and Remuneration Committee. The primary duties of the Nomination and Remuneration Committee are to formulate standards and procedures for election of directors, chairman and members of special committees and senior management members, and to make recommendations regarding the proposed candidates for directors and senior management members and their qualifications to the Board of Directors, as well as to formulate the remuneration policies for directors and senior management members, and to submit the remuneration packages to the Board of Directors for consideration.

The Articles of Association set out the procedures and methods of the nomination of Directors and have specific requirements for the appointment of Independent Directors. Please refer to articles 138 and 148 of the Articles of Association for details. The Articles of Association are published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Bank. During the reporting period, the Bank elected its Directors in strict compliance with the Articles of Association.

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

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

Audit and Compliance Committee

As at the end of the reporting period, the Audit and Compliance Committee of the Board of Directors comprised five Directors, including Mr. ZHANG Dinglong and Mr. HU Xiaohui (both are Non-executive Directors), Mr. WEN Tiejun, Mr. Francis YEUN Tin-fan and Ms. XIAO Xing (all are Independent Non-executive Directors). Ms. XIAO Xing is the chairwoman of the Audit and Compliance Committee. The primary duties of the Audit and Compliance Committee are to review the Bank's internal control and management system, material financial and accounting policies, audit general managements systems and regulations, medium- and long-term audit plan and annual work plan, and to make suggestions to the Board of Directors; as well as to review and approve the Bank's general policy on prevention and control of cases of violation, and to effectively scrutinize and oversee the Bank's prevention and control of cases of violation.

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

Risk Management Committee

As at the end of the reporting period, the Risk Management Committee of the Board of Directors comprised seven Directors, including Mr. ZHAO Chao, Mr. CHEN Jianbo, Mr. XU Jiandong and Mr. LIAO Luming (all are Non-executive Directors) and Mr. Francis YUEN Tin-fan, Mr. WANG Xinxin and Mr. HUANG Zhenzhong (all are Independent Non-executive Directors). Mr. Francis YUEN Tin-fan is the chairman of the Risk Management Committee. The primary duties of the Risk Management Committee are to review our strategic plan of risk management, risk appetite, material risk management policies, risk management report and allocation plan of risk-based capital, to review our strategies, policies and objectives of consumer protection, to continuously oversee the risk management system, to supervise and evaluate our work in risk management and consumer protection, and to provide suggestions to the Board of Directors.

During the reporting period, the Risk Management Committee of the Board of Directors convened five meetings, reviewed four proposals including the comprehensive risk management report for 2016 and revision of the Bank's consolidated management measures, and listened to five reports including management of liquidity risk in 2016, the operation of IRB system and the validation of the advanced approach on capital management. The Risk Management Committee reviewed the overall risk condition of the Bank regularly and provided relevant advice and suggestions on the market risk management policies and control and management of liquidity risk.

Related Party Transactions Management Committee

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

During the reporting period, the Related Party Transactions Management Committee of the Board of Directors convened three meetings, reviewed three proposals including the revision of basic norms in respect of related party transactions management and the list of related parties, and listened to the report in relation to the related party transactions management of the Bank for 2016. The Related Party Transactions Management Committee reviewed and approved the information of our related parties and provided relevant advice and suggestions on the enhancement of the management of our related parties and the transactions.

Risk Management Committee of Institutions in the United States Regions

As at the end of the reporting period, the Risk Management Committee of Institutions in the United States Regions of the Board of Directors consisted of seven Directors, including Mr. ZHAO Chao, Mr. CHEN Jianbo, Mr. XU Jiandong and Mr. LIAO Luming (all are Non-executive Directors) and Mr. Francis YUEN Tin-fan, Mr. WANG Xinxin and Mr. HUANG Zhenzhong (all are Independent Non-executive Directors). Mr. Francis YUEN Tin-fan is the chairman of the Risk Management Committee of Institutions in the United States Regions. The primary duties of the Risk Management Committee of Institutions in the United States Regions are to review and approve the risk management policies in relation to businesses in the United States regions and supervise its implementation, as well as to review issues identified in the internal and external inspection of institution in the United States regions and the report on relevant rectification, and other matters authorized by the Board of Directors. Responsibilities of the Risk Management Committee of Institutions in the United States Regions are concurrently assumed by the Risk Management Committee.

During the reporting period, the Risk Management Committee of Institutions in the United States Regions of the Board of Directors convened five meetings, reviewed two proposals including the basic risk management policies as well as risk appetite and management policies of the New York Branch, and listened to eight reports including the rectification progress on anti-money laundering problem of the New York Branch and details of the engagement agreement of an independent supervisor. The Risk Management Committee of Institutions in the United States Regions reviewed the risks in relation to business in the United States regions and their rectification progress regularly and provided relevant advice and suggestions.

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

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

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

According to our review, the guarantee business of the Bank is mainly to issue letters of guarantee, which has been approved by the PBOC and the CBRC as one of the ordinary businesses of the Bank. As of 31 December 2017, the balance of the guarantee business of the Bank (including letters of guarantee issued and guarantees by the Group) amounted to RMB220,826 million.

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

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

Responsibilities of Directors on Consolidated Financial Statements

The Directors are responsible for supervising the preparation of the consolidated financial statements of each accounting period so that such consolidated financial statements can give a true and fair view of the financial position, operating results and cash flows of the Group. In preparation for the consolidated financial statements for the year ended 31 December 2017, the Directors have adopted and applied appropriate accounting policies consistently, and made judgments and estimates prudently and reasonably.

During the reporting period, the Bank complied with relevant laws, regulations and the requirements of the listing rules of places where the Bank's shares are listed, and published the annual report for 2016 and the first quarterly report, interim report and third quarterly report for 2017.

Risk Management and Internal Control

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

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

Training of Directors and Secretary to the Board of Directors

In 2017, the Directors of the Bank actively participated in special trainings on IFRS 9, anti-money laundering and sanctions compliance and consolidated management etc. organized by the Bank and intermediary institutions, as well as the training sessions for directors and supervisors organized by the Listed Companies Association of Beijing in accordance with the Hong Kong Listing Rules and the PRC regulatory requirements. The Directors also improved their professional expertise through various ways, including compiling and publishing professional books and articles, attending forums and seminars, giving public lectures and conducting field research on domestic and overseas industry peers as well as the Bank's branch outlets. During the reporting period, the secretary to the Board of Directors and the company secretary of the Bank, attended relevant professional trainings of more than fifteen hours, which was in compliance with the relevant regulatory requirements.

Senior Management

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

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

- taking charge of the Bank's operation and management, and organizing the implementation of the resolutions of the Board of Directors;
- conducting or authorizing other senior management members and principal officers of internal functional departments and branch outlets to conduct the daily operations and management of the Bank within the scope authorized by the Board of Directors;
- drafting the fundamental management rules and policies and formulating specific rules of the Bank (excluding internal auditing rules);
- drafting the Bank's business and investment plans and implementing such plans upon approval by the Board of Directors;
- drafting plans for annual financial budgets and financial accounts, risk-based capital allotment, profit distribution and loss appropriation, increase or decrease of registered capital, issuance and listing of corporate bonds or other securities and repurchase of shares, and making suggestions to the Board of Directors;
- drafting the set-up plan of the internal functional departments of the Bank, and the establishment of tier-1 branches, branches and other institutions directly under the Head Office at home and abroad as well as overseas institutions of the Bank, and making suggestions to the Board of Directors;
- proposing to the Board of Directors the appointment or dismissal of the executive vice presidents and other senior management members (except secretary to the Board of Directors);
- appointing or dismissing the principal officers of internal functional departments of the Bank (except the principal officers of internal auditing department) and the principal officers of branch branches;
- determining the remuneration and performance appraisal of the principal officers of internal functional departments of the Bank (except the principal officers of internal auditing department) and the principal officers of branch outlets, and conducting compensation review and performance evaluation;
- determining the salary, welfare, incentive and penalty of staff of the Bank, and deciding or authorizing the subordinate management members to appoint or dismiss staff of the Bank;

- upon the occurrence of material events in connection with business operations such as a run on the Bank, taking emergency measures in line with the interests of the Bank, and reporting immediately to the government regulatory authorities of banking industry under the State Council, the Board of Directors and the Board of Supervisors;

- exercising other powers conferred by the relevant laws, administrative regulations, departmental rules, and the Articles of Association of the Bank and the authorities resolved to be exercised by the President pursuant to the Shareholders' General Meeting and the Board of Directors.

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

Shareholders' General Meeting

During the reporting period, the Bank held one annual general meeting and one extraordinary general meeting at which 21 proposals were considered and approved, and three reports were listened. Detailed information is as follows:

On 28 June 2017, the Bank held the 2016 Annual General Meeting in Beijing at which 11 proposals were considered and approved, including the final financial accounts for 2016 and the profit distribution plan for 2016, and listened to three reports, including the 2016 work report of Independent Directors and the report on the management of connected party transactions.

On 15 December 2017, the Bank held the First Extraordinary General Meeting for 2017 in Beijing, at which 10 proposals were considered and approved, including the final remuneration plan for directors and supervisors for 2016, the amendments to the Rules of Procedure of the Shareholders' General Meeting and the election of Directors.

The above shareholders' general meetings of the Bank were convened and held in strict compliance with the laws, regulations and listing rules of Hong Kong and the PRC. The Directors, Supervisors and the senior management members of the Bank attended the meetings and discussed with shareholders about matters concerned by the shareholders. The Bank published the announcements on the poll results and legal advice on the above general meetings in a timely manner in accordance with regulatory requirements. The announcements on the poll results of general meetings were published on the website of the Hong Kong Stock Exchange on 28 June 2017 and 15 December 2017, respectively, and on the website of the Shanghai Stock Exchange and in the newspaper designated by the Bank for information disclosure on 29 June 2017 and 16 December 2017, respectively.

Chairman and President of the Bank

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

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

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

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

Securities Transactions by Directors and Supervisors

The Bank has adopted a code of conduct for securities transactions by Directors and Supervisors with terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Hong Kong Listing Rules. The Directors and Supervisors of the Bank have confirmed that they have complied with such code of conduct throughout the year ended 31 December 2017.

Terms of Directors

The Bank strictly complies with the requirements of the Hong Kong Listing Rules and the Articles of Association in respect of the election and term of Directors. Each Director shall be elected at the Shareholders' General Meetings with a term of three years from the date of ratification by the CBRC. A Director may serve consecutive terms if being re-elected upon the expiration of the previous term, and the consecutive term shall commence from the date of approval at the Shareholders' General Meeting. The term of an Independent Non-executive Director shall not exceed six years on an aggregated basis.

Appraisal and Incentive Mechanisms for Senior Management

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

Auditors' Engagement and Remuneration

As approved by the 2016 Annual General Meeting of the Bank, the Bank engaged PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as the domestic and international auditor of the Bank for 2017, respectively. These auditors have provided audit services for the Bank for five consecutive years from 2013 to 2017.

In 2017, a total fee of RMB122.3 million was paid to PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers by the Bank for the Group's financial statements audit service, including RMB9.78 million for internal control audit service. In 2017, a total fee of RMB10.96 million was paid to PricewaterhouseCoopers and its network member firms by the Group for providing financial statement audit service to the Group's subsidiaries, as well as to its overseas branches. In 2017, a total fee of RMB9.59 million was paid to PricewaterhouseCoopers and its network member firms by the Group for providing non-audit professional service.

Shareholders' Rights

Convening of Extraordinary General Meetings

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

Enquiries to the Board of Directors

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

Proposals to the Shareholders' General Meetings

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

Special Regulations of Holders of Preference Shares

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

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

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

Significant Changes to the Articles of Association during the reporting period

During the reporting period, according to the requirements of the *Company Law of the People's Republic of China* and the *Guidelines on Corporate Governance of Commercial Banks* issued by the CBRC, and other regulatory rules as well as the general requirements for including the Party-building work into Articles of Association, the Bank made amendments to the Articles of Association. Those amendments mainly contained additional requirements in relation to Party-building work, and adjustments to shareholders' obligations, duties of the Board of Directors and the Board of Supervisors and nomination of the Directors and Supervisors. The full text of the amended Articles of Association was published on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange.

Information Disclosure and Investor Relations

Information Disclosure

During the reporting period, the Bank prepared and disclosed periodic reports and temporary reports of various types in accordance with laws and regulations. The Bank continued to increase voluntary disclosures and enhanced transparency of information disclosure, and continuously strengthened the information disclosure system and optimized the working procedures of information disclosures. In 2017, we published over 270 documents for information disclosure on the Shanghai Stock Exchange and the Hong Kong Stock Exchange in aggregate.

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

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

Investor Relationship

In 2017, the Bank continuously enhanced communication with the investors. The Bank held over one hundred investors' meetings to deliver significant information to the investors, such as development plan, business operation and financial indicators of the Bank, and effectively enhanced investors' recognition on the value of the Bank. Meanwhile, the Bank listened to suggestions from investors to constantly enhance its management quality and operating results. Through results press conferences for announcements, roadshows, participating in business summits concerning the capital market, investors' visits to our Bank and interacting with investors through hotlines, responding to investors' queries on the E-platform of the Shanghai Stock Exchange and through emails, the Bank has established comprehensive and effective communication channels connecting our shareholders and effectively protected the rights of all the shareholders, especially the rights to know and to participate of our minority shareholders.

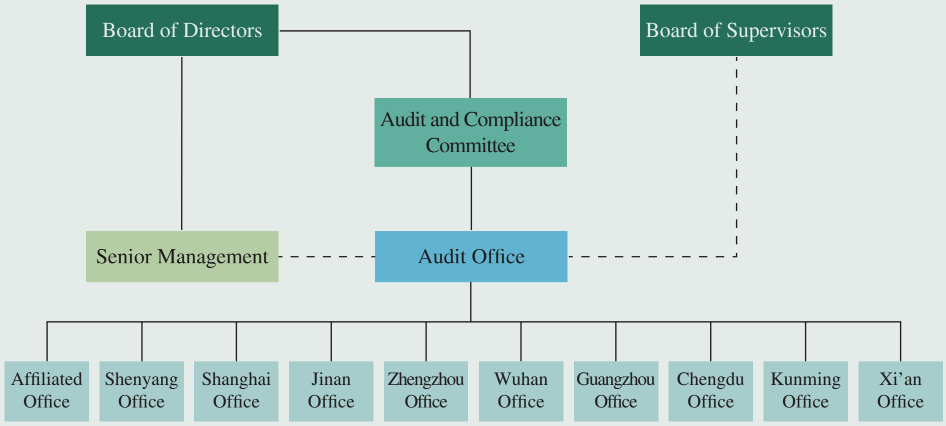
If investors have any enquiries, or any aforesaid suggestions, enquiries or proposals, please contact:

The Office of the Board of Directors of Agricultural Bank of China Limited
Address: No. 69, Jianguomen Nei Avenue, Dongcheng District, Beijing, China
Telephone: 86-10-85109619
Facsimile: 86-10-85108557
E-mail: ir@abchina.com

Internal Audit

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

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



During the reporting period, in accordance with the external regulatory requirements and the strategic decisions of the Board of Directors, the Bank adopted risk-oriented approaches with a focus on the identification of material risk in operation, risk of cases of violation, deficiencies in internal control, and risks in respect of regulation incompliance and overseas institutions. Risk audit was carried out on certain branches with a focus on credit, finance and accounting, internal control and staff behavior and so on. The Bank conducted specific audit and investigation on various aspects, including protection of interests of consumers, performance appraisal and remuneration management, follow-up supervision in the internal control, compliance management in respect of anti-money laundering, investment banking business, New Basel Capital Accord, the Volcker Rule and consolidated management of subsidiaries. The Bank steadily promoted the audits on overseas institutions and standardized the audit on the due diligence of the senior management. The Bank also carried out follow-up audits on the rectification of key problems identified during the audit of the previous year.

Principal Business and Business Review

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

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

Profits and Dividends Distribution

The Bank's profit for the year ended 31 December 2017 is set out in "Discussion and Analysis – Financial Statement Analysis".

Upon approval at the 2016 Annual General Meeting, the Bank distributed cash dividend of RMB1.70 (tax inclusive) per ten shares, with a total amount of RMB55,215 million (tax inclusive), to shareholders of A Shares and H Shares on our registers of members at the close of business on 12 July 2017.

The Board of Directors proposed distribution of cash dividends of RMB1.783 (tax inclusive) for each ten shares of 324,794,117,000 ordinary shares for 2017 with a total amount of approximately RMB57,911 million (tax inclusive). The distribution plan will be submitted for approval at the 2017 Annual General Meeting. Once approved, the above mentioned dividends will be paid to the holders of A Shares and H Shares, whose names appear on the share registers of the Bank after the close of market on 24 May 2018. The register of transfers of H Shares will be closed from 19 May 2018 to 24 May 2018 (both days inclusive). In order to qualify for the proposed distribution of cash dividends, holders of H Shares are required to deposit the transfer documents together with the relevant share certificates at the H Share registrar of the Bank, Computershare Hong Kong Investor Services Limited located at Rooms 1712-1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong at or before 4:30 p.m. on 18 May 2018. Dividends of A Shares and H Shares are expected to be paid on 25 May 2018 and 14 June 2018, respectively. A separate announcement will be published if there is any change to the aforesaid dates.

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

In millions of RMB, except for percentages

	2016	2015	2014
Cash dividend (tax inclusive)	55,215	54,176	59,113
Cash dividend payment ratio[1] (%)	30.0	30.0	32.9

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

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

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

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

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

Implementation of the Cash Dividend Policy

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

Reserves

Details of the changes of reserves for the year ended 31 December 2017 are set out in "Consolidated Statement of Changes in Equity" in the consolidated financial statements.

Financial Summary

Summary of operating results, assets and liabilities for each of the five years ended 31 December 2017 is set out in "Basic Corporate Information and Major Financial Indicators".

Donations

During the year ended 31 December 2017, the Bank's external donations (domestic) amounted to RMB44,113.8 thousand.

Property and Equipment

Changes in property and equipment for the year ended 31 December 2017 are set out in "Note IV. 25. Property and Equipment" to the Consolidated Financial Statements.

Subsidiaries

Particulars of the Bank's principal subsidiaries as at 31 December 2017 are set out in "Discussion and Analysis – Business Review".

Share Capital and Public Float

As at 31 December 2017, the Bank's total share capital of ordinary shares amounted to 324,794,117,000 shares, including 294,055,293,904 A Shares and 30,738,823,096 H Shares. As at the date of this annual report, the Bank maintained sufficient public float in compliance with the minimum requirement of the Hong Kong Listing Rules and the waiver granted by the Hong Kong Stock Exchange upon the Bank's listing.

Purchase, Sale or Redemption of the Bank's Shares

For the year ended 31 December 2017, neither the Bank nor its subsidiaries purchased, sold or redeemed any of its listed shares.

Pre-emptive Rights

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

Major Customers

For the year ended 31 December 2017, the five largest customers of the Bank accounted for less than 30% of the interest income and other operating income of the Bank.

Use of Proceeds

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

Significant Projects Invested By Non-raised Capital

For the year ended 31 December 2017, the Bank had no significant projects invested by non-raised capital.

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

For the year ended 31 December 2017, none of the Bank's Directors or Supervisors or parties related to such Directors and Supervisors had any material interests, either directly or indirectly, in any material transaction, arrangement or contract regarding the Bank's business to which the Bank or any of its subsidiaries was a party. None of its Directors or Supervisors has entered into any service contract with the Bank or any of its subsidiaries, pursuant to which the Bank needs to pay compensation (other than statutory compensation) for terminating the contract within one year.

Directors' Interests in Competing Businesses

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

Directors' and Supervisors' Rights to Subscribe For Shares or Debentures

For the year ended 31 December 2017, the Bank did not grant any rights to acquire shares or debentures to any Director or Supervisor, nor were any of such rights exercised by any Director or Supervisor. Neither the Bank nor its subsidiaries entered into any agreement or arrangement enabling the Directors or Supervisors to acquire benefits by means of the acquisition of shares or debentures of the Bank or any other body corporate.

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

None of the Directors or Supervisors of the Bank had any interests or short positions (including interests and short positions in which they are deemed to have under such provisions of the *Securities and Futures Ordinance* of Hong Kong) in the shares, underlying shares or debentures of the Bank or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance of Hong Kong) which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the *Securities and Futures Ordinance* of Hong Kong, or any interests or short positions which were required to be recorded in the register referred to in Section 352 of the *Securities and Futures Ordinance* of Hong Kong, or any interests or short positions which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the *Model Code for Securities Transactions by Directors of Listed Issuers* as set out in Appendix 10 to the Hong Kong Listing Rules. For the interests and short positions of substantial shareholders of the Bank and other persons, please refer to "Changes in Share Capital and Shareholdings of Substantial Shareholders".

Related Party Transactions

In 2017, the Bank actively performed the management obligations under different regulatory rules in respect of related party transactions of a listed company. The Bank strengthened its management basics and revised its business system. We also optimized the information system, and with exerted efforts in the promotion of related party transactions management. As a result, we continued to increase our capability in the risk management and risk control of related party transactions, and continuously improved the level of our sophisticated management. During the reporting period, the related party transactions of the Bank were conducted on normal commercial terms and in accordance with laws and regulations. Our pricing for interest rates followed fair business principles, and no impairment of the interest of the Bank or the minority shareholders was identified.

We extended loans to related natural persons (as defined in the *Administrative Measures on Information Disclosure of Listed Companies* issued by the CSRC) in 2017. As at 31 December 2017, the balance of such loans amounted to RMB3,058.4 thousand. Such loans were in compliance with our pricing policies and guarantees were provided for such loans.

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

In 2017, we conducted various connected transactions with connected persons (as defined in the Hong Kong Listing Rules) of the Bank in the ordinary course of business. Such transactions and/or the related party transactions listed in the notes to financial statements did not constitute connected transactions under the Hong Kong Listing Rules, or they satisfied the applicable exemption conditions set out in Rule 14A.73 under the Listing Rules, and therefore were fully exempted from compliance with the requirements of shareholders' approval, annual review and all requirements in relation to disclosures.

Remuneration of Directors, Supervisors and Senior Management

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

Permitted Indemnity Provisions

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

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

Equity-linked Agreement

Save for the preference shares 農行優1 (stock code: 360001) and 農行優2 (stock code: 360009) issued by the Bank on 31 October 2014 and 6 March 2015, respectively, the Bank did not enter into, nor did there subsist, any other equity-linked agreement as of 31 December 2017.

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

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

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

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

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

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

Financial, Business and Family Relationship among Directors

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

Employee Benefit Plans

For details of employee benefit plans of the Bank, please refer to "Note IV. 36. Other Liabilities" to the Consolidated Financial Statements.

Management Contracts

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

Auditors

The consolidated financial statements of the Group for 2017 prepared in accordance with CASs and IFRSs have been audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, respectively, in accordance with the China Standards on Auditing and International Standards on Auditing, both of which are unqualified audit opinions.

Consumer Interests Protection

As per the Bank's philosophy of "Putting Customers First with Consistent Services", the Bank had developed a service management mechanism in an effort to continuously increase service quality. The Bank implemented relevant national laws and regulations and regulatory requirements thoroughly and proactively protect property security, right of information, right of choice, right of fair trade, right of claim, right of education, right of respect, right of information safety and other rights of financial consumers. The Bank also optimized its overall consumer rights protection mechanism by establishing the institutions responsible thereof and optimizing the procedures in processing complaints. The Bank diligently performed its obligations in protecting client information through formulating administrative measures thereof, as well as setting comprehensive standards regarding the collection, use, enquiry and storage of client information. The Bank revised the administrative measures concerning specialized sales area in the outlets and audio and video in accordance with the regulatory requirements, and standardized the sales conduct in relation to the sales of our wealth management products and consignment products, in order to safeguard the legitimate interests of consumers. The Bank continuously intensified its efforts in organizing educational activities aimed at promoting financial knowledge, in order to help raise consumer's awareness and ability in preventing financial risk and choosing regulated financial services.

In 2017, the Bank was elected as the director-level member of the Consumer Protection Committee of the China Banking Association. The Bank was also entitled as an Excellent Institution in "Financial Knowledge for the Public", and was granted an award for Best Achievements in "Popularization of Financial Knowledge for Chinese Banking Industry".

Corporate Social Responsibility

During the reporting period, the Bank bolstered the national strategic development plan and continued to push forward the balanced and sustainable advances in the economy, environment and society, thus proactively fulfilling the social responsibility of a state-owned major commercial bank. The Bank proactively served the agricultural supply-side reform as well as the rural vitalization strategy, actively keeping in line with the strategic development plan of areas in poverty, and undertook the important task of providing financial assistance to areas in poverty to achieve the goal of targeted poverty alleviation. The Bank supported balanced development in regions by establishing inclusive financial service system and exerting efforts to serve the real economy. The Bank also formulated the Green Financial Product and Service Development Plan (2017-2020) and managed to establish a green financial service and management system. The Bank exerted great effort on promoting the development of green credit, and together with the innovation of green financial products and services. The Bank raised the standard of green financial service, establishing itself as a leading bank in green finance. The Bank established a supplier cooperation model based on goodwill and mutual benefits to strengthen the prevention of financial risk, and to protect the financial security of consumers. Furthermore, the Bank supported the post-disaster recovery efforts in places such as Guangxi and Sichuan, and provided full support for financial services in disaster-stricken regions. The Bank carried out public welfare activities such as "Health Express for Mothers", "Young Bankers" and "Reward Donation Campaign" to further establish our good image in contributing to the community. The Bank also implemented the "Four Major Projects" of talent development and expedited the reform of human resources to foster the growth of employees. The Bank strengthened humanistic care and safeguarded the legitimate interests of employees.

In addition, because of the business nature of the Bank, current environmental laws and regulations do not have a significant impact on the Bank.

For further details of the environmental information and performance of social responsibility of the Bank, please refer to the *2017 Corporate Social Responsibility Report* of the Bank published separately.

By Order of the Board of Directors
ZHOU Mubing
Chairman of the Board of Directors
26 March 2018

Composition of the Board of Supervisors

As at the end of the reporting period, the Board of Supervisors of the Bank comprised five Supervisors, including one Supervisor Representing Shareholders, namely Mr. WANG Xingchun, two Supervisors Representing Employees, namely Mr. LIU Chengxu and Mr. XIA Zongyu, and two External Supervisors, namely Mr. LI Wang and Ms. LV Shuqin. Details of the incumbent Supervisors are set out in "Directors, Supervisors and Senior Management".

Functions and Authorities and Operation of the Board of Supervisors

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

- supervising the performance of the Board of Directors and senior management, supervising and enquiring the due diligence of Directors and senior management members and make enquiry in case of breachings, and urging Directors and senior management members to rectify their behaviors detrimental to the interest of the Bank;
- proposing to dismiss or initiate litigation against Directors and senior management members who violate laws, administrative regulations and the Articles of Association or the resolutions of the Shareholders' General Meetings;
- carrying out departure audit of Directors and senior management members when necessary;
- Formulating the proposed distribution of remuneration and subsidies for supervisors to be considered and approved at the general meeting;
- supervising the financial activities, business decisions, risk management and internal control of the Bank, and providing guidance to the work of internal auditing department;
- checking financial information including the financial reports, business reports and profit distribution plans prepared by the Board of Directors for submission to the Shareholders' General Meetings, and appointing certified accountants and auditors on behalf of the Bank to review such information if any problem is detected;
- supervising the implementation of strategic plans, policies and general management system for the development of the County Area Banking Business;
- submitting proposals to the Shareholders' General Meetings;
- nominating the supervisors representing shareholders, external supervisors and independent directors;
- formulating the amendments to the Rules of Procedures of the Board of Supervisors;
- supervising the compliance of the engagement, dismissal and re-appointment of external auditors, fairness of the terms and remuneration for the engagement and the independence and effectiveness of the work performed by external auditors;
- other functions and authorities as conferred by laws, administrative regulations, departmental rules and the Articles of Association or as authorized by the Shareholders' General Meetings.

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

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

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

Due Diligence Supervision Committee

At the end of the reporting period, the Due Diligence Supervision Committee comprised two Supervisors, namely Mr. LIU Chengxu and Mr. LI Wang.

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

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

- developing working plans and implementation plans regarding the supervision on the due diligence of the Board of Directors, the senior management, Directors and senior management members, and implementing the plans upon approval of the Board of Supervisors;
- providing comments on matters regarding the due diligence of the Board of Directors after conducting supervision, the senior management, Directors and senior management members, and making suggestions to the Board of Supervisors;
- developing plans for departure audit of Directors and senior management members when necessary, and organizing the implementation of the plans upon approval of the Board of Supervisors;
- making recommendations to the Board of Supervisors on the candidates for Supervisor representing shareholders, external Supervisors, independent Directors and members of the special committees under the Board of Supervisors;
- drafting evaluation methods for Supervisors, organizing performance assessment of Supervisors and making suggestions to the Board of Supervisors;
- making proposals on the distribution plan of remuneration and allowance for supervisors and submitting to the Board of Supervisors for review;
- studying and handling issues or documents reported or provided by the Board of Directors, the senior management, Directors and senior management members;
- other matters authorized by the Board of Supervisors.

Finance and Internal Control Supervision Committee

At the end of the reporting period, the Finance and Internal Control Supervision Committee comprised two Supervisors, namely, Mr. XIA Zongyu and Ms. LV Shuqin.

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

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

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

- guiding the work of internal auditing department of the Bank;
- studying and handling issues or documents reported or provided by the Board of Directors, the senior management, Directors and senior management members;
- supervising the compliance of the engagement, dismissal and re-appointment of external auditors, fairness of the terms and remuneration for the engagement and the independence and effectiveness of the work performed by external auditors;
- other matters authorized by the Board of Supervisor.

Meetings of the Board of Supervisors and its Special Committees

During the reporting period, the Board of Supervisors held six meetings, considered and approved 17 proposals including the annual report for 2016 and its abstract, and listened to nine work reports.

The Finance and Internal Control Supervision Committee held two meetings to listen to four work reports.

The Due Diligence Supervision Committee held two meetings to consider and approve three proposals, and listened to two work reports.

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

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

		Special Committees under the Board of Supervisors	
Supervisors	**Meeting of the Board of Supervisors**	**Due Diligence Supervision Committee**	**Finance and Internal Control Supervision Committee**
WANG Xingchun	6/6	1/1	
LIU Chengxu	5/6	2/2	
XIA Zongyu	5/6		2/2
LI Wang	6/6	2/2	
LV Shuqin	6/6		2/2
Former Supervisors			
YUAN Changqing	2/2	1/1	1/1
XIA Taili	6/6	2/2	
ZHENG Xin	0/0	0/0	0/0

Notes: 1. Attendance in person includes attendance on site and attendance by way of electronic communication such as telephone and video conference.

2. For details of changes in Supervisors, please refer to "Changes in Directors, Supervisors and Senior Management".

Work of Board of Supervisors

During the reporting period, the Board of Supervisors of the Bank performed its duties of supervision diligently as required by the applicable laws and regulations and the Articles of Association. The Board of Supervisors carried out supervision with a focus on the reform and development as well as the operation and management of the Bank to improve the effectiveness of supervision so as to ensure effective corporate governance and safeguard the interests of the shareholders and the Bank.

Carry out due diligence supervision in accordance with laws and regulations to improve corporate governance

The Board of Supervisors carried out supervision on due diligence of the Board of Directors and senior management through methods including monitoring and analysing, attending the meetings, listening to reports, reviewing proposals, the investigation and surveys and analyzing and applying useful results from internal and external inspections. The Board of Supervisors paid close attention to the Bank's implementation of national financial and economical policies as well as the implementation of the reform and development plan. The Board of Supervisors provided advice after supervision with a focus on the effectiveness of strategic plans, risk management and internal control. The Board of Supervisors refined the systems for due diligence by refining the *Working Rules of the Due Diligence Supervision of the Board of Supervisors* and the *Measures on Due Diligence Evaluation of the Board of Directors and Senior Management*, and conducted annual performance evaluation on the Board of Directors, senior management and the members thereof in accordance with relevant requirements.

Enhancing financial supervision to promote the improvement of the business operation with steady development

The Board of Supervisors reviewed the disclosure of information including the regular reports, the profit distribution plan and the final financial accounts. The Board of Supervisors carried out continuous supervision on management of fixed assets, consolidation management and collateral management. The Board of Supervisors also carried out supervision on rectification by the senior management. The Board of Supervisors carried out supervision on the implementation of the development strategy, plans, policies and basic management system of the County Area Banking Business of the Bank. The Board of Supervisors also carried out supervision and evaluation on the services provided to sannong in 2017 and conducted supervision analysis on the effectiveness and efficiency of resources allocation since reform of the County Area Banking Division.

Conducting supervision on risks and internal control to support a sustainable and healthy development of the Bank

Through listening to the special reports submitted by the risk management department, internal audit department and internal control and compliance department and reviewing regular risk management reports, the Board of Supervisors supervised the rectification of problems identified during internal and external inspections. The Board of Supervisors attached great importance to the application of internal and external audit results and maintained focus on the effectiveness of internal control and compliance management.

Work of External Supervisors

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

Independent Opinions of the Board of Supervisors

Operation Compliance

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

Annual Report

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

County Area Banking Business

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

Asset Acquisition and Disposal

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

Related Party Transactions

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

Internal Control

The Board of Supervisors had no objection to the conclusion of the *2017 Internal Control Assessment Report of Agricultural Bank of China Limited*.

Due Diligence Evaluation of Directors, Supervisors and Senior Management Members

The due diligence evaluation results of all the incumbent Directors, Supervisors and senior management members for 2017 were satisfactory.

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

The Board of Supervisor
of Agricultural Bank of China Limited

26 March 2018

Material Litigations and Arbitrations

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

As of 31 December 2017, the value of the claims of the pending litigations or arbitrations in which the Bank was involved as a defendant, a respondent or a third person amounted to approximately RMB8,558 million. The management of the Bank believes that we have fully accrued provision for potential losses arising from the aforesaid litigations or arbitrations, and they will not have any material adverse effect on our financial position or operating results.

Major Asset Acquisition, Disposal and Merger

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

Implementation of Share Incentive Plan

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

Material Related Party Transactions

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

Details and Performance of Material Contracts

Material custody, contract and lease

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

Material guarantees

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

Misappropriation of Funds by Controlling Shareholders and Other Related Parties

None of our controlling shareholders or other related parties misappropriated any of our funds. PricewaterhouseCoopers Zhong Tian LLP issued the *Special Report on Misappropriation of Funds by Controlling Shareholders and Other Related Parties of Agricultural Bank of China Limited for the year of 2017*.

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

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

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

Integrity of the Bank and Controlling Shareholder

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

Material Equity Investments and material non-equity investments in progress

ABC Financial Asset Investment Company Limited was approved to commence operation in August 2017. ABC Financial Asset Investment Company Limited was solely owned by the Bank with a registered capital of RMB10 billion.

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

Targeted poverty alleviation

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

Private Placement of A Shares

The Bank has proposed private placement of A Shares to raise proceeds of not exceeding RMB100 billion. The proceeds after deducting the relevant issuance expenses will be fully used to replenish the CET 1 capital of the Bank. The private placement plan of A Shares was considered and approved by the Board of Directors of the Bank on 12 March 2018 and by the 2018 first extraordinary general meeting of the Bank on 29 March 2018 item by item, which was approved by the China Banking and Insurance Regulatory Commission on 13 April 2018. In addition, in accordance with relevant laws and regulations, the implementation of the Private Placement of A Shares is subject to the approval of regulatory authorities including the CSRC, and also subject to the final plan approved by the aforesaid regulatory authorities. For the latest updates on the Private Placement of A Shares and the review progress of regulatory authorities, please refer to the announcements to be published by the Bank separately.

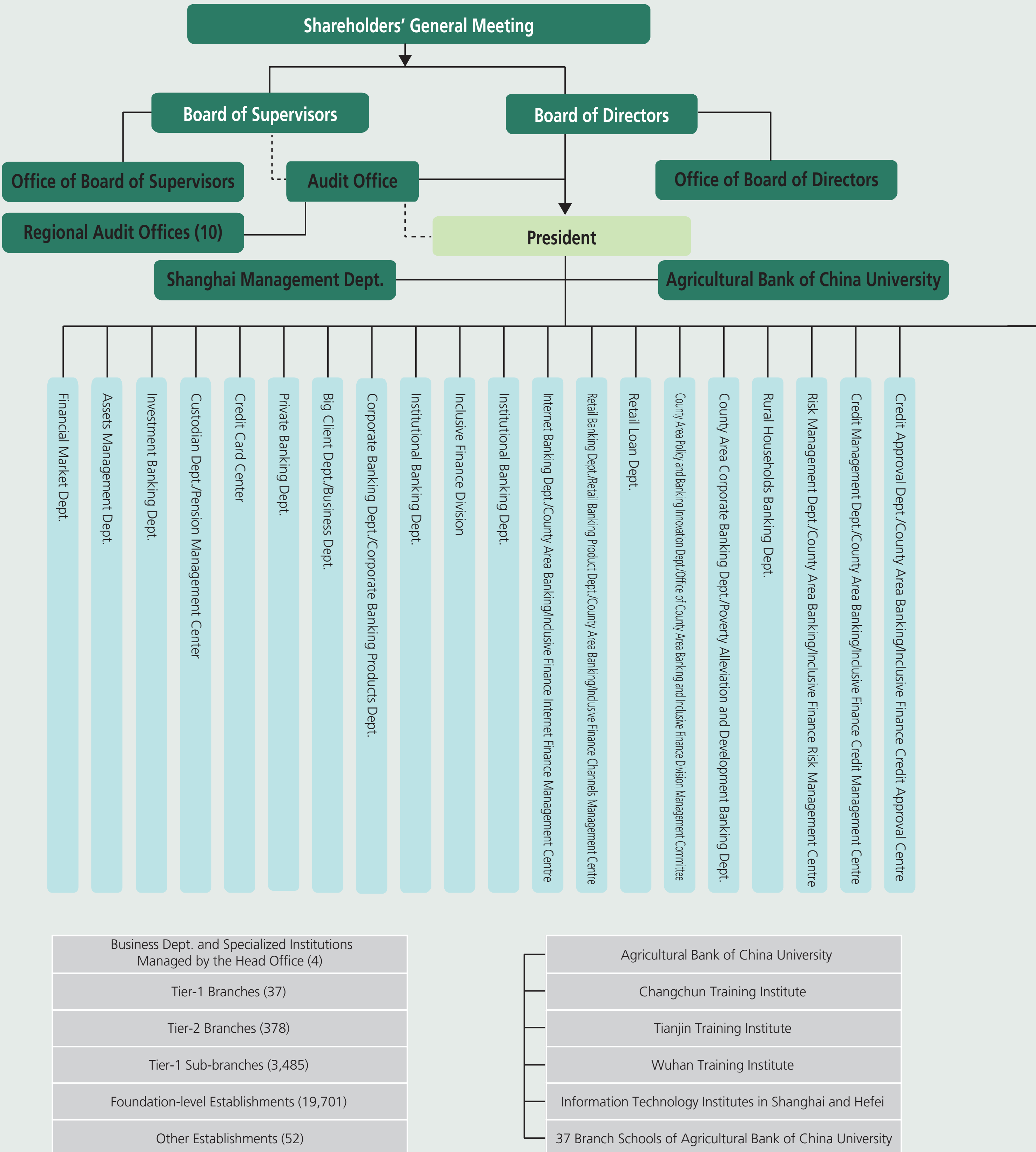
For details, please refer to the related announcements published on the websites of the Shanghai Stock Exchange (www.sse.com.cn) and the Hong Kong Stock Exchange (www.hkexnews.hk).

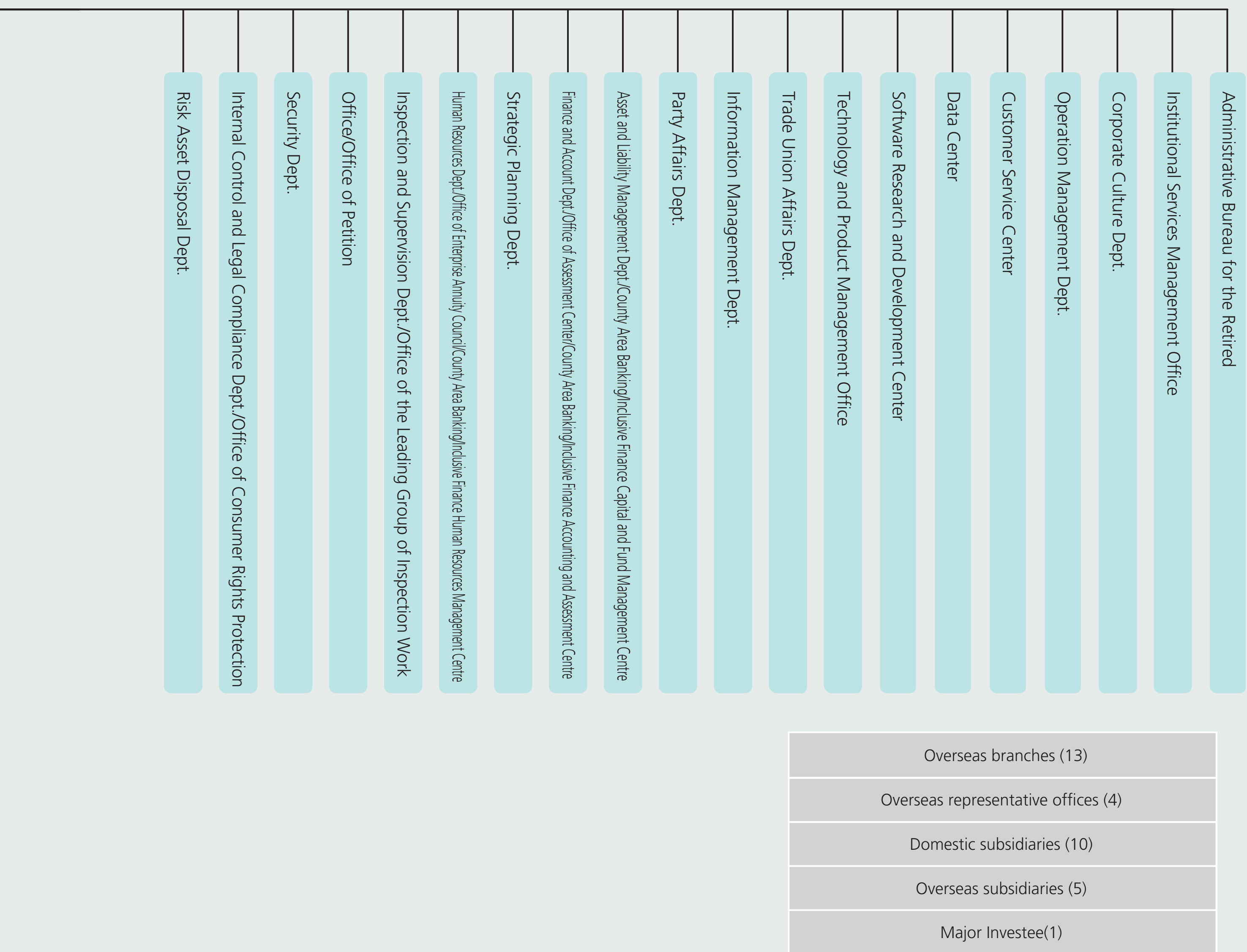
Commitments

Subject of commitment	Commitment	Details of commitment	Date of commitment	Due date of commitment	Performance up to date
Huijin	Non-competition commitment	(1) So long as Huijin continues to hold any of our shares or is deemed to be a controlling shareholder or a connected person of a controlling shareholder or de facto controller of the Bank in accordance with the laws or listing rules of China or of the place where our shares are listed, it will not engage or participate in any competing commercial banking activities in China or abroad. If Huijin engages or participates in any competing commercial banking activities or activities which evolve into competing commercial banking activities in China or abroad, it will immediately cease to participate in, manage or engage in such competing commercial banking activities. (2) If Huijin obtains any governmental approval, authorization or license to operate commercial banking activities directly, or obtains any other opportunities to operate commercial banking activities, Huijin will immediately relinquish such approval, authorization or license, and will not operate any commercial banking activities.	15 July 2010	Valid for long-term	Continuous commitment and duly performed

Subject of commitment	Commitment	Details of commitment	Date of commitment	Due date of commitment	Performance up to date
		(3) Notwithstanding the above provisions (1) and (2), Huijin, as a state-owned investment vehicle established by the PRC government to invest in financial/banking industry, may through its investments in other companies and in any form (including but not limited to its wholly-owned entities, joint ventures, contractual joint ventures, or through its direct or indirect ownership of shares or other interests in such companies) operate or participate in any competing commercial banking activities in China or abroad. (4) Huijin, as a state-owned investment vehicle established by the PRC government to invest in financial/banking industry, will treat its investments in commercial banks on an equal footing, and will not confer upon any commercial banks any governmental approval, authorization or license to operate commercial banking activities or any business opportunities it obtains or may obtain, nor will it take advantage of its status as a holder of our shares or the information obtained by virtue of such status to make decisions or judgments against us or in favor of other commercial banks, and will avoid such circumstances arising. It will exercise its shareholder's rights in our maximum or best interests as if we were its sole investment in a commercial bank, and will exercise its commercial judgment as our shareholder to maximize our best interests, and such judgment shall not be affected by its investments in other commercial banks.			
SSF	Lock-up commitment	The purchased shares held by the SSF are subject to a lock-up period of five years commencing on the transaction completion date or three years commencing on the pricing date of our initial public offering, whichever is longer. Prior to the first anniversary following the expiration of the lock-up period, the SSF is allowed to transfer no more than 30% in aggregate of the purchased shares (including any split shares, bonus shares and allocated shares attached thereto) and prior to the second anniversary of the expiration of the lock-up period, the SSF is allowed to transfer no more than 60% in aggregate of the purchased shares (including any split shares, bonus shares and allocated shares attached thereto), provided that our initial public offering is completed within five years following the transaction completion date.	21 April 2010	21 April 2017	Duly performed and completed

Organizational Chart




Risk Asset Disposal Dept.
Internal Control and Legal Compliance Dept./Office of Consumer Rights Protection
Security Dept.
Office/Office of Petition
Inspection and Supervision Dept./Office of the Leading Group of Inspection Work
Human Resources Dept./Office of Enterprise Annuity Council/County Area Banking/Inclusive Finance Human Resources Management Centre
Strategic Planning Dept.
Finance and Account Dept./Office of Assessment Center/County Area Banking/Inclusive Finance Accounting and Assessment Centre
Asset and Liability Management Dept./County Area Banking/Inclusive Finance Capital and Fund Management Centre
Party Affairs Dept.
Information Management Dept.
Trade Union Affairs Dept.
Technology and Product Management Office
Software Research and Development Center
Data Center
Customer Service Center
Operation Management Dept.
Corporate Culture Dept.
Institutional Services Management Office
Administrative Bureau for the Retired
Overseas branches (13)
Overseas representative offices (4)
Domestic subsidiaries (10)
Overseas subsidiaries (5)
Major Investee(1)

Domestic Institutions

- **BEIJING BRANCH**

ADD: 13 Chaoyangmen North Avenue
Dongcheng District
Beijing 100010
PRC
TEL: 010-68358266
FAX: 010-61128239

- **TIANJIN BRANCH**

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

- **HEBEI BRANCH**

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

- **SHANXI BRANCH**

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

- **INNER MONGOLIA BRANCH**

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

- **LIAONING BRANCH**

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

- **JILIN BRANCH**

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

- **HEILONGJIANG BRANCH**

ADD: 131 Xidazhi Street
Nangang District
Harbin
Heilongjiang Province 150006
PRC
TEL: 0451-86208845
FAX: 0451-86216843

- **SHANGHAI BRANCH**

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

- **JIANGSU BRANCH**

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

List of Branches and Institutions

- **ZHEJIANG BRANCH**

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

- **ANHUI BRANCH**

ADD: 448 Changjiangzhong Road
Hefei
Anhui Province 230061
PRC
TEL: 0551-62843573
FAX: 0551-62843573

- **FUJIAN BRANCH**

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

- **JIANGXI BRANCH**

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

- **SHANDONG BRANCH**

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

- **HENAN BRANCH**

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

- **HUBEI BRANCH**

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

- **HUNAN BRANCH**

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

- **GUANGDONG BRANCH**

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

- **GUANGXI BRANCH**

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

- **HAINAN BRANCH**

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

- **SICHUAN BRANCH**

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

- **CHONGQING BRANCH**

ADD: 1 Jiangbeichengnan Avenue
Jiangbei District,
Chongqing 400020
TEL: 023-63551188
FAX: 023-63844275

- **GUIZHOU BRANCH**

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

- **YUNNAN BRANCH**

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

- **TIBET BRANCH**

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

- **SHAANXI BRANCH**

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

- **GANSU BRANCH**

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

- **QINGHAI BRANCH**

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

- **NINGXIA BRANCH**

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

- **XINJIANG BRANCH**

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

- **XINJIANG PRODUCTION AND CONSTRUCTION CORPS BRANCH**

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

List of Branches and Institutions

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

• **QINGDAO BRANCH**
ADD: 19 Shandong Road
Qingdao
Shandong Province 266071
PRC
TEL: 0532-85802215
FAX: 0532-85814102

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

• **XIAMEN BRANCH**
ADD: 98-100 Jiahe Road
Siming District
Xiamen
Fujian Province 361009
PRC
TEL: 0592-5578855
FAX: 0592-5578899

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

• **TIANJIN TRAINING INSTITUTE**
ADD: 88 South Weijin Road
Nankai District
Tianjin 300381
PRC
TEL: 022-23381289
FAX: 022-23389307

• **CHANGCHUN TRAINING INSTITUTE**
ADD: 1408 Qianjin Street
Chaoyang District
Changchun
Jilin Province 130012
PRC
TEL: 0431-86822002
FAX: 0431-86822002

• **WUHAN TRAINING INSTITUTE**
ADD: 186 Zhongbei Road
Wuchang District
Wuhan
Hubei Province 430077
PRC
TEL: 027-86783669
FAX: 027-86795502

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

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

- **ABC FINANCIAL LEASING CO., LTD.**

ADD: 5-6/F, 518 East Yan'an Road
Huangpu District
Shanghai 200001
PRC
TEL: 021-20686888
FAX: 021-58958611

- **ABC LIFE INSURANCE CO., LTD.**

ADD: Block A, Minsheng Financial Center
28 Jianguomen Nei Avenue
Dongcheng District
Beijing 100005
PRC
TEL: 010-82828899
FAX: 010-82827966

- **ABC FINANCIAL ASSET INVESTMENT COMPANY LIMITED**

ADD: No.23, Fuxing Road Jia
Haidian District
Beijing 100036
PRC
TEL: 010-85102941
FAX: 010-85102985

- **ABC HUBEI HANCHUAN RURAL BANK LIMITED LIABILITY COMPANY**

ADD: 32 Xinzheng Avenue
Xinhe Town
Hanchuan
Hubei Province 431600
PRC
TEL: 0712-8412338
FAX: 0712-8412338

- **ABC HEXIGTEN RURAL BANK LIMITED LIABILITY COMPANY**

ADD: Middle Section
Jiefang Road
Jingpeng Township
Hexigten 025350
PRC
TEL: 0476-2331111
FAX: 0476-2331111

- **ABC ANSAI RURAL BANK LIMITED LIABILITY COMPANY**

ADD: Shop A-02, Jinmingmeidi Community
Yingbin Road
Ansai County
Shaanxi Province 717400
PRC
TEL: 0911-6229906
FAX: 0911-6229906

- **ABC JIXI RURAL BANK LIMITED LIABILITY COMPANY**

ADD: 340 Longchuan Avenue
Huayang Town
Jixi County
Xuancheng
Anhui Province 245300
PRC
TEL: 0563-8158913
FAX: 0563-8158916

- **ABC XIAMEN TONG'AN RURAL BANK LIMITED LIABILITY COMPANY**

ADD: No. 185-199 Zhaoyuan Community
Committee Complex Building
Zhaoyuan Road
Tong'an District
Xiamen
Fujian Province 361100
PRC
TEL: 0592-7319223
FAX: 0592-7319221

- **ABC ZHEJIANG YONGKANG RURAL BANK LIMITED LIABILITY COMPANY**

ADD: 1/F, Jinsong Building
Headquarters Center
Yongkang
Zhejiang Province 321300
PRC
TEL: 0579-87017378
FAX: 0579-87017378

Overseas Institutions

- **HONG KONG BRANCH**

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

- **SINGAPORE BRANCH**

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

- **SEOUL BRANCH**

ADD: 14F Seoul Finance Center
136, Sejong-daero, Jung-gu
Seoul 04520, Korea
TEL: 0082-2-37883900
FAX: 0082-2-37883901

- **NEW YORK BRANCH**

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

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

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

- **DUBAI BRANCH**

ADD: Office 201, Emaar Business Park Building
No.1, Dubai, UAE
TEL: 00971-45676901
FAX: 00971-45676909

- **TOKYO BRANCH**

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

- **FRANKFURT BRANCH**

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

- **SYDNEY BRANCH**

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

- **LUXEMBOURG BRANCH**

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

- **LONDON BRANCH**

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

- **MACAU BRANCH**

ADD: Avenida Doutor Mário Soares
No.300-322, Edifício Finance and
IT Center of Macau, 21 andar, em Macau
TEL: 00853-8599-5599
FAX: 00853-8599-5590

- **HANOI BRANCH**

ADD: Unit 901-907, 9th Floor, TNR Building
54A Nguyen Chi Thanh,
Lang Thuong Ward, Dong Da District,
Hanoi, Vietnam
TEL: 0084-24-39460599
FAX: 0044-24-39460587

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

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

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

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

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

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

- **ABC INTERNATIONAL HOLDINGS LIMITED**

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

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

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

- **VANCOUVER REPRESENTATIVE OFFICE**

ADD: Suite 2220, 510 W. Georgia Street,
Vancouver, BC V6B 0M3, Canada
TEL: 001-604-6828468
FAX: 001-888-3899279

- **HANOI REPRESENTATIVE OFFICE**

ADD: Unit 901-907, 9th Floor, TNR Building
54A Nguyen Chi Thanh
Lang Thuong Ward, Dong Da District
Hanoi, Vietnam
TEL: 0084-4-39460599
FAX: 0084-4-39460587

- **TAIPEI REPRESENTATIVE OFFICE**

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

- **SAO PAULO REPRESENTATIVE OFFICE**

ADD: 4/F, No.86 Sao Tome Road
(Edificio Vila Olimpia Corporate Plaza)
Jardim Paulista, Sao Paulo, Brazil
E-MAIL: adminbrazil@abchina.com

Appendix I Liquidity Coverage Ratio Information

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

Regulatory Requirements of Liquidity Coverage Ratio

In accordance with the Rules on Liquidity Risk Management of Commercial Banks (Provisional) issued by the CBRC, it is required that the liquidity coverage ratio of commercial banks should reach 100% by the end of 2018. During the transition period, the liquidity coverage ratio should reach 90% by the end of 2017. Eligible commercial banks were encouraged to fulfill the requirements in advance within the transition period. In addition, in accordance with the Rules on Disclosure for Liquidity Coverage Ratio Information of Commercial Banks issued by the CBRC, commercial banks are required to disclose the liquidity coverage ratio information at the same frequency as issuing the financial report, and to disclose the simple arithmetic average of the liquidity coverage ratios based on daily data in every quarter from 2017 and the number of daily data adopted in calculation of such average.

Liquidity Coverage Ratio

The Bank calculated the liquidity coverage ratio in accordance with the Rules on Liquidity Risk Management of Commercial Banks (Provisional) and applicable calculation requirements. The average of daily liquidity coverage ratio of the Bank was 121.2% in the fourth quarter of 2017, representing a decrease of 7 percentage points over the previous quarter. The number of days used in calculating such average was 92 days. Our high-quality liquid assets are mainly cash, central bank surplus reserves which are able to be drawn down under stress scenarios and securities fall within the definition of Level 1 and Level 2 assets under the Rules on Liquidity Risk Management of Commercial Banks (Provisional) issued by the CBRC.

Appendix I Liquidity Coverage Ratio Information

The averages of the daily liquidity coverage ratio and individual line items over the fourth quarter in 2017 are as follows:

In ten thousands of RMB, except for percentages

Item		Total Unweighted Value	Total Weighted Value
HIGH-QUALITY LIQUID ASSETS			
1	Total high-quality liquid assets (HQLA)		406,957,725
CASH OUTFLOWS			
2	Retail deposits and deposits from small business customers, of which:	987,056,022	90,479,432
3	*Stable deposits*	164,517,729	8,225,603
4	*Less Stable deposits*	822,538,293	82,253,829
5	Unsecured wholesale funding, of which:	636,320,600	261,599,512
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	185,606,804	45,105,420
7	*Non-operational deposits (all counterparties)*	447,542,096	213,322,392
8	*Unsecured debt*	3,171,700	3,171,700
9	Secured wholesale funding		1,328,800
10	Additional requirements, of which:	200,242,586	46,398,216
11	*Outflows related to derivative exposures and other collateral requirements*	32,605,913	32,605,913
12	*Outflows related to loss of funding on debt products*	–	–
13	*Credit and liquidity facilities*	167,636,673	13,792,303
14	Other contractual funding obligations	34,823,108	34,823,108
15	Other contingent funding obligations	65,428,456	1,611,463
16	TOTAL CASH OUTFLOWS		436,240,531
CASH INFLOWS			
17	Secured lending (e.g. reverse repos and borrowed securities)	19,373,873	19,217,646
18	Inflows from fully performing exposures	82,054,785	47,118,298
19	Other cash inflows	33,897,624	33,897,624
20	TOTAL CASH INFLOWS	135,326,282	100,233,568
			Total Adjusted Value
21	TOTAL HQLA		406,957,725
22	TOTAL NET CASH OUTFLOWS		336,006,963
23	LIQUIDITY COVERAGE RATIO (%)		121.2%

Appendix II Leverage Ratio Information

As at 31 December 2017, the Bank's leverage ratio, calculated in accordance with the *Rules for the Administration of the Leverage Ratio of Commercial Banks (amended)* by the CBRC, was 6.23%, above the regulatory requirement.

In millions of RMB, except for percentages

Item	**31 December 2017**	30 September 2017	30 June 2017	31 March 2017
Tier 1 capital, net	**1,419,859**	1,398,679	1,348,286	1,355,629
Adjusted on-and off-balance sheet assets	**22,791,573**	22,327,545	22,217,208	22,112,817
Leverage ratio	**6.23%**	6.26%	6.07%	6.13%

In millions of RMB

No.	Item	Balance
1	Total consolidated assets	21,053,382
2	Adjustment for consolidation	(79,836)
3	Adjustment for clients' assets	–
4	Adjustment for derivatives	4,063
5	Adjustment for securities financing transactions	–
6	Adjustment for off-balance sheet items	1,821,464
7	Other adjustments	(7,500)
8	**Adjusted on-and off-balance sheet assets**	**22,791,573**

Appendix II Leverage Ratio Information

In millions of RMB, except for percentages

No.	Item	Balance
1	On-balance sheet assets (excluding derivatives and securities financing transactions)	20,406,792
2	Less: deductions from Tier 1 capital	(7,500)
3	**Adjusted on-balance sheet assets (excluding derivatives and securities financing transactions)**	20,399,292
4	Replacement cost of all derivatives (net of eligible margin)	19,092
5	Potential exposure of all derivatives	13,254
6	Gross-up of collaterals deducted from the balance sheet	–
7	Less: receivables assets resulting from providing eligible margin	–
8	Less: derivative assets resulting from transactions with the central counterparty when providing clearance services to clients	–
9	Notional principal amount of written credit derivatives	–
10	Less: deductible amounts of written credit derivative assets	–
11	**Derivative assets**	32,346
12	Securities financing transaction assets for accounting purpose	538,471
13	Less: deductible amounts of securities financing transaction assets	–
14	Counterparty credit risk exposure for securities financing transaction	–
15	Securities financing transaction assets resulting from agent transaction	–
16	**Securities financing transaction assets**	538,471
17	Off-balance sheet items	4,301,118
18	Less: Adjustments for conversion to credit equivalent amounts	(2,479,654)
19	**Adjusted off-balance sheet items**	1,821,464
20	Tier 1 capital, net	1,419,859
21	Adjusted on-and off-balance sheet assets	22,791,573
22	**Leverage ratio**	6.23%

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

The Indicators for Assessing Global Systemic Importance of Commercial Banks

In millions of RMB

Category	Item		Balance/Amount in 2017
Size	1.	Total adjusted on- and off-balance sheet assets	22,791,573
Interconnectedness	2.	Intra-financial system assets	1,524,969
	3.	Intra-financial system liabilities	1,285,360
	4.	Securities outstanding & other financing instruments	1,854,677
Substitutability	5.	Payments activity (from the beginning of the year to the end of the reporting period)	216,834,091
	6.	Assets under custodian	10,293,143
	7.	Underwritten transactions (from the beginning of the year to the end of the reporting period)	327,452
Complexity	8.	Notional amount of OTC derivatives	2,366,049
	9.	Trading and available-for-sale securities	211,647
	10.	Level 3 assets	116,973
Global (cross-jurisdictional activity)	11.	Cross-jurisdictional claims	417,098
	12.	Cross-jurisdictional liabilities	543,208

Auditor's Report and Consolidated Financial Statements

pwc 羅兵咸永道

To the Shareholders of Agricultural Bank of China Limited

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

Opinion

What we have audited

The consolidated financial statements of Agricultural Bank of China Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 160 to 293, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

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

Key Audit Matters

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

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

- Impairment of loans and advances to customers
- Disclosure of estimated impact upon initial application of IFRS 9 – expected credit losses model
- Consolidation of structured entities

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of loans and advances to customers	
Refer to Note II 8.1, Note III 1, Note IV 8, Note IV 19 and Note IV 49.1 to the consolidated financial statements. As at 31 December 2017, the Group's gross loans and advances to customers amounted to RMB10,720.6 billion, and an allowance for impairment losses of RMB404.3 billion was recognized in the Group's consolidated statement of financial position. The impairment losses on loans and advances to customers recognized in the Group's consolidated income statement for the year ended 31 December 2017 amounted to RMB92.9 billion. Allowance for impairment losses represented management's best estimates of losses incurred on loans and advances to customers as at the balance sheet date. The allowance was computed individually or on a collective basis, where appropriate. Corporate loans were initially assessed for impairment individually by management. If identified as impaired based on objective evidence of impairment, management regularly assessed the associated allowance for impairment losses based on estimation of future cash flows from these loans. Non-impaired corporate loans and all personal loans were included in homogeneous groups with similar credit risk characteristics for impairment assessments on a collective basis. Models were used for this purpose, applying key assumptions such as, historical loss experience, loss identification period for incurred but unidentified impairment losses, macro-economic, industry and geographical factors. Management assessed these key assumptions on a periodic basis, and made adjustments where deemed appropriate. We focused on the impairment assessment of loans and advances to customers due to the significant management judgments made during the impairment identification and assessment processes.	We evaluated and tested the design and operating effectiveness of the relevant controls over the impairment assessments and impairment allowance computations for loans and advances to customers. These controls implemented primarily comprised the regular review and approval of: (1) the results of credit assessments to ascertain whether objective evidence of impairment had been timely identified; (2) the valuation of collaterals; (3) the estimated future cash flows and calculations of present values of such cash flows for impaired loans identified individually; and (4) the collective impairment computations, including appropriateness of the models used, data inputs and key assumptions and changes thereof. We also tested IT controls over the information systems for these models. We performed independent credit reviews on selected samples, with reference to available financial information of borrowers and guarantors, latest collateral valuations, and relevant external evidence and factors, to ascertain whether management's identification of impaired loans was appropriate. For impaired loans identified individually, we examined, on a sample basis, forecasted future cash flows prepared by the Group based on financial information of borrowers and guarantors, latest collateral valuations and other available information together with discount rates in supporting the computation of impairment allowance.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of loans and advances to customers (Continued)	For collectively assessed impairment allowance, we assessed the appropriateness of the impairment models used with reference to our industry knowledge. We also performed independent assessment on the parameters and inputs used in the impairment models, including evaluating accuracy and completeness of source data, appropriateness of loan segmentation by risk characteristics, appropriateness of key inputs and assumptions such as historical loss experience, macro-economic factors, other risk factors and parameters as well as adjustments made thereof. We discussed with management and scrutinized the appropriateness of those key assumptions applied in management's impairment assessment, and compared them with available external evidence where necessary. We also applied sensitivities to the underlying key assumptions. Based on our procedures performed, in the context of the inherent uncertainties associated with impairment assessments, the assessment approaches, methodologies and key assumptions adopted by management were considered acceptable.

Key Audit Matter	How our audit addressed the Key Audit Matter
Disclosure of estimated impact upon initial application of IFRS 9 – expected credit losses model	
Refer to Note II 1.2 (3) to the consolidated financial statements. International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8") requires disclosure in the financial statements of the reasonably estimable information relevant to assessing the possible impact of new standards issued but not yet effective. International Financial Reporting Standard 9: Financial Instruments ("IFRS 9" or "the standard") took effect on 1 January 2018 and its adoption is expected to reduce the Group's total equity as at 1 January 2018 by less than 2%, mainly due to the application of the expected credit losses measurement models ("ECL models") in determining the loan loss reserve on its loans and advances to customers measured at amortized cost, certain loan commitments and financial guarantee contracts. The implementation of IFRS 9 requires the Group to make considerable judgements, assumptions, and interpretations of the standard and requires the use of new parameters in the development of new models to estimate the loan loss reserve on loans and advances to customers measured at amortized costs, certain loan commitments and financial guarantee contracts using the expected credit losses concept. The Group has developed new governance and controls in relation to the implementation of IFRS 9 and the disclosure of the estimated impact. The Group's estimation of the possible impact upon initial application of IFRS 9 is a highly complex process and involves significant management judgments and interpretations, and accordingly, we included this as a key audit matter.	We performed the following procedures to assess the reasonableness of the Group's disclosed possible impact of the initial adoption of IFRS 9: (1) Understood the relevant controls over the selection and approval of the accounting policies and modelling methodologies; (2) Obtained an understanding of ECL model methodologies and development processes through review of documentation and discussion with management and the Group's credit modelling experts. With the support of our credit loss and modelling specialists, we assessed the reasonableness of the major data inputs; and judgements, interpretations and assumptions made by management; (3) Examined the major data inputs to the ECL models on a sample basis to assess their accuracy and completeness; and (4) Gained an understanding of the Group's key processes over the preparation of the disclosure made in accordance with IAS 8 and inspected the related approval documentation. Based on the procedures we have performed, the estimated impact upon initial application of IFRS 9 disclosed by the Group is acceptable.

Key Audit Matter	How our audit addressed the Key Audit Matter
Consolidation of structured entities Refer to Note II 2, Note III 6 and Note IV 46 to the consolidated financial statements. Structured entities primarily included Wealth Management Products ("WMPs"), securitization products, funds, trust investment plans and asset management plans issued, managed and/or invested by the Group. As at 31 December 2017, total assets of the consolidated structured entities and the carrying amount of unconsolidated structured entities invested by the Group included in the consolidated statement of financial position amounted to RMB482.44 billion and RMB45.23 billion, respectively. In addition, as at 31 December 2017, total assets of non-principal guaranteed WMPs sponsored and managed by the Group which were not consolidated and not included in the consolidated statement of financial position amounted to RMB1,580.53 billion. Management had determined that the Group had control of certain structured entities based on their assessment of the Group's power over, its exposure to variable returns from its involvement with, and its ability to use its power to affect the amount of its returns from these structured entities. The significant judgement exercised by management in assessing whether the Group had control of structured entities and the amount of such structured entities resulted in this matter being identified as a key area of audit focus.	We evaluated and tested the design and operating effectiveness of the Group's relevant controls over consolidation assessment of structured entities, including approval of transaction structure, review and approval of contractual terms, variable return computations, and consolidation assessment results. We selected samples of structured entities and assessed the Group's contractual rights and obligations in light of the transaction structures, and evaluated the Group's power over the structured entities. We performed independent analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned by the Group as the asset manager, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities. We also assessed whether the Group acted as a principal or an agent, through analysis of the scope of the Group's decision-making authority over the sampled structured entities, the remuneration to which the Group was entitled for asset management services, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities. Based on the procedures performed, we found management's consolidation judgment of these structured entities acceptable.

Other Information

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

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

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

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

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ho Shuk Ching, Margarita.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2018

Consolidated Income Statement

For the year ended 31 December 2017
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes IV	Year ended 31 December 2017	2016
Interest income	1	**713,699**	657,190
Interest expense	1	**(271,769)**	(259,086)
Net interest income	1	**441,930**	398,104
Fee and commission income	2	**85,257**	100,819
Fee and commission expense	2	**(12,354)**	(9,884)
Net fee and commission income	2	**72,903**	90,935
Net trading (loss)/gain	3	**(8,829)**	5,457
Net loss on financial instruments designated at fair value through profit or loss	4	**(3,244)**	(1,291)
Net gain on investment securities		**136**	920
Other operating income	5	**40,002**	16,003
Operating income		**542,898**	510,128
Operating expenses	6	**(205,268)**	(197,049)
Impairment losses on assets	8	**(98,166)**	(86,446)
Operating profit		**239,464**	226,633
Share of result of associate	24	**14**	(9)
Profit before tax		**239,478**	226,624
Income tax expense	9	**(46,345)**	(42,564)
Profit for the year		**193,133**	184,060
Attributable to:			
Equity holders of the Bank		**192,962**	183,941
Non-controlling interests		**171**	119
		193,133	184,060
Earnings per share attributable to the ordinary equity holders of the Bank (expressed in RMB yuan per share) – Basic and diluted	11	**0.58**	0.55

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017
(Amounts in millions of Renminbi, unless otherwise stated)

	Year ended 31 December	
	2017	2016
Profit for the year	**193,133**	184,060
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Fair value changes on available-for-sale financial assets	**(31,443)**	(25,552)
Income tax impact for fair value changes on available-for-sale financial assets	**7,588**	6,384
Foreign currency translation differences	**(1,657)**	1,788
Other comprehensive income, net of tax	**(25,512)**	(17,380)
Total comprehensive income for the year	**167,621**	166,680
Total comprehensive income attributable to:		
Equity holders of the Bank	**168,037**	166,878
Non-controlling interests	**(416)**	(198)
	167,621	166,680

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

Consolidated Statement of Financial Position

As at 31 December 2017
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes IV	As at 31 December 2017	2016
Assets			
Cash and balances with central banks	12	**2,896,619**	2,811,653
Deposits with banks and other financial institutions	13	**130,245**	622,665
Precious metals		**32,008**	59,105
Placements with and loans to banks and other financial institutions	14	**505,269**	580,949
Financial assets held for trading	15	**194,640**	123,618
Financial assets designated at fair value through profit or loss	16	**383,325**	294,337
Derivative financial assets	17	**28,284**	31,460
Financial assets held under resale agreements	18	**540,386**	323,051
Loans and advances to customers	19	**10,316,311**	9,319,364
Available-for-sale financial assets	20	**1,426,420**	1,408,881
Held-to-maturity investments	21	**3,489,135**	2,882,152
Debt instruments classified as receivables	22	**659,223**	624,547
Investments in associate	24	**227**	213
Property and equipment	25	**155,258**	158,669
Goodwill	23	**1,381**	1,381
Deferred tax assets	26	**97,751**	83,187
Other assets	27	**196,900**	244,829
Total assets		**21,053,382**	19,570,061
Liabilities			
Borrowings from central banks	28	**465,947**	291,052
Deposits from banks and other financial institutions	29	**974,730**	1,156,044
Placements from banks and other financial institutions	30	**280,061**	302,021
Financial liabilities held for trading	31	**21,118**	17,504
Financial liabilities designated at fair value through profit or loss	32	**370,654**	283,666
Derivative financial liabilities	17	**30,872**	20,758
Financial assets sold under repurchase agreements	33	**319,789**	205,832
Due to customers	34	**16,194,279**	15,038,001
Debt securities issued	35	**475,017**	388,215
Deferred tax liabilities	26	**87**	58
Other liabilities	36	**491,431**	545,319
Total liabilities		**19,623,985**	18,248,470

Consolidated Statement of Financial Position

As at 31 December 2017
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes IV	As at 31 December 2017	2016
Equity			
Ordinary shares	37	**324,794**	324,794
Preference shares	38	**79,899**	79,899
Capital reserve	39	**98,773**	98,773
Investment revaluation reserve	40	**(19,690)**	3,578
Surplus reserve	41	**134,348**	115,136
General reserve	42	**230,750**	198,305
Retained earnings		**577,573**	496,083
Foreign currency translation reserve		**(32)**	1,625
Equity attributable to equity holders of the Bank		**1,426,415**	1,318,193
Non-controlling interests		**2,982**	3,398
Total equity		**1,429,397**	1,321,591
Total equity and liabilities		**21,053,382**	19,570,061

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

Approved and authorized for issue by the Board of Directors on 26 March 2018.

Chairman

Vice Chairman

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017
(Amounts in millions of Renminbi, unless otherwise stated)

		Total equity attributable to equity holders of the Bank										
	Notes IV	Ordinary shares	Preference shares	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Foreign currency translation reserve	Subtotal	Non-controlling interests	Total
As at 1 January 2017		**324,794**	**79,899**	**98,773**	**3,578**	**115,136**	**198,305**	**496,083**	**1,625**	**1,318,193**	**3,398**	**1,321,591**
Profit for the year		–	–	–	–	–	–	**192,962**	–	**192,962**	**171**	**193,133**
Other comprehensive income		–	–	–	**(23,268)**	–	–	–	**(1,657)**	**(24,925)**	**(587)**	**(25,512)**
Total comprehensive income for the year		–	–	–	**(23,268)**	–	–	**192,962**	**(1,657)**	**168,037**	**(416)**	**167,621**
Appropriation to surplus reserve	41	–	–	–	–	**19,212**	–	**(19,212)**	–	–	–	–
Appropriation to general reserve	42	–	–	–	–	–	**32,445**	**(32,445)**	–	–	–	–
Dividends paid to ordinary equity holders	10	–	–	–	–	–	–	**(55,215)**	–	**(55,215)**	–	**(55,215)**
Dividends paid to preference shareholders	10	–	–	–	–	–	–	**(4,600)**	–	**(4,600)**	–	**(4,600)**
As at 31 December 2017		**324,794**	**79,899**	**98,773**	**(19,690)**	**134,348**	**230,750**	**577,573**	**(32)**	**1,426,415**	**2,982**	**1,429,397**
As at 1 January 2016		324,794	79,899	98,773	22,429	96,748	175,606	412,005	(163)	1,210,091	1,794	1,211,885
Profit for the year		–	–	–	–	–	–	183,941	–	183,941	119	184,060
Other comprehensive income		–	–	–	(18,851)	–	–	–	1,788	(17,063)	(317)	(17,380)
Total comprehensive income for the year		–	–	–	(18,851)	–	–	183,941	1,788	166,878	(198)	166,680
Capital contribution from equity holders	23	–	–	–	–	–	–	–	–	–	1,843	1,843
Appropriation to surplus reserve	41	–	–	–	–	18,388	–	(18,388)	–	–	–	–
Appropriation to general reserve	42	–	–	–	–	–	22,699	(22,699)	–	–	–	–
Dividends paid to ordinary equity holders	10	–	–	–	–	–	–	(54,176)	–	(54,176)	–	(54,176)
Dividends paid to preference shareholders	10	–	–	–	–	–	–	(4,600)	–	(4,600)	–	(4,600)
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	–	(41)	(41)
As at 31 December 2016		324,794	79,899	98,773	3,578	115,136	198,305	496,083	1,625	1,318,193	3,398	1,321,591

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2017
(Amounts in millions of Renminbi, unless otherwise stated)

	Year ended 31 December 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**239,478**	226,624
Adjustments for:		
Amortization of intangible assets and other assets	**2,826**	2,773
Depreciation of property and equipment	**15,453**	16,264
Impairment losses on assets	**98,166**	86,446
Interest income arising from investment securities	**(195,994)**	(167,287)
Interest income arising from impaired loans and advances to customers	**(1,430)**	(2,209)
Interest expense on debt securities issued	**13,772**	12,133
Revaluation loss/(gain) on financial instruments at fair value through profit or loss	**18,196**	(7,137)
Net gain on investment securities	**(136)**	(920)
Share of result of associate	**(14)**	9
Net gain on disposal of property, equipment and other assets	**(941)**	(209)
Net foreign exchange loss/(gain)	**5,178**	(13,797)
	194,554	152,690
Net change in operating assets and operating liabilities:		
Net decrease/(increase) in balances with central banks, deposits with banks and other financial institutions	**265,819**	(89,447)
Net decrease/(increase) in placements with and loans to banks and other financial institutions	**158,332**	(140,250)
Net decrease in financial assets held under resale agreements	**17,527**	156,406
Net increase in loans and advances to customers	**(1,135,665)**	(939,134)
Net increase in borrowings from central banks	**174,895**	230,453
Net decrease in placements from banks and other financial institutions	**(21,960)**	(13,738)
Net increase in due to customers and deposits from banks and other financial institutions	**974,964**	1,433,784
Increase in other operating assets	**(102,722)**	(56,173)
Increase in other operating liabilities	**144,479**	40,995
Cash from operations	**670,223**	775,586
Income tax paid	**(36,806)**	(59,613)
NET CASH FROM OPERATING ACTIVITIES	**633,417**	715,973

Consolidated Statement of Cash Flows

For the year ended 31 December 2017
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes IV	Year ended 31 December 2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from disposal/redemption of investment securities		**1,920,667**	1,261,234
Cash received from interest income arising from investment securities		**189,384**	154,753
Cash received from disposal of property, equipment and other assets		**2,138**	2,287
Cash paid for purchase of investment securities		**(2,577,239)**	(2,039,374)
Cash paid for purchase of property, equipment and other assets		**(16,011)**	(22,637)
NET CASH USED IN INVESTING ACTIVITIES		**(481,061)**	(643,737)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash received from debt securities issued		**676,543**	699,446
Capital contribution from non-controlling interests		**–**	1,843
Cash payments for transaction cost of debt securities issued		**(35)**	(51)
Repayments of debt securities issued		**(579,791)**	(705,293)
Cash payments for interest on debt securities issued		**(10,564)**	(12,109)
Dividends paid to:			
Ordinary equity holders		**(55,215)**	(54,176)
Preference shareholders		**(4,600)**	(4,600)
Non-controlling interests		**–**	(41)
NET CASH FROM/(USED IN) FINANCING ACTIVITIES		**26,338**	(74,981)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**178,694**	(2,745)
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY		**827,698**	821,969
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(5,146)**	8,474
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	43	**1,001,246**	827,698
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		**512,568**	464,635
Interest paid		**(258,761)**	(243,275)

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

I GENERAL INFORMATION

Agricultural Bank of China Limited (the "Bank") is the successor entity to the Agricultural Bank of China (the "Predecessor Entity") which was a wholly state-owned commercial bank approved for setup by the People's Bank of China (the "PBOC") and founded on 23 February 1979 in the People's Republic of China (the "PRC"). On 15 January 2009, the Bank was established after the completion of the financial restructuring of the Predecessor Entity. The Bank's establishment was authorized by the PBOC. The Bank was listed on the Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited on 15 July 2010 and 16 July 2010, respectively.

The Bank operates under financial services certificate No. B0002H111000001 issued by the China Banking Regulatory Commission (the "CBRC"), and business license No. 911100001000054748 issued by Beijing Administration of Industry and Commerce. The registered office of the Bank is located at No. 69 Jianguomen Nei Avenue, Dongcheng District, Beijing, the PRC.

The principal activities of the Bank and its subsidiaries (collectively, the "Group") include Renminbi ("RMB") and foreign currency deposits, loans, clearing and settlement services, assets custodian services, fund management, financial leasing services, insurance services and other services as approved by relevant regulators, and the provision of related services by its overseas establishments as approved by the respective local regulators.

The head office and domestic branches of the Bank and its subsidiaries operating in the Mainland China are referred to as the "Domestic Operations". Branches and subsidiaries registered and operating outside of the Mainland China are referred to as the "Overseas Operations".

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1 Basis of preparation

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), as issued by the International Accounting Standards Board ("IASB"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance (Cap.622) for this financial year and the comparative period.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of consideration given in exchange for assets and that is received (or in some circumstances the amount expected to be paid) with respect to liabilities.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note III.

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.1 Amendments to the accounting standards effective in 2017 relevant to and adopted by the Group

The following amendments have been adopted by the Group for the first time during the financial year ended 31 December 2017.

(1)	Amendments to IAS 12	Income Taxes
(2)	Amendments to IAS 7	Statement of Cash Flows
(3)	Amendments to IFRS 12	Disclosure of Interests in Other Entities – included in the Annual Improvements to IFRSs 2014 – 2016 Cycle

(1) Amendments to IAS 12: Income Taxes

The IASB has issued amendments to IAS 12 – Income taxes. These amendments on the recognition of deferred tax assets for unrealized losses clarify how to account for deferred tax assets related to debt instruments measured at fair value.

(2) Amendments to IAS 7: Statement of Cash Flows

The IASB has issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

(3) Amendments to IFRS 12: Disclosure of Interests in Other Entities – included in the Annual Improvements to IFRSs 2014 – 2016 Cycle

These amendments clarify the scope of IFRS 12 by specifying that the disclosure requirements, except for those summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interests which are classified as held for sale or discontinued operations in accordance with IFRS 5.

The adoption of the above amendments does not have a significant impact on the operating results, comprehensive income and financial position of the Group.

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2017

The Group has not adopted the following new and amended standards that have been issued but are not yet effective.

			Effective for annual periods beginning on or after
(1)	Amendments to IAS 28	Investments in Associates and Joint Ventures – included in the Annual Improvements to IFRSs 2014 – 2016 Cycle	1 January 2018
(2)	IFRS 15	Revenue from Contracts with Customers	1 January 2018
(3)	IFRS 9	Financial Instruments	1 January 2018
(4)	Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
(5)	Amendments to IAS 40	Transfer of Investment Property	1 January 2018
(6)	IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
(7)	IFRS 16	Leases	1 January 2019
(8)	IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
(9)	Amendments to IFRS 9	Prepayment Features with Negative Compensation and Modifications of Financial Liabilities	1 January 2019
(10)	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	The Annual Improvements to IFRSs 2015 – 2017 Cycle	1 January 2019
(11)	IFRS 17	Insurance Contracts	1 January 2021
(12)	Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/ removed.

(1) Amendments to IAS 28: Investments in Associates and Joint Ventures – included in the Annual Improvements to IFRSs 2014 – 2016 Cycle

These amendments clarify that the election to measure investees at fair value through profit or loss is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2017 (Continued)

(2) IFRS 15: Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a 5-step approach. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes' to an 'asset-liability' approach based on transfer of control. IFRS 15 provides specific guidance on capitalization of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The Group anticipates that the adoption of this new standard will not have a significant impact on the Group's consolidated financial statements.

(3) IFRS 9: Financial Instruments

The complete version of IFRS 9 – Financial instruments was issued in July 2014, which introduces the classification and measurements, impairment and hedge accounting to replace the guidance in IAS 39 – Financial Instruments: Recognition and Measurement.

IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI in which case the accumulated fair value changes in OCI will not be recycled to the profit or loss in the future.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit losses ("ECL") model, as opposed to an incurred credit loss model under IAS 39. The impairment requirements apply to debt financial assets measured at amortized cost and FVOCI, certain loan commitments and financial guarantee contracts. At initial recognition, impairment allowance (or provision in the case of commitments and guarantees) is required for ECL resulting from default events that are possible within the next 12 months ("12-month ECL"). In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ("lifetime ECL"). Financial assets where 12-month ECL is recognized are considered to be "stage 1"; financial assets which are considered to have experienced a significant increase in credit risk are in "stage 2"; and financial assets for which there is objective evidence of impairment, so are considered to be in default or otherwise credit impaired are in "stage 3".

The assessment of credit risk and the estimation of ECL are required to be unbiased and probabilityweighted, and should incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2017 (Continued)

(3) IFRS 9: Financial Instruments (Continued)

The new hedge accounting rules will align the accounting for hedging instruments more closely with the group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

Impact analysis from the adoption of IFRS 9 on 1 January 2018

In order to assess the potential impact on the Group's financial statements resulting from the adoption of IFRS 9, the Group developed the expected loss model and analyzed changes to the credit risk of financial assets. The Group has also performed analysis of business models and cash flow characteristics in the contract terms of its investments and other financial instruments, and completed the classification of its existing financial assets under IFRS 9. The adoption of IFRS 9 is expected to reduce the Group's total equity as at 1 January 2018 by less than 2%, mainly due to the application of the ECL model in determining the loan loss reserve on its loans and advances to customers measured at amortized cost, certain loan commitments and financial guaranteed contracts. These estimates are based on accounting policies, assumptions, judgements and modeling techniques that remain subject to further enhancement and calibrations in 2018.

The requirements of IFRS 9 took effect on 1 January 2018. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The Group does not intend to restate comparatives.

For the hedge accounting, the group has assessed that its current hedge relationships will qualify as continuing hedges upon the adoption of IFRS 9.

(4) Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

On 12 September 2016, the IASB issued amendments to IFRS 4, Insurance Contracts. Applying IFRS 9 Financial Instruments with IFRS 4, which provide two alternative measures to address the different effective dates of IFRS 9 and the new insurance contracts standard IFRS 17. These measures include a temporary option for companies whose activities are predominantly connected with insurance to defer the effective date of IFRS 9 to 1 January 2021, as well as an approach that allows an entity to remove from profit or loss the effects of certain accounting mismatches that may occur before the new insurance contracts standard IFRS 17 is applied. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(5) Amendments to IAS 40: Transfer of Investment Property

On 8 December 2016, the IASB issued amendments to IAS 40 – Transfer of Investment Property. These amendments specify that an entity shall transfer a property to, or from, investment property when, and only when, there is a change in use of a property supported by evidence that a change in use has occurred. They also clarify that the list of circumstances set out in IAS 40 is non-exhaustive list of examples of evidence that a change in use has occurred instead of an exhaustive list. The examples have been expanded to include assets under construction and development and not only transfers of completed properties. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 *Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2017 (Continued)*

(6) IFRIC 22: Foreign Currency Transactions and Advance Consideration

The IASB issued IFRIC 22 Foreign Currency Transactions and Advance Consideration, to clarify the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency. The Group anticipates that the adoption of this interpretation will not have a significant impact on the Group's consolidated financial statements.

(7) IFRS 16: Leases

The standard will affect primarily the accounting for the Group's operating leases when the Group is the lessee. As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB11,939 million (see Note IV 47 Contingent Liabilities and Commitments). The Group has not yet determined to what extent these commitments will result in the recognition of right-of-use assets and liabilities for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

(8) IFRIC 23: Uncertainty over Income Tax Treatments

In June 2017 the IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to clarify how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The Group anticipates that the adoption of this interpretation will not have a significant impact on the Group's consolidated financial statements.

(9) Amendments to IFRS 9: Prepayment Features with Negative Compensation and Modifications of Financial Liabilities

On 12 October 2017, the IASB issued amendments to IFRS 9: Prepayment Features with Negative Compensation and Modifications of Financial Liabilities. These amendments permit more assets to be measured at amortized cost than under the previous version of IFRS 9, in particular some prepayable financial assets. These amendments also clarify the accounting for a modification or exchange of a financial liability measured at amortized cost that does not result in the derecognition of the financial liability. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(10) Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23: The Annual Improvements to IFRSs 2015 – 2017 Cycle

The Annual Improvements to IFRSs 2015-2017 Cycle include a number of amendments to various IFRSs, including the amendments to IFRS 3 – Business Combinations, the amendments to IFRS 11 – Joint Arrangements, the amendments to IAS 12 – Income taxes and IAS 23 – Borrowing Costs. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 *Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2017* (Continued)

(11) *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 recognized as revenue over the coverage period.

The standard allows a choice between recognizing 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 new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The Group has not completed its assessment of the impact on the Group's operating results and financial position of adopting IFRS 17.

(12) *Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture*

The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture.

A full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2 Consolidation

Basis of consolidation

The consolidated financial statements include the financial statements of the Bank and the subsidiaries as well as structured entities controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date on which control ceases, respectively.

Adjustments are made to the financial statements of subsidiaries, where appropriate, to consistently reflect the accounting policies of the Group.

All intra-group transactions, balances and unrealized gains on transactions are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

Non-controlling interests of consolidated subsidiaries are presented separately from the controlling party's equity therein.

The carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Further, total comprehensive income of a subsidiary is attributed, based on the proportion of their respective holdings, to the equity holders of the Bank and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

In the Bank's statement of financial position, its investments in subsidiaries are stated at cost, less impairment losses, if any.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair value of the assets transferred by the Group, liabilities incurred or assumed by the Group, and any equity interests issued by the Group. Acquisition related costs are recognized in the consolidated income statement as incurred.

At the acquisition date, irrespective of non-controlling interests, the identifiable assets acquired and liabilities and contingent liabilities assumed are recognized at their fair values; except that deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 – Income Taxes and IAS 19 – Employee Benefits, respectively.

Goodwill is measured as the excess of the difference between (i) the consideration transferred, the fair value of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) and (ii) the net fair value of the identifiable assets acquired and the liabilities and contingent liabilities incurred or assumed.

Non-controlling interests that represent ownership interests in the acquiree, and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are accounted for at either fair value or the non-controlling interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2 Consolidation (Continued)

Goodwill

Goodwill represents the excess of the cost of an acquisition less the fair value of the Group's share of the net identifiable assets of acquired subsidiaries and associates at the date of acquisition. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill on acquisition of associates is included in investment in associates.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU") or groups of CGUs that is expected to benefit from the synergies of the business combination.

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

A CGU to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the CGU, which is the higher of fair value less costs to sell and value in use, is less than its carrying amount, the deficit, reflecting an impairment loss, is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU on a pro-rata basis, based on the carrying amount of each asset in the CGU. Any goodwill impairment loss is recognized directly in the consolidated income statement. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Investment in associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not constitute control or joint control over those policy decisions.

The post-acquisition profit or loss of an associate is incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of loss of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further loss. Additional loss is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

At the end of each reporting period, the Group considers whether there are circumstances that indicate the possibility of impairment of the Group's investment in an associate; when that is the case, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 – Impairment of Assets, as a single asset by comparing its recoverable amount (the higher of fair value less costs to sell and value in use) with its carrying amount, any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of an impairment loss is recognized, to the extent that the recoverable amount of the investment subsequently increases.

When an entity in the Group transacts with the Group's associate, profits and losses resulting from the transaction are recognized in the Group's consolidated financial statements only to the extent of the interest in the associate that are not related to the Group. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3 Interest income and expense

Interest income and expense for all interest-earning financial assets and interest-bearing financial liabilities are recognized as interest income and interest expense in the consolidated income statement using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating the interest income or expense over the period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount on initial recognition. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees and interest paid or received that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Interest income on an impaired financial asset or a group of impaired similar financial assets is recognized using the original interest rate which was used to discount the future cash flows for the purpose of measuring the impairment loss.

4 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a specified period of time, fee and commission income is accrued over that period as the services are provided. For other services, fee and commission income are recognized at the time the services are completed.

5 Foreign currency transactions

The functional currency of the Domestic Operations is RMB. The presentation currency of the Group and the Bank is RMB.

In preparing the financial statements of each individual Group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in the consolidated income statement in the period in which they arise, except for the following:

(i) exchange differences arising on a monetary item that forms part of the Bank's net investment in the Overseas Operations;

(ii) changes in the fair value of monetary assets denominated in foreign currency classified as available for sale are analyzed between translation differences resulting from changes in the amortized cost of the monetary assets and other changes in the carrying amount. Translation differences related to changes in the amortized cost are recognized in the consolidated income statement, and other changes in the carrying amount are recognized in other comprehensive income.

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated income statement for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which cases, the exchange differences are also recognized directly in other comprehensive income.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5 Foreign currency transactions (Continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's Overseas Operations are translated into the presentation currency of the Group at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at exchange rates at the date of the transactions, or a rate that approximates the exchange rates of the date of the transaction. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the foreign currency translation reserve and non-controlling interests, as appropriate. The accumulated foreign currency translation reserve related to the Overseas Operations will be reclassified from equity to the consolidated income statement on disposal of all or part of the Overseas Operations.

6 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax assets and liabilities are not recognized for temporary difference related to goodwill or the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that the temporary difference will not reverse in the foreseeable future or it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognized in the consolidated income statement, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognized in other comprehensive income or directly in equity, respectively.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6 Taxation (Continued)

Deferred tax (Continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Value-added Taxes ("VAT")

The Group's interest income, fee and commission income, trading gain on financial products and insurance premium income are presented net of their respective VAT in the consolidated financial statements.

In accordance with "Circular regarding the Value-added Taxes Policies for Financial, Real Estate Development and Education Ancillary and Other Services" (Cai Shui [2016] No. 140), the "Supplementary Circular regarding Issues concerning Value-added Taxes Policies for Asset Management Products" (Cai Shui [2017] No. 2) and the "Circular on the Relevant Issues concerning Value-added Tax Levied on Asset Management Products" (Cai Shui [2017] No. 56), the Group shall pay VAT at 3% for taxable asset management activities undertaken after 1 January 2018.

7 Employee benefits

Employee benefits are all forms of consideration given and other relevant expenditure incurred by the Group in exchange for services rendered by employees or for termination of the employment contracts. These benefits include short-term employee benefits, post-employment benefits and early retirement benefits.

Short-term employee benefits

In the reporting period in which an employee has rendered services, the Group recognizes the short-term employee benefits payable for those services as a liability with a corresponding increase in the expenses in the consolidated income statement. Short-term employee benefits include salaries, bonuses, allowance and subsidies, staff welfare, medical insurance, employment injury insurance, maternity insurance, housing funds as well as labor union fees and staff education expenses.

Post-employment benefits

The Group's post-employment benefits are primarily the payments for basic pensions and unemployment insurance related to government mandated social welfare programs, as well as the annuity scheme established. All these post-employment benefits are defined contribution plans, under which, the Group makes fixed contributions into a separate fund and will have no legal or constructive obligation to make further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods.

Contributions to the basic pensions and unemployment insurance plan are recognized in the consolidated income statement for the period in which the related payment obligation is incurred.

The employees of the Bank's head office and domestic branches ("Domestic Institutions") participate in an annuity scheme established by the Bank (the "Annuity Scheme"). The Bank pays annuity contributions with reference to employees' salaries, and such contributions are expensed in the consolidated income statement when incurred. The Bank has no further obligation if the Annuity Scheme does not have sufficient assets for the payment of any retirement benefits to employees funded by the Annuity Scheme.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

7 Employee benefits (Continued)

Early retirement benefits

Early retirement benefits have been paid to those employees who accept voluntary retirement before the normal retirement date, as approved by management. The related benefit payments are made from the date of early retirement to the normal retirement date.

The accounting treatment of the Group's early retirement benefits is in accordance with termination benefits as determined in IAS 19. The liability is recognized for the early retirement benefit payments from the date of early retirement to the normal retirement date when the criteria for recognition as termination benefit is met with a corresponding charge in the consolidated income statement. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognized in the consolidated income statement when incurred.

8 Financial instruments

Financial assets and liabilities are recognized in the consolidated statement of financial position and classified into one of the categories presented below. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or liabilities, respectively, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or liabilities at fair value through profit or loss are recognized immediately in the consolidated income statement.

8.1 Financial assets

The Group's financial assets are classified into four categories – financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity investments, available-for-sale financial assets and, loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss

Financial assets at FVTPL have two subcategories – financial assets held for trading and those designated at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of sale in the near future; or
- it forms part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative instrument that is not designated and effective as a hedging instrument.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.1 Financial assets (Continued)

Financial assets at fair value through profit or loss (Continued)

A financial asset other than a financial asset held for trading may be designated at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 – Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated at FVTPL.

Financial assets at FVTPL are stated at fair value, with changes in fair value arising from re-measurement recognized directly in the consolidated income statement in the period in which they arise.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets, quoted in an active market, with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method, less any impairment losses.

Financial assets classified as loans and receivables primarily include deposits with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets held under resale agreements, loans and advances to customers, and specified debt securities.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as such or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognized in other comprehensive income and accumulated in the investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to the consolidated income statement.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.1 Financial assets (Continued)

Available-for-sale financial assets (Continued)

Equity investments classified as available-for-sale that do not have a quoted price in an active market and whose fair value cannot be reliably determined are measured at cost, less any impairment losses, at the end of each reporting period.

Interest income related to financial assets classified as available-for-sale debt instruments is calculated using the effective interest method and recorded as an element of interest income in the consolidated income statement. Dividends on available-for-sale equity instruments are recognized in the consolidated income statement when the Group's right to receive such payments is established.

Impairment of financial assets

Financial assets, other than those classified as FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated future cash flows of the financial assets have been adversely affected.

A significant or prolonged decline in the fair value of an equity investment classified as available-for-sale below its cost is considered to be objective evidence of impairment.

For all other financial assets, the objective evidence of impairment could include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets, although the decrease cannot yet be attributed to individual financial assets in the portfolio:
  - adverse changes in the payment status of borrowers in the portfolio; and
  - national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists individually for all corporate loans, debt instruments classified as receivables, available-for-sale financial assets and held-to-maturity investments, and collectively for the remainder of financial assets (other than those at fair value through profit or loss). If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses it for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in collective assessment of impairment.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.1 Financial assets (Continued)

Impairment of financial assets carried at amortized cost

For financial assets carried at amortized cost, an impairment loss is recognized in the consolidated income statement when there is objective evidence that the assets are impaired. The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. For financial assets with variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that are expected to result from foreclosure, less the cost of obtaining and selling the collateral.

The carrying amount of an impaired financial asset is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated income statement. When a financial asset is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, such as an improvement in the debtor's credit rating, the previously recognized impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Impairment of financial assets classified as available-for-sale

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

When a decline in the fair value of a financial asset classified as available-for-sale has been recognized directly in other comprehensive income and accumulated in the investment revaluation reserve, and there is objective evidence that asset is impaired, the cumulative losses previously recognized in other comprehensive income are reclassified to the consolidated income statement in the period in which the impairment takes place.

An impairment loss on an equity investment classified as available-for-sale, and carried at fair value, is not reversed through the consolidated income statement in subsequent periods. Any increase in fair value subsequent to impairment loss is recognized directly in other comprehensive income and accumulated in the investment revaluation reserve. An impairment loss on an equity investment classified as available-for-sale equity investment, and carried at cost, is not reversed. An impairment loss on a debt investment classified as available-for-sale is subsequently reversed through the consolidated income statement if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.2 Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument in IAS 39 and IAS 32, respectively.

The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities, carried at amortized cost.

Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL have two subcategories, including financial liabilities held for trading and those designated at FVTPL on initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments.

The criteria for a financial liability designated at FVTPL is the same as those for a financial asset designated at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with changes in fair value arising on re-measurement recognized directly in the consolidated income statement in the period in which they arise.

Other financial liabilities

Other financial liabilities are measured at amortized cost, using the effective interest method.

8.3 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

A financial instrument is an equity instrument if, and only if, both conditions (i) and (ii) below are met:

(i) The financial instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; and

(ii) If the financial instrument will or may be settled in the Group's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

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

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.4 Derivative financial instruments

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured at their fair value at the end of the reporting period. The resulting gain or loss is recognized in the consolidated income statement.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their characteristics and risks are not clearly and closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognized in the consolidated income statement. These embedded derivatives are separately accounted for at FVTPL.

8.5 Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes listed equity securities and quoted debt instruments on major exchanges.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

8.6 De-recognition

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and, where applicable, the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in the consolidated income statement.

Financial liabilities are derecognized when the related obligation is discharged, is cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in the consolidated income statement.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8 Financial instruments (Continued)

8.7 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when both of the following conditions are satisfied: (i) the Group has a legal right to set off the recognized amounts and the legal right is currently enforceable; and (ii) the Group intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

8.8 Repurchase agreements and agreements to resell

Financial assets transferred as collateral in connection with repurchase agreements, involving fixed repurchase dates and prices, are not derecognized. They continue to be recorded as investments classified as held-to-maturity investments, available-for-sale financial assets or debt instruments classified as receivables as appropriate. The corresponding liability is included in financial assets sold under repurchase agreements. The items which are not derecognized are disclosed in Note IV 47 Contingent Liabilities and Commitments – Collateral.

Consideration paid for financial assets held under agreements to resell are recorded as Financial assets held under resale agreements, the related collateral accepted is not recognized in the consolidated financial statements (Note IV 47 Contingent Liabilities and Commitments – Collateral).

The difference between purchase and sale price is recognized as interest expense or income in the consolidated income statement over the term of the agreements using the effective interest method.

9 Insurance contracts

Insurance contract classification

Insurance contracts are those contracts under which the Group has accepted significant insurance risk, relative to an insured event or occurrence. The Group issues primarily life insurance contracts, which insure events associated with mortality over a long duration. The Group also issues non-life insurance contracts, which cover short-term casualty and health insurance risk. When necessary, the Group enters into reinsurance contracts to transfer insurance risks to reinsurer. A significant insurance risk test is performed at inception of the insurance contracts.

Some insurance contracts contain both an insurance component and a deposit component. The Group unbundles those components, if the insurance component and the deposit component are separately measurable. The unbundled insurance component is accounted for according to IFRS 4 – Insurance Contracts and the unbundled deposit component is accounted for as a financial liability under investment contract liabilities.

Insurance income recognition

Premiums from long-term life insurance contracts are recognized as revenue when due from policyholders. Premiums related to short-term non-life insurance contracts are recognized when received at the inception of the policy, as unearned insurance premiums in the consolidated statement of financial position, and are amortized on a straight-line basis into the consolidated income statement over the term of the policy.

When the Group has transferred insurance risk through reinsurance contracts, the Group calculates the amount of premium ceded and the reinsurers' share of expenses and recognizes them through the consolidated income statement in accordance with the terms of the reinsurance contracts.

(Amounts in millions of Renminbi, unless otherwise stated)

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

9 Insurance contracts (Continued)

Insurance contract liabilities

Insurance contract liabilities are measured based on a reasonable estimate of the amount of payments that the Group will be required to make to fulfill its obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows related to such contracts. A reasonable estimate of expected future net cash flows is determined based on information currently available as at the end of the reporting period. The Group has considered the impact of time value in the liability calculation for long-term life insurance.

The Group performs liability adequacy tests based on information currently available, as at the reporting date. Additional insurance contract liabilities will be recorded if any deficiency exists.

10 Precious metals

Precious metals comprise gold, silver and other precious metals.

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realizable value. Precious metals that are related to the Group's trading activities are initially recognized at fair value, with changes in fair value arising from re-measurement recognized directly in the consolidated income statement in the period in which they arise.

11 Property and equipment

Property and equipment including buildings held for use in the supply of services, or for administrative purpose (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any. When the costs attributable to the land use rights cannot be reliably measured and separated from that of the building at inception, the costs are included in the cost of buildings and recorded in property and equipment.

Subsequent expenditure incurred for the property and equipment (other than construction in progress) is included in the cost of the property and equipment (other than construction in progress) if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditure can be measured, and the carrying amount of the replaced part is derecognized. Other subsequent expenditure is recognized in the consolidated income statement in the period in which they are incurred.

Depreciation is recognized as a component of operating expenses in the consolidated income statement so as to recognize the consumption of the economic value of property and equipment (other than construction in progress), less their estimated residual values, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation rates are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The useful lives, estimated residual value rates and annual depreciation rates of each class of property and equipment are as follows:

Classes	Useful lives	Estimated residual value rates	Annual depreciation rates
Buildings	5-50 years	3%	1.94%-19.40%
Electronic equipment, furniture and fixtures	3-11 years	3%	8.82%-32.33%
Motor vehicles	5- 8 years	3%	12.13%-19.40%

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

11 Property and equipment (Continued)

Properties in the course of construction for supply of services or administrative purposes are carried at cost, as construction in progress, less any impairment loss. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property and equipment, commences when the assets are ready for their intended use.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from its continued use. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in other operating income or operating expenses in the consolidated income statement. The accounting policies of impairment of property and equipment are included in Note II 18 Impairment of Tangible and Intangible Assets other than Goodwill.

12 Land use rights

Land use rights are classified in other assets and amortized over a straight-line basis over their authorized useful lives.

13 Foreclosed assets

Foreclosed assets are initially recognized at fair value and subsequently measured at the lower of their carrying amount and fair value, less costs to sell, at the end of each reporting period. When the fair value, less costs to sell, is lower than a foreclosed asset's carrying amount, an impairment loss is recognized in the consolidated income statement.

Any gain or loss arising on the disposal of the foreclosed asset is included in the consolidated income statement in the period in which the item is disposed.

The Group disposes foreclosed assets through various means. In principle, foreclosed assets should not be transferred for own use, but, in the event that they are needed for the Group's own business or management purposes, they are transferred at their net carrying amounts and managed as newly acquired property and equipment.

14 Investment property

Investment property is property held to earn rental income or for capital appreciation, or both.

Investment property is initially measured at its acquisition cost. Subsequent expenditure incurred for the investment property is included in the cost of the investment property if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditure can be measured reliably. Other subsequent expenditure is recognized in the consolidated income statement in the period in which they are incurred.

Investment properties are measured using the cost model. Depreciation and amortization is recognized the same way as property and equipment and land use rights.

The accounting policies of impairment of investment property are included in Note II 18 Impairment of Tangible and Intangible Assets other than Goodwill.

Where an impairment loss subsequently reverses, the carrying amount of the investment property is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount had no impairment loss been recognized. A reversal of an impairment loss is recognized in the consolidated income statement.

When an investment property is sold, transferred, retired or damaged, the Group recognizes the amount of any proceeds on disposal, net of the carrying amount and related expenses, in the consolidated income statement.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

15 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

When the Group is the lessor in a finance lease, an amount representing the minimum lease payment receivables and unguaranteed residual value, net of initial direct costs, all discounted at the implicit lease rate (the "net lease investment") is recorded in the consolidated statement of financial position as Loans and advances to customers. The difference between the net lease investment and the undiscounted amount is recorded as unearned finance income, amortizing over the term of the lease using the effective interest method and recognized in the consolidated income statement.

When the Group is the lessor in an operating lease, the assets subject to the operating lease continue to be recognized as the Group's property and equipment. Rental income from operating leases is recognized as other operating income in the consolidated income statement on a straight-line basis over the term of the related lease.

The Group as lessee

When the Group is a lessee under finance leases, the leased assets are capitalized under property and equipment initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in other liabilities. Finance charges are charged over the term of the lease using the effective interest method and recognized in the consolidated income statement. The depreciation policy for depreciable leased assets is consistent with that for depreciable assets that are owned.

When the Group is the lessee in an operating lease, operating lease payments are recognized as an expense and charged to operating expenses in the consolidated income statement on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognized as expenses in the periods in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are considered in determining the amount to be recognized over the lease term.

16 Cash and cash equivalents

Cash and cash equivalents are short-term and highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents include cash and assets with original maturity of three months or less under cash and balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions and financial assets held under resale agreements.

17 Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortization and any accumulated impairment loss. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives which generally range from 5 to 20 years.

Intangible assets with indefinite useful lives are not amortized, but are subject to annual impairment assessment.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated income statement.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

18 Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount had no impairment loss been recognized. A reversal of an impairment loss is recognized in the consolidated income statement.

19 Dividend distribution

Dividend distribution to the Bank's ordinary equity holders is recognized as a liability in the Group's and the Bank's financial statements in the period in which the dividends are approved by the ordinary equity holders in the annual general meeting of the Bank.

As authorized by the ordinary equity holders in the annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on preference shares. Preference share dividend distribution is recognized as a liability in the Group's and the Bank's financial statements in the period in which the dividends are approved by the Board of Directors of the Bank.

20 Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

21 Fiduciary activities

The Group acts as a custodian, trustee and in other fiduciary capacities to safeguard assets for customers in accordance with custody agreements between the Group and securities investment funds, social security funds, insurance companies, trust companies, qualified foreign institutional investors, annuity schemes and other institutions and individuals. The Group receives fees in return for its services provided under the custody agreements and does not have any interest in the economic risks and rewards related to assets under custody. Therefore, assets under custody are not recognized in the Group's consolidated statement of financial position.

The Group conducts entrusted lending arrangements for its customers. Under the terms of entrusted loan arrangements, the Group grants loans to borrowers, as an intermediary, according to the instruction of its customers who are the lenders providing funds for the entrusted loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the economic risks and rewards of the entrusted loans and the funding for the corresponding entrusted funds, they are not recognized as assets and liabilities of the Group.

II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

22 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument.

Financial guarantees are initially recognized at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortization of guarantee fees recognized in accordance with the revenue recognition policy, and the best estimate of the expenditure required to settle the guarantee. These estimates are determined based on experience of similar transactions, historical losses and supplemented by the judgment of management. Any increase in the liability relating to guarantees is taken to the consolidated income statement.

23 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized, but disclosed, unless the possibility of an outflow of resources embodying economic benefits is probable. The Group's contingent liabilities are disclosed in Note IV 47 Contingent Liabilities and Commitments.

A provision is recognized when it meets the criteria as set forth in Note II 20 Provision.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In the application of the Group's accounting policies, which are described in Note II, management is required to make judgments, estimates and assumptions that affect the carrying amounts of assets and liabilities. The estimates and related assumptions are based on historical experience and other relevant factors including on the basis of reasonable expectations for future events.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in future periods as appropriate.

The following are the critical judgments and key estimates that the management has made in the process of applying the Group's accounting policies and that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months.

1 Impairment losses on loans and advances to customers

The Group reviews its loans and advances to customers to assess impairment on a periodic basis during the year. In determining whether an impairment loss should be recognized in the consolidated income statement of profit and loss, the Group makes estimates and judgments as to whether there is any observable data indicating that there is objective evidence of impairment and the extent, if any, to which it will have a measurable decrease in the estimated future cash flows related to individually assessed loans and advances or pools of loans and advances to customers with similar risk characteristics, as described in Note II 8.1 Impairment of Financial Assets Carried at Amortized Cost.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

1 Impairment losses on loans and advances to customers (Continued)

Significant judgments are made in the determination of whether objective evidence of impairment exists in individually assessed loans and advances to customers or pools of loans and advances to customers with similar risk characteristics. Among other things, objective evidence of impairment includes deterioration in the financial condition of specific borrowers (or specific pools of borrowers) affecting their ability to meet their loan payment obligations such as overdue status, financial position of guarantors, latest collateral valuations and concessions by the Group that would not otherwise be granted to borrowers for economic or legal reasons relating to their financial difficulties, as well as increasing industry sector over-capacity or obsolescence, or deterioration in national or regional economic conditions that are correlated to increasing customer defaults on loans and advances. These judgments are made both during management's regular assessments of the quality of loans and advances to customers' quality and when other circumstances indicate the possibility that objective evidence of impairment may exist.

Where it is determined that objective evidence of impairment exists, significant judgments and estimates are made in estimating the adverse impact on future cash flows related to individually assessed impaired loans and advances to customers. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Factors affecting these estimates include the availability and granularity of information related to specific borrowers and guarantors, latest collateral valuations and other available information, and the clarity of the correlation between qualitative factors, such as industry sector performance or changes in regional economic conditions and loans and advances to customers' defaults of related borrowers.

Corporate loans and advances to customers not identified as impaired from individually assessments, together with personal loans and advances to customers are included in homogenous groups with similar credit risks characteristics for performance of impairment assessments on a collective basis. Significant judgments are applied to the calculation of assessed impairment using these models. Critical factors affecting these judgments include modelling assumptions (e.g., loss given default) and levels of correlation between qualitative factors and loans and advances to customers default. The collective impairment loss is assessed after taking into account: (i) historical loss experience in portfolios of similar credit risk characteristics; (ii) loss identification period for incurred but unidentified impairment losses; (iii) industries and geographic locations; and (iv) the current economic and credit environments and whether in management's experience these indicate that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience. The Group considers the impact of the changes and uncertainty in the macro-economic environment, in which the Group operates when assessing the methodology and assumptions used for loss estimation and makes adjustments where appropriate.

2 Fair value of financial instruments

The Group uses valuation techniques to estimate the fair value of financial instruments which are not quoted in an active market. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and generally accepted pricing models. To the extent practical, market observable inputs and data, such as interest rate yield curves, foreign currency rates and implied option volatilities, are used when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. However, areas such as the credit risk of the Group and the counterparty, liquidity, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

With respect to PRC government obligations related to large-scale policy directed financing transactions, fair value is determined using the stated terms of the related instrument and with reference to terms determined by the PRC government in similar transactions engaged in or directed by the PRC government. In this regard, there are no other relevant market prices or yields reflecting arm's length transactions of a comparable size and tenor.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

3 Held-to-maturity investments

The Group classifies non-derivative financial assets, quoted in an active market, with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity as held-to-maturity investments. In assessing the Group's intention and ability to hold such investments to maturity, management primarily considers the business purpose for acquiring a security, as well as the Group's liquidity needs. This is a significant judgment because if the Group fails to hold these investments to maturity, other than for specific and limited circumstances (e.g., sale of an insignificant amount close to maturity), it will be required to reclassify the entire portfolio of held-to-maturity investments as available-for-sale financial assets and be precluded from classifying investments as held-to-maturity investments for the next two years.

4 Impairment of other financial assets

For held-to-maturity investments and financial instruments classified as receivables, the determination of whether such an investment is impaired requires significant judgment. Objective evidence that a financial asset or group of financial assets is impaired includes a breach of contract, such as a default or delinquency in interest or principal payments or the disappearance of an active market for that financial asset because of significant financial difficulty of the issuer, etc. In making such judgment, the impact of objective evidence of impairment on expected future cash flows of the investment is taken into account.

For available-for-sale investments, the determination of whether such an investment is impaired requires significant judgment. In making this judgment, the Group considers the duration and extent to which the fair value of an investment is less than its cost; or whether other objective evidence of impairment exists based on the financial health of and near-term business outlook for the investee or issuer, including factors such as industry and sector performance, credit ratings, delinquency rates and counterparty risk.

5 Taxes

There are certain transactions and activities in the ordinary course of the Group's business for which the ultimate tax effect is uncertain. The Group made certain estimation and judgement for items of uncertainty in the application of tax legislations, taking into account existing tax legislation and past practice of tax authorities. Where the final tax outcome of these matters is different from the amounts that were initially estimated, based on management's assessment, such differences will affect the current income tax and deferred income tax during the period in which such a determination is made.

6 Consolidation of structured entities

Where the Group acts as asset manager of or investor in structured entities, the Group makes significant judgement on whether the Group controls and should consolidate these structured entities. When performing this assessment, the Group assesses the Group's contractual rights and obligations in light of the transaction structures, and evaluates the Group's power over the structured entities, performs analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned as the asset manager, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities. The Group also assesses whether it acts as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which it is entitled for asset management services, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

7 De-recognition of financial assets transferred

In its normal course of business, the Group transfers its financial assets through various types of transactions including regular way sales and transfers, securitization, financial assets sold under repurchase agreements, securities lending. The Group applies significant judgement in assessing whether it has transferred these financial assets which qualify for a full or partial de-recognition.

Where the Group enters into structured transactions by which it transfers financial assets to structured entities, the Group analyzes whether the substance of the relationship between the Group and these structured entities indicates that it controls these structured entities to determine whether the Group needs to consolidate these structured entities. This will determine whether the following de-recognition analysis should be conducted at the consolidated level or at the entity level from which the financial assets are transferred.

The Group analyzes the contractual rights and obligations in connection with such transfers to determine whether the de-recognition criteria are met based on the following considerations:

- whether it has transferred the rights to receive contractual cash flows from the financial assets or the transfer qualifies for the "pass through" of those cash flows to independent third parties.

- the extent to which the associated risks and rewards of ownership of the financial assets are transferred. Significant judgment is applied in the Group's estimation with regard to the cash flows before and after the transfers and other factors that effect the outcomes of Group's assessment on the extent that risks and rewards are transferred.

- where the Group has neither retained nor transferred substantially all of the risks and rewards associated with their ownership, the Group analyzes whether it has relinquished its controls over these financial assets by assessing whether the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, and if the Group has continuing involvement in these transferred financial assets. Where the Group has not retained control, it derecognizes these financial assets and recognizes separately as assets or liabilities any rights and obligations created or retained in the transfer. Otherwise the Group continues to recognize these financial assets to the extent of its continuing involvement in the financial asset.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Net interest income

	Year ended 31 December	
	2017	2016
Interest income		
Loans and advances to customers		
Including: Corporate loans and advances	**274,039**	261,332
Personal loans and advances	**158,323**	135,131
Discounted bills	**9,113**	14,327
Subtotal	**441,475**	410,790
Held-to-maturity investments	**123,270**	99,737
Available-for-sale financial assets	**49,070**	46,155
Balances with central banks	**41,604**	39,264
Debt instruments classified as receivables	**23,654**	21,395
Placements with and loans to banks and other financial institutions	**13,060**	12,922
Financial assets held under resale agreements	**9,745**	6,497
Deposits with banks and other financial institutions	**7,340**	17,621
Financial assets held for trading	**4,110**	2,589
Financial assets designated at fair value through profit or loss	**371**	220
Subtotal	**713,699**	657,190
Interest expense		
Due to customers	**(209,782)**	(209,149)
Deposits from banks and other financial institutions	**(24,995)**	(27,175)
Debt securities issued	**(13,772)**	(12,133)
Borrowings from central bank	**(13,254)**	(3,556)
Placements from banks and other financial institutions	**(6,240)**	(4,247)
Financial assets sold under repurchase agreements	**(3,488)**	(2,826)
Financial liabilities designated at fair value through profit or loss	**(238)**	–
Subtotal	**(271,769)**	(259,086)
Net interest income	**441,930**	398,104
Interest income accrued on impaired financial assets (included within interest income)	**1,430**	2,209

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 Net fee and commission income

	Year ended 31 December 2017	2016
Fee and commission income		
Agency services	**22,773**	39,377
Bank cards	**22,699**	20,108
Electronic banking services	**14,595**	9,993
Settlement and clearing services	**11,113**	16,715
Consultancy and advisory services	**8,358**	9,050
Custodian and other fiduciary	**3,368**	3,119
Credit commitment	**2,094**	2,263
Others	**257**	194
Subtotal	**85,257**	100,819
Fee and commission expense		
Bank cards	**(7,328)**	(5,394)
Electronic banking services	**(2,623)**	(1,992)
Settlement and clearing services	**(1,487)**	(1,469)
Others	**(916)**	(1,029)
Subtotal	**(12,354)**	(9,884)
Net fee and commission income	**72,903**	90,935

3 Net trading (loss)/gain

		Year ended 31 December 2017	2016
Net gain on precious metals	(1)	**3,883**	931
Net (loss)/gain on foreign exchange rate derivatives		**(9,703)**	4,706
Net (loss)/gain on held-for-trading debt securities		**(2,731)**	129
Net loss on interest rate derivatives		**(278)**	(309)
Total		**(8,829)**	5,457

(1) Net gain on precious metals consists of net gain on precious metals and precious metal related derivative products.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4 Net loss on financial instruments designated at fair value through profit or loss

	Year ended 31 December 2017	2016
Net loss on underlying assets and liabilities related to principal guaranteed wealth management products	**(5,306)**	(1,653)
Net gain on debt securities	**1,022**	17
Others	**1,040**	345
Total	**(3,244)**	(1,291)

5 Other operating income

	Year ended 31 December 2017	2016
Insurance premium	**21,899**	10,972
Net gain/(loss) on foreign exchange	**11,021**	(98)
Government grant	**3,757**	2,919
Gain on disposal of property and equipment	**850**	285
Rental income	**538**	406
Others	**1,937**	1,519
Total	**40,002**	16,003

6 Operating expenses

		Year ended 31 December 2017	2016
Staff costs	(1)	**113,839**	111,536
General operating and administrative expenses	(2)	**45,024**	44,440
Insurance benefits and claims		**22,552**	11,211
Depreciation and amortization		**18,279**	19,037
Tax and surcharges	(3)	**4,953**	11,449
Provision for guarantees and commitments		**(2,985)**	(3,474)
Others		**3,606**	2,850
Total		**205,268**	197,049

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6 Operating expenses (Continued)

(1) Staff costs

	Year ended 31 December 2017	2016
Short-term employee benefits		
Salaries, bonuses, allowance and subsidies	**73,140**	70,770
Housing funds	**8,212**	8,638
Social insurance	**5,109**	5,016
Including: Medical insurance	**4,611**	4,524
Maternity insurance	**330**	312
Employment injury insurance	**168**	180
Labor union fees and staff education expenses	**3,269**	2,625
Others	**8,799**	9,424
Subtotal	**98,529**	96,473
Defined contribution benefits	**15,233**	15,304
Early retirement benefits	**77**	(241)
Total	**113,839**	111,536

(2) Included in general operating and administrative expenses is auditor's remuneration of RMB143 million for the year, which covered RMB133 million for financial statements audit service and RMB10 million for non-audit professional service. (2016: RMB141 million, including RMB132 million for financial statements audit service and RMB9 million for non-audit professional service).

(3) Business tax for the Group's Domestic Operations was generally calculated at 5% of taxable income, which was declared and paid to the local tax department by Domestic Operations prior to 1 May 2016. From 1 May 2016, the Group is subject to value-added taxes on its income from credit business, fee income on financial services, income from insurance business and trading of financial products at 6%.

Pursuant to the "Circular regarding Further Clarification of Relevant Policies Applicable to the Financial Sector in the Comprehensive Implementation of the VAT Pilot Programs" (Cai Shui [2016] No. 46), the Bank elected to adopt a simplified methodology to calculate value-added taxes at 3% on interest income derived from loans granted to farming households, rural enterprises and other rural institutions by county-level sub-branches included in the Bank's pilot programs of the Sannong Finance Division, including those under the Bank's provincial branches in provinces, autonomous regions, municipalities directly under the central government and municipalities with independent budgetary status as well as those under the Xinjiang Production and Construction Corps Branch.

City construction and maintenance tax is calculated at 1%, 5% or 7% of VAT for the Group's Domestic Operations.

Education surcharge is calculated at 3% or 5% of VAT for the Group's Domestic Operations.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Benefits and interests of directors, supervisors and senior management

(1) Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB):

Item		Year ended 31 December 2017				
		Fees	Basic salaries and allowance	Contribution to retirement benefit schemes	Other benefits in kind (xx)	Total
Executive Directors						
Zhou Mubing		–	519	80	64	663
Zhao Huan	(i)	–	519	80	64	663
Wang Wei	(ii)	–	467	77	64	608
Guo Ningning	(iii)	–	467	77	64	608
Independent Non-Executive Directors						
Wen Tiejun	(iv)	410	–	–	–	410
Francis Yuen Tin-fan		380	–	–	–	380
Xiao Xing		380	–	–	–	380
Wang Xinxin		360	–	–	–	360
Huang Zhenzhong	(v)	96	–	–	–	96
Non-Executive Directors						
Zhao Chao	(vi) (vii)	–	–	–	–	–
Zhang Dinglong	(vi)	–	–	–	–	–
Chen Jianbo	(vi)	–	–	–	–	–
Hu Xiaohui	(vi)	–	–	–	–	–
Xu Jiandong	(vi)	–	–	–	–	–
Liao Luming	(vi) (viii)	–	–	–	–	–
Supervisors						
Wang Xingchun	(ix)	–	–	–	–	–
Liu Chengxu	(x)	50	–	–	–	50
Xia Zongyu	(x)	50	–	–	–	50
Li Wang		280	–	–	–	280
Lv Shuqin		280	–	–	–	280
Senior Management						
Gong Chao		–	467	77	64	608
Kang Yi	(xi)	–	467	77	64	608
Zhang Keqiu	(xii)	–	668	120	63	851
Li Zhicheng	(xiii)	–	863	126	20	1,009

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Benefits and interests of directors, supervisors and senior management (Continued)

(1) Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB) (Continued):

		Year ended 31 December 2017				
Item		Fees	Basic salaries and allowance	Contribution to retirement benefit schemes	Other benefits in kind (xx)	Total
Executive Director resigned						
Lou Wenlong	(xiv)	–	176	31	26	233
Independent Non-Executive Directors resigned						
Lu Jianping	(xv)	–	–	–	–	–
Non-Executive Directors resigned						
Zhou Ke	(xvi)	–	–	–	–	–
Supervisors resigned						
Yuan Changqing	(xvii)	–	260	39	30	329
Zheng Xin	(xviii)	4	–	–	–	4
Xia Taili	(xix)	50	–	–	–	50
Total		2,340	4,873	784	523	8,520

(i) *Zhao Huan is also the Senior Management of the Group and his emoluments disclosed above include those for services rendered by him as the Senior Management for the year ended 31 December 2017.*

(ii) *Wang Wei was elected to be Executive Director effective 13 February 2018 and his emoluments disclosed above only include those for services rendered by him as the Senior Management for the year ended 31 December 2017.*

(iii) *Guo Ningning was elected to be Executive Director effective 13 February 2018 and her emoluments disclosed above only include those for services rendered by her as the Senior Management for the year ended 31 December 2017.*

(iv) *Wen Tiejun resigned as Independent Non-Executive Director and from positions at relevant special committees of the Board of the Bank due to the expiry of his term of office in June 2017. Wen Tiejun will continue to perform his duty as Independent Non-Executive Director until meet the requirement that the Independent Non-Executive Directors shall represent at least one-third of the Board of Directors.*

(v) *Huang Zhenzhong was elected Independent Non-Executive Director effective 25 September 2017.*

(vi) *These Non-Executive Directors of the Bank did not receive any fees from the Bank. Their emoluments were borne by the major ordinary equity holders of the Bank. No apportionment had been made as the Directors considered that it was impracticable to apportion this amount between their services to the Group and their services to the major ordinary equity holders of the Bank.*

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Benefits and interests of directors, supervisors and senior management (Continued)

(1) Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB) (Continued):

(vii) Zhao Chao ceased to be Non-Executive Director effective 28 February 2018.

(viii) Liao Luming was elected Non-Executive Director effective 31 August 2017.

(ix) Wang Xingchun did not receive any emoluments for his part-time position as Supervisor representing shareholders from the Bank in 2017.

(x) For Supervisors representing employees of the Bank, the amounts set forth above only included fees for their services as Supervisors.

(xi) Kang Yi was elected Executive Vice President effective 24 January 2017. He ceased to be Executive Vice President effective 22 January 2018.

(xii) Zhang Keqiu was elected Executive Vice President effective 28 July 2017.

(xiii) Li Zhicheng was elected Chief Risk Officer effective 28 February 2017.

(xiv) Lou Wenlong ceased to be Executive Vice President and Executive Director effective 18 April 2017.

(xv) Lu Jianping ceased to be Independent Non-Executive Director effective 18 April 2017.

(xvi) Zhou Ke ceased to be Non-Executive Director effective 31 July 2017.

(xvii) Yuan Changqing ceased to be Chairman of the Board of Supervisors effective 6 June 2017.

(xviii) Zheng Xin ceased to be Supervisor representing employees effective 9 January 2017.

(xix) Xia Taili ceased to be Supervisor representing employees effective 4 December 2017.

(xx) Other benefits in kind include the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities.

The total compensation packages for the above Executive Directors, Supervisors and Senior Management for the year ended 31 December 2017 have not yet been finalized in accordance with regulations of the relevant authorities in the PRC at the date of this report. The final compensation will be disclosed in a separate announcement when determined.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Benefits and interests of directors, supervisors and senior management (Continued)

(1) Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB) (Continued):

		Year ended 31 December 2016 (Restated)				
Item		Fees	Basic salaries and allowance	Contribution to retirement benefit schemes	Other benefits in kind (xvii)	Total
Executive Directors						
Zhou Mubing	(i)	–	378	50	37	465
Zhao Huan	(ii) (iii)	–	648	101	62	811
Lou Wenlong	(iii)	–	583	97	62	742
Independent Non-Executive Directors						
Wen Tiejun		410	–	–	–	410
Francis Yuen Tin-fan		380	–	–	–	380
Xiao Xing		369	–	–	–	369
Lu Jianping	(iv)	–	–	–	–	–
Wang Xinxin	(v)	211	–	–	–	211
Non-Executive Directors						
Zhao Chao	(vi)	–	–	–	–	–
Zhou Ke	(vi)	–	–	–	–	–
Zhang Dinglong	(vi)	–	–	–	–	–
Chen Jianbo	(vi)	–	–	–	–	–
Hu Xiaohui	(vi)	–	–	–	–	–
Xu Jiandong	(vi)	–	–	–	–	–
Supervisors						
Yuan Changqing		–	648	100	62	810
Wang Xingchun	(vii)	–	–	–	–	–
Zheng Xin	(viii)	50	–	–	–	50
Xia Taili	(viii)	50	–	–	–	50
Liu Chengxu	(viii) (ix)	25	–	–	–	25
Xia Zongyu	(viii) (ix)	46	–	–	–	46
Li Wang		280	–	–	–	280
Lv Shuqin		280	–	–	–	280
Senior Management						
Gong Chao		–	583	97	62	742
Wang Wei		–	583	97	62	742
Guo Ningning	(x)	–	388	57	43	488
Kang Yi	(xi)	–	49	6	5	60
Zhang Keqiu		–	1,739	116	133	1,988

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Benefits and interests of directors, supervisors and senior management (Continued)

(1) Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB) (Continued):

		Year ended 31 December 2016 (Restated)				
Item		Fees	Basic salaries and allowance	Contribution to retirement benefit schemes	Other benefits in kind (xvii)	Total
Executive Director resigned						
Liu Shiyu	(xii)	–	108	22	10	140
Cai Huaxiang	(xiii)	–	388	72	42	502
Independent Non-Executive Directors resigned						
Frederick Ma Si-hang	(xiv)	150	–	–	–	150
Senior Management resigned						
Li Zhenjiang	(xv)	–	146	30	15	191
Lin Xiaoxuan	(xvi)	–	583	97	62	742
Total		2,251	6,824	942	657	10,674

(i) *Zhou Mubing was elected Chairman of the Board of Directors and Executive Director effective 1 July 2016.*

(ii) *Zhao Huan was elected President effective 4 March 2016, Executive Director and Vice Chairman of the Board of Directors effective 24 March 2016.*

(iii) *Zhao Huan and Lou Wenlong are also the Senior Management of the Group and their emoluments disclosed above include those for services rendered by them as the Senior Management for the year ended 31 December 2016.*

(iv) *Lu Jianping resigned as Independent Non-executive Director and from positions of relevant special committees of the Board of the Bank due to work arrangements in December 2015. He ceased to be Independent Non-Executive Director effective 18 April 2017 when the requirements of relevant regulatory rules and the Articles of Association were met.*

(v) *Wang Xinxin was elected Independent Non-Executive Director effective 13 May 2016.*

(vi) *These Non-Executive Directors of the Bank did not receive any fees from the Bank. Their emoluments were borne by the major ordinary equity holders of the Bank. No apportionment had been made as the Directors considered that it was impracticable to apportion this amount between their services to the Group and their services to the major ordinary equity holders of the Bank.*

(vii) *Wang Xingchun did not receive any emoluments for his part-time position as Supervisor representing shareholders from the Bank in 2016.*

(viii) *For Supervisors representing employees of the Bank, the amounts set forth above only included fees for their services as Supervisors.*

(ix) *Liu Chengxu and Xia Zongyu were elected Supervisor representing employees effective 5 July 2016.*

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Benefits and interests of directors, supervisors and senior management (Continued)

(1) Details of the Directors', Supervisors' and Senior Management's emoluments are as follows (in thousands of RMB) (Continued):

(x) Guo Ningning was elected Executive Vice President effective 6 June 2016.

(xi) Kang Yi was elected Executive Vice President effective 24 January 2017.

(xii) Liu Shiyu ceased to be Chairman of the Board of Directors and Executive Director effective 21 February 2016.

(xiii) Cai Huaxiang ceased to be Executive Vice President and Executive Director effective 14 September 2016.

(xiv) Frederick Ma Si-hang ceased to be Independent Non-Executive Director effective 13 May 2016.

(xv) Li Zhenjiang ceased to be Executive Vice President effective 3 March 2016.

(xvi) Lin Xiaoxuan ceased to be Executive Vice President effective 16 December 2016.

(xvii) Other benefits in kind include the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities.

As of the announcement date of 2016 consolidated financial statements, the above compensation packages for the Directors, Supervisors and Senior Management for the year ended 31 December 2016 were not finalized and the amount of remuneration of Directors, Supervisors and Senior Management recognized and disclosed in the consolidated income statement for the year ended 31 December 2016 was RMB8.43 million. Supplementary announcement on final compensation of RMB10.67 million was released by the Bank on 30 August 2017 and the comparative figures for the year ended 31 December 2016 have been restated accordingly.

(2) *Five individuals with the highest emoluments in the Group*

(i) Of the five individuals with the highest emoluments, none of them are Directors, Supervisors or Senior Management whose emoluments are disclosed above. The emoluments of the five individuals whose emoluments were the highest in the Group for the year ended 31 December 2017 and 31 December 2016 were as follows (in thousands of RMB):

	Year ended 31 December	
	2017	2016
Basic salaries and allowance	**11,064**	11,158
Discretionary bonuses	**10,057**	9,352
Contribution to retirement benefit schemes and other	**1,544**	998
Total	**22,665**	21,508

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Benefits and interests of directors, supervisors and senior management (Continued)

(2) Five individuals with the highest emoluments in the Group (Continued)

(ii) The number of these five individuals whose emoluments fell within the following bands are as follows:

	Year ended 31 December 2017	2016
RMB4,000,001 to RMB4,500,000 yuan	**2**	4
RMB4,500,001 to RMB5,000,000 yuan	**2**	1
RMB5,000,001 to RMB5,500,000 yuan	**1**	–

For the years ended 31 December 2017 and 31 December 2016, no emolument was paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office. For the years ended 31 December 2017 and 31 December 2016, none of the five highest paid individuals waived any emolument.

(3) Other benefits and interests of Directors and Supervisors pursuant to the Hong Kong Companies Ordinance (Cap. 622)

For the years ended 31 December 2017 and 31 December 2016, no emolument was paid by the Group to any of the Directors and Supervisors as an inducement to join or upon joining the Group or as a compensation for loss of office. Except for the Annuity Scheme and Pension Scheme (Note II 7 Employee Benefits), there were no other retirement benefits for Directors or Supervisors, or consideration provided to third parties for making available Directors' or Supervisors' services; and none of the Directors or Supervisors waived any emolument, or had material interests, whether directly or indirectly, in any material transactions, arrangements or contracts in relation to the Group's business for the years ended 31 December 2017 and 31 December 2016.

The Group enters into credit transactions with the Directors, Supervisors or certain controlled body corporates and connected entities of the Directors or Supervisors at arm's length in the ordinary course of business. For the years ended 31 December 2017 and 31 December 2016 and as at 31 December 2017 and 31 December 2016, the respective balances of loans and advances from the Group to Directors, Supervisors or certain controlled body corporates and connected entities of the Directors or Supervisors were not significant. The Group did not provide any guarantee or security to the Directors, Supervisors or certain controlled body corporates and connected entities of the Directors or Supervisors in respect of their loans, quasi-loans or credit transactions.

8 Impairment losses on assets

	Year ended 31 December 2017	2016
Loans and advances to customers	**92,864**	78,928
Held-to-maturity investments	**2,149**	2,213
Available-for-sale financial assets	**651**	403
Property and equipment	**101**	1
Placements with and loans to banks and other financial institutions	**(2,070)**	1,370
Debt instruments classified as receivables	**(290)**	2,603
Other	**4,761**	928
Total	**98,166**	86,446

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9 Income tax expense

	Year ended 31 December	
	2017	2016
Current income tax		
– PRC Enterprise Income Tax	**52,342**	37,104
– Hong Kong Profits Tax	**648**	400
– Other jurisdictions	**302**	368
Subtotal	**53,292**	37,872
Deferred tax (Note IV 26)	**(6,947)**	4,692
Total	**46,345**	42,564

PRC Enterprise Income Tax is calculated at 25% of the estimated taxable profit for both years, and also includes supplementary PRC tax on Overseas Operations as determined in accordance with the relevant PRC income tax rules and regulations. Pre-tax deduction items of enterprise income tax are governed by the relevant tax regulations in the PRC. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions.

The tax charges for the years ended 31 December 2017 and 31 December 2016 can be reconciled to the profit per the consolidated income statement as follows:

		Year ended 31 December	
		2017	2016
Profit before tax		**239,478**	226,624
Tax calculated at applicable PRC statutory tax rate of 25%		**59,870**	56,656
Tax effect of income not taxable for tax purpose	(1)	**(20,284)**	(14,528)
Tax effect of items such as expenses not deductible for tax purpose		**6,839**	490
Effect of different tax rates in other jurisdictions		**(80)**	(54)
Income tax expense		**46,345**	42,564

(1) Non-taxable income primarily includes interest income from PRC treasury bonds and municipal government bonds.

10 Dividends

		Year ended 31 December	
		2017	2016
Dividends on ordinary shares declared and paid			
Cash dividend related to 2016	(1)	**55,215**	–
Cash dividend related to 2015	(2)	**–**	54,176
		55,215	54,176
Dividends on preference shares declared and paid	(4)	**4,600**	4,600

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10 Dividends (Continued)

(1) *Distribution of final dividend for 2016*

A cash dividend of RMB0.17 per ordinary share related to 2016, amounting to RMB55,215 million in total was approved, after the required appropriations for the statutory surplus reserve and the general reserve for 2016 as determined in accordance with the relevant accounting rules and financial regulations applicable to PRC enterprises (the "PRC GAAP"), at the annual general meeting held on 28 June 2017.

The above dividend was recognized as distribution and distributed during the year ended 31 December 2017.

(2) *Distribution of final dividend for 2015*

A cash dividend of RMB0.1668 per ordinary share related to 2015, amounting to RMB54,176 million in total was approved, after the required appropriations for the statutory surplus reserve and the general reserve for 2015 as determined in accordance with the relevant accounting rules and financial regulations applicable to PRC enterprises (the "PRC GAAP"), at the annual general meeting held on 27 June 2016.

The above dividend was recognized as distribution and distributed during the year ended 31 December 2016.

(3) *A final dividend of RMB0.1783 per ordinary share in respect of the year ended 31 December 2017 totaling RMB57,911 million has been proposed by the directors and is subject to approval by the ordinary equity holders in the annual general meeting.*

(4) *Distribution of dividend on preference shares for 2017*

A cash dividend at the dividend rate of 5.5% per annum related to the second tranche of preference shares amounting to RMB2,200 million in total was approved at the Board of Directors' Meeting held on 13 January 2017 and distributed on 13 March 2017.

A cash dividend at the dividend rate of 6% per annum related to the first tranche of preference shares amounting to RMB2,400 million in total was approved at the Board of Directors' Meeting held on 9 October 2017 and distributed on 6 November 2017.

Distribution of dividend on preference shares for 2016

A cash dividend at the dividend rate of 5.5% per annum related to the second tranche of preference shares amounting to RMB2,200 million in total was approved at the Board of Directors' Meeting held on 21 January 2016 and distributed on 11 March 2016.

A cash dividend at the dividend rate of 6% per annum related to the first tranche of preference shares amounting to RMB2,400 million in total was approved at the Board of Directors' Meeting held on 28 October 2016 and distributed on 7 November 2016.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11 Earnings per share

	Year ended 31 December 2017	2016
Earnings:		
Profit for the year attributable to equity holders of the Bank	**192,962**	183,941
Less: profit for the year attributable to preference shareholders of the Bank	**(4,600)**	(4,600)
Profit for the year attributable to ordinary equity holders of the Bank	**188,362**	179,341
Number of shares:		
Weighted average number of ordinary shares in issue (million)	**324,794**	324,794
Basic and diluted earnings per share (RMB yuan)	**0.58**	0.55

For the purpose of calculating basic earnings per share, cash dividends of RMB4,600 million of non-cumulative preference shares declared in respect of the year of 2017 was deducted from the profit for the year attributable to equity holders of the Bank (2016: RMB4,600 million).

The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur for the years ended 31 December 2017 and 31 December 2016, therefore the conversion feature of preference shares has no dilutive effect on earnings per share calculation.

12 Cash and balances with central banks

		As at 31 December 2017	2016
Cash		**108,497**	111,607
Mandatory reserve deposits with central banks	(1)	**2,581,677**	2,437,536
Surplus reserve deposits with central banks	(2)	**43,408**	111,753
Other deposits with central banks	(3)	**163,037**	150,757
Total		**2,896,619**	2,811,653

(1) The Group places mandatory reserve deposits with the PBOC and overseas regulatory bodies. These include RMB reserve deposits and foreign currency reserve deposits. These mandatory reserve deposits are not available for the Group's daily operations.

For Domestic Institutions of the Bank which meet the requirements of "Notice on Performance Appraisal Results Of the Sannong Banking Operations of Agricultural Bank of China Limited for 2017 issued by the People's Bank of China" (Yinbanfa [2017] No. 64) effective 27 March 2017, RMB mandatory reserve deposits with the PBOC are based on 14.5% of qualified RMB deposits (31 December 2016: 14.5%). For the remaining Domestic Institutions of the Bank, RMB mandatory reserve deposits are based on 16.5% of qualified RMB deposits (31 December 2016: 16.5%). For the overseas participating banks with eligible RMB deposits, RMB mandatory reserve deposits are based on 16.5% of qualified RMB deposits (31 December 2016: 16.5%). Foreign currency mandatory reserve deposits are based on 5% (31 December 2016: 5%) of qualified foreign currency deposits from customers. Mandatory reserve deposits placed by the Bank's Overseas Operations are determined based on respective overseas regulatory requirements. The foreign currency reserve deposits placed with the PBOC are non-interest bearing.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12 Cash and balances with central banks (Continued)

(2) *Surplus reserve deposits primarily represent deposits maintained with the PBOC in addition to the mandatory reserve deposits and mainly for the purpose of clearing.*

(3) *Other deposits with central banks primarily represent fiscal deposits and foreign exchange risk reserve placed with the PBOC that are not available for use in the Group's daily operations. Fiscal deposits are non-interest bearing, and the interest rate for foreign exchange risk reserve is currently set at zero. The foreign exchange risk reserve is maintained with the PBOC in accordance with the "Notice on Reinforcing the Macro Prudential Management of Foreign Exchange Transactions" (Yinfa [2015] No. 273) issued by the PBOC on 31 August 2015. The foreign exchange risk reserve from 1 January 2016 to 10 September 2017 was placed on a monthly basis at 20% of the total contract amount of customers driven forward sale of foreign exchange transactions in the preceding month and will be repayable after 12 months. From 11 September 2017, the foreign exchange risk reserve rate was adjusted to 0% according to the "Notice on Adjustment of Foreign Exchange Risk Reserves Policy" (Yinfa [2017] No. 207) issued by PBOC on 8 September 2017.*

13 Deposits with banks and other financial institutions

	As at 31 December	
	2017	2016
Deposits with:		
Domestic banks	**92,355**	583,545
Other domestic financial institutions	**6,961**	6,471
Overseas banks	**31,018**	32,976
Gross amount	**130,334**	622,992
Allowance for impairment losses – collectively assessed	**(89)**	(327)
Deposits with Banks and other financial institutions, net	**130,245**	622,665

As at 31 December 2017, the carrying amount of deposits with banks and other financial institutions which have been pledged as security was RMB10,598 million (31 December 2016: RMB6,526 million). These deposits were mainly security deposits pledged with clearing house and exchanges.

14 Placements with and loans to banks and other financial institutions

	As at 31 December	
	2017	2016
Placements with and loans to:		
Domestic banks	**243,304**	222,526
Other domestic financial institutions	**189,488**	322,216
Overseas banks and other financial institutions	**73,415**	39,239
Gross amount	**506,207**	583,981
Allowance for impairment losses – collectively assessed	**(938)**	(3,032)
Placements with and loans to banks and other financial institutions, net	**505,269**	580,949

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 Financial assets held for trading

		As at 31 December 2017	2016
Debt securities issued by:			
Governments		**12,112**	3,290
Public sector and quasi-governments		**79,368**	44,554
Financial institutions		**50,845**	46,944
Corporates		**21,624**	13,307
Subtotal		**163,949**	108,095
Precious metal contracts		**30,691**	15,523
Total		**194,640**	123,618
Analyzed as:			
Listed in Hong Kong		**–**	185
Listed outside Hong Kong	(1)	**163,949**	107,910
Unlisted		**30,691**	15,523
Total		**194,640**	123,618

(1) *Debt securities traded on the China Domestic Inter-bank Bond Market are included in "Listed outside Hong Kong".*

16 Financial assets designated at fair value through profit or loss

		As at 31 December 2017	2016
Debt securities issued by:			
Governments		**19,352**	17,610
Public sector and quasi-governments		**61,344**	55,230
Financial institutions		**52,805**	63,045
Corporates		**39,138**	35,358
Subtotal		**172,639**	171,243
Deposits with banks and other financial institutions		**93,741**	40,953
Placements with and loans to banks and other financial institutions		**92,388**	58,485
Others	(1)	**24,557**	23,656
Total		**383,325**	294,337
Analyzed as:			
Listed in Hong Kong		**3,153**	2,685
Listed outside Hong Kong	(2)	**163,054**	163,101
Unlisted		**217,118**	128,551
Total		**383,325**	294,337

(1) *Others mainly include credit assets, equity instruments and fund investments.*

(2) *Debt securities traded on the China Domestic Inter-bank Bond Market are included in "Listed outside Hong Kong".*

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Derivative financial assets and liabilities

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

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

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. As at 31 December 2017 and 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. The Group did not elect to offset these financial assets and financial liabilities on a net basis. The Group does not hold any other financial instruments, other than derivatives, that are subject to master netting arrangements or similar agreements.

	31 December 2017		
	Contractual/ notional amount	Fair value	
		Assets	Liabilities
Exchange rate derivatives			
Currency forwards and swaps, and cross-currency interest rate swaps	1,997,265	24,349	(29,838)
Currency options	62,409	945	(275)
Subtotal		25,294	(30,113)
Interest rate derivatives			
Interest rate swaps	279,373	1,132	(406)
Precious metal contracts and others	126,596	1,858	(353)
Total derivative financial assets and liabilities		28,284	(30,872)

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Derivative financial assets and liabilities (Continued)

	31 December 2016		
	Contractual/ notional amount	Fair value	
		Assets	Liabilities
Exchange rate derivatives			
Currency forwards and swaps, and cross-currency interest rate swaps	1,382,401	25,139	(18,410)
Currency options	119,352	68	(1,353)
Subtotal		25,207	(19,763)
Interest rate derivatives			
Interest rate swaps	258,523	1,061	(604)
Precious metal contracts and others	94,506	5,192	(391)
Total derivative financial assets and liabilities		31,460	(20,758)

Credit risk weighted amount for derivative transaction counterparties represents the counterparty credit risk associated with derivative transactions and is calculated in accordance with the "Capital Rules for Commercial Banks (Provisional)" issued by the CBRC which was effective 1 January 2013 and is dependent on, among other factors, creditworthiness of customers and maturity characteristics of each type of contract. As at 31 December 2017 and 31 December 2016, the credit risk weighted amount for derivative transaction counterparty was measured under the Internal Ratings – Based approach.

	As at 31 December	
	2017	2016
Credit risk weighted amount for counterparty	**22,868**	26,601

18 Financial assets held under resale agreements

	As at 31 December	
	2017	2016
Analyzed by collateral type:		
Debt securities	**481,056**	303,120
Bills	**59,330**	19,931
Total	**540,386**	323,051

The collateral received in connection with financial assets under resale agreement is disclosed in Note IV 47 Contingent Liabilities and Commitments – Collateral.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 Loans and advances to customers

Analysis of loans and advances to customers:

	As at 31 December 2017	2016
Corporate loans and advances		
Loans and advances	**6,527,217**	5,803,277
Discounted bills	**187,502**	569,948
Subtotal	**6,714,719**	6,373,225
Personal loans and advances	**4,005,892**	3,346,414
Gross loans and advances	**10,720,611**	9,719,639
Allowance for impairment losses		
Individually assessed	**(122,311)**	(133,605)
Collectively assessed	**(281,989)**	(266,670)
Total allowance for impairment losses	**(404,300)**	(400,275)
Loans and advances to customers, net	**10,316,311**	9,319,364

Analysis of loans and advances to customers by collective and individual assessments:

	Loans and advances for which allowance is collectively assessed(1)	Identified impaired loans and advances(2)				Identified impaired gross loans and advances as a % of total gross loans and advances
		For which allowance is collectively assessed	For which allowance is individually assessed	Subtotal	Total	
31 December 2017						
Gross loans and advances	**10,526,579**	**34,227**	**159,805**	**194,032**	**10,720,611**	**1.81**
Allowance for impairment losses	**(255,266)**	**(26,723)**	**(122,311)**	**(149,034)**	**(404,300)**	
Loans and advances to customers, net	**10,271,313**	**7,504**	**37,494**	**44,998**	**10,316,311**	
31 December 2016						
Gross loans and advances	9,488,805	37,986	192,848	230,834	9,719,639	2.37
Allowance for impairment losses	(237,671)	(28,999)	(133,605)	(162,604)	(400,275)	
Loans and advances to customers, net	9,251,134	8,987	59,243	68,230	9,319,364	

(1) *Loans and advances for which allowance is collectively assessed consist of loans and advances which have not been specifically identified as impaired.*

(2) *Identified impaired loans and advances include loans for which objective evidence of impairment exists and which have been identified as bearing impairment losses, which are measured either individually (corporate loans and advances) or collectively (personal loans and advances).*

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 Loans and advances to customers (Continued)

Movements of the allowance for impairment losses on loans and advances to customers:

	Year ended 31 December 2017		
	Individually assessed allowance	Collectively assessed allowance	Total
1 January 2017	**133,605**	**266,670**	**400,275**
Impairment allowance on loans charged	**87,588**	**107,125**	**194,713**
Reversal of impairment allowance	**(20,158)**	**(81,691)**	**(101,849)**
Net additions	**67,430**	**25,434**	**92,864**
Write-offs and transfer out	**(82,283)**	**(12,010)**	**(94,293)**
Recovery of loans and advances written off in previous years	**4,758**	**2,343**	**7,101**
Unwinding of discount on allowance	**(1,077)**	**(353)**	**(1,430)**
Exchange difference	**(122)**	**(95)**	**(217)**
31 December 2017	**122,311**	**281,989**	**404,300**

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

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Available-for-sale financial assets

		As at 31 December 2017	2016
Debt securities issued by:			
Governments		**510,794**	464,613
Public sector and quasi-governments		**312,321**	383,861
Financial institutions		**398,098**	353,335
Corporates		**177,671**	188,869
Subtotal		**1,398,884**	1,390,678
Fund investments		**3,715**	7,015
Equity instruments		**7,523**	5,370
Others	(1)	**16,298**	5,818
Total		**1,426,420**	1,408,881
Analyzed as:			
Debt securities			
Listed in Hong Kong		**85,012**	68,431
Listed outside Hong Kong	(2)	**1,282,278**	1,260,325
Unlisted		**31,593**	61,922
Equity instruments and fund investments and others			
Listed in Hong Kong		**114**	2,354
Listed outside Hong Kong		**8,211**	9,169
Unlisted	(3)	**19,212**	6,680
Total		**1,426,420**	1,408,881

(1) The Group's other available-for-sale financial assets primarily include assets management products invested by the Group.

(2) Debt securities traded on the China Domestic Inter-bank Bond Market are included in "Listed outside Hong Kong".

(3) As at 31 December 2017, unlisted equity instruments of the Group amounted to RMB297 million was measured at cost because their fair value cannot be reliably measured (31 December 2016: RMB321 million).

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 Held-to-maturity investments

		As at 31 December	
		2017	2016
Debt securities issued by:			
Governments		**1,774,655**	1,320,638
Public sector and quasi-governments		**1,269,267**	1,129,986
Financial institutions		**302,240**	263,950
Corporates		**149,146**	171,604
Gross amount		**3,495,308**	2,886,178
Allowance for impairment losses – collectively assessed		**(6,173)**	(4,026)
Held-to-maturity investments, net		**3,489,135**	2,882,152
Analyzed as:			
Listed in Hong Kong		**6,835**	3,518
Listed outside Hong Kong	(1)	**3,456,090**	2,868,782
Unlisted		**26,210**	9,852
Total		**3,489,135**	2,882,152

(1) Debt securities traded on the China Domestic Inter-bank Bond Market are included in "Listed outside Hong Kong".

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Debt instruments classified as receivables

		As at 31 December	
		2017	2016
Receivable from the MOF	(1)	**271,678**	272,023
Special government bond	(2)	**93,300**	93,300
Government bonds		**169,336**	120,618
Public sector and quasi-government bonds		**–**	29,997
Financial institution bonds		**81,075**	64,130
Corporate bonds		**15,887**	20,983
Certificate treasury bonds and savings treasury bonds		**3,612**	2,990
Others	(3)	**28,688**	25,160
Gross amount		**663,576**	629,201
Allowance for impairment losses			
Individually assessed		**(3,068)**	(3,516)
Collectively assessed		**(1,285)**	(1,138)
Total allowance for impairment losses		**(4,353)**	(4,654)
Debt instruments classified as receivables, net		**659,223**	624,547
Analyzed as:			
Listed in Hong Kong		**1**	–
Listed outside Hong Kong		**304,192**	260,266
Unlisted		**355,030**	364,281
Total		**659,223**	624,547

(1) Pursuant to the "Notice on Relevant Issues Concerning the Disposal of Non-performing Assets of Agricultural Bank of China" (Caijin [2008] No. 138) issued by the MOF, receivable from the MOF is to be settled annually over a tentative period of 15 years starting from 1 January 2008 and bears interest at the rate of 3.3% per annum.

(2) Special government bond refers to the non-transferable bond issued by the MOF in 1998 in the aggregate principal amount of RMB93.3 billion to the Predecessor Entity for capital replenishment. The bond will mature in 2028 and bears interest at a fixed rate of 2.25% per annum, starting from 1 December 2008.

(3) Other debt instruments classified as receivables are primarily related to investment in unconsolidated structured entities held by the Group.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 Investment in subsidiaries and structured entities

(1) Investment in subsidiaries

The following are the principal subsidiaries of the Group as at 31 December 2017:

Name of entity		Date of incorporation/ establishment	Place of incorporation/ establishment	Authorized/ paid-in capital	Percentage of equity interest (%)	Percentage of voting rights (%)	Principal activities
China Agricultural Finance Co., Ltd.		1 November 1988	Hong Kong, PRC	HKD588,790,000	100.00	100.00	Investment holding
ABC International Holdings Limited		11 November 2009	Hong Kong, PRC	HKD4,113,392,449	100.00	100.00	Investment holding
ABC Financial Leasing Co., Ltd.		29 September 2010	Shanghai, PRC	RMB3,000,000,000	100.00	100.00	Financial leasing
Agricultural Bank of China (UK) Limited		29 November 2011	London, United Kingdom	USD100,000,000	100.00	100.00	Banking
ABC-CA Fund Management Co., Ltd.		18 March 2008	Shanghai, PRC	RMB200,000,001	51.67	51.67	Fund management
ABC Hexigten Rural Bank Limited Liability Company		12 August 2008	Inner Mongolia, PRC	RMB19,600,000	51.02	51.02	Banking
ABC Hubei Hanchuan Rural Bank Limited Liability Company	(i)	12 August 2008	Hubei, PRC	RMB31,000,000	50.00	66.67	Banking
ABC Jixi Rural Bank Limited Liability Company		25 May 2010	Anhui, PRC	RMB29,400,000	51.02	51.02	Banking
ABC Ansai Rural Bank Limited Liability Company		30 March 2010	Shaanxi, PRC	RMB20,000,000	51.00	51.00	Banking
ABC Zhejiang Yongkang Rural Bank Limited Liability Company		20 April 2012	Zhejiang, PRC	RMB210,000,000	51.00	51.00	Banking
ABC Xiamen Tong'an Rural Bank Limited Liability Company		24 May 2012	Fujian, PRC	RMB100,000,000	51.00	51.00	Banking
ABC Life Insurance Co., Ltd.	(ii)	19 December 2005	Beijing, PRC	RMB2,949,916,475	51.00	51.00	Life insurance
Agricultural Bank of China (Luxembourg) Limited		26 November 2014	Luxembourg, Luxembourg	EUR20,000,000	100.00	100.00	Banking
Agricultural Bank of China (Moscow) Limited		23 December 2014	Moscow, Russia	RUB1,400,000,000	100.00	100.00	Banking
ABC Financial Asset Investment Co., Ltd.	(iii)	1 August 2017	Beijing, PRC	RMB10,000,000,000	100.00	100.00	Debt-to-equity swap and related services

During the year ended 31 December 2017, other than subsidiary newly established, there were no changes in the proportion of equity interest or voting rights the Group held in its subsidiaries.

(i) *Two of the three directors on the board of ABC Hubei Hanchuan Rural Bank Limited Liability Company were appointed by the Bank. The Bank concluded that it has effective control over this entity and has included it in its consolidation scope.*

(ii) *On 31 December 2012, the Bank acquired 51% of the issued share capital of Jiahe Life Insurance Co., Ltd. and renamed it as ABC Life Insurance Co., Ltd. ("ABC Life Insurance") and the Group recognized goodwill of RMB1,381 million as a result of this acquisition.*

During the year ended 31 December 2016, the Group and other investors contributed additional capital totally RMB3,761 million to ABC Life Insurance, comprising registered capital of RMB917 million and capital reserve of RMB2,844 million. After the capital injection, the proportion of equity interest and voting rights the Group held in ABC Life Insurance remained at 51%. Contribution by non-controlling interest amounted to RMB1,843 million.

As at 31 December 2017, there was no objective evidence noted for any goodwill impairment.

(iii) *During the year ended 31 December 2017, the Bank established ABC Financial Asset Investment Co., Ltd. as its wholly-owned subsidiary.*

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 Investment in subsidiaries and structured entities (Continued)

(2) Structured entities

The Group also consolidated structured entities as disclosed in Note IV 46 Structured Entities.

24 Investment in associate

	31 December 2017	31 December 2016
Investment in associate	**227**	213

On 28 May 2015, the Sino-Congolese Bank of Africa (La Banque Sino-Congolaise pour I'Afrique, hereinafter referred to as BSCA.Bank), established by the Bank and other investors with authorized capital denominated in Central African CFA franc ("XAF"), was granted the required banking license by the local regulatory authority. The Bank holds 50% equity interest and voting rights in BSCA. Bank, and has the right to participate in the financial and operating policy decisions of BSCA.Bank, but does not constitute control or joint control over those policy decisions.

25 Property and equipment

	Buildings	Electronic equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
Cost					
1 January 2017	**162,858**	**64,203**	**8,309**	**22,031**	**257,401**
Additions	**1,986**	**4,176**	**2,868**	**4,285**	**13,315**
Transfers	**9,794**	**351**	**1**	**(10,146)**	**–**
Disposals	**(836)**	**(3,884)**	**(1,169)**	**–**	**(5,889)**
31 December 2017	**173,802**	**64,846**	**10,009**	**16,170**	**264,827**
Accumulated depreciation					
1 January 2017	**(54,032)**	**(41,258)**	**(3,128)**	**–**	**(98,418)**
Charge for the year	**(7,516)**	**(7,483)**	**(454)**	**–**	**(15,453)**
Eliminated on disposals	**313**	**3,841**	**560**	**–**	**4,714**
31 December 2017	**(61,235)**	**(44,900)**	**(3,022)**	**–**	**(109,157)**
Allowance for impairment losses					
1 January 2017	**(296)**	**(8)**	**(2)**	**(8)**	**(314)**
Impairment loss	**–**	**–**	**–**	**(101)**	**(101)**
Eliminated on disposals	**2**	**–**	**1**	**–**	**3**
31 December 2017	**(294)**	**(8)**	**(1)**	**(109)**	**(412)**
Carrying value					
31 December 2017	**112,273**	**19,938**	**6,986**	**16,061**	**155,258**
1 January 2017	**108,530**	**22,937**	**5,179**	**22,023**	**158,669**

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25 Property and equipment (Continued)

	Buildings	Electronic equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
Cost					
1 January 2016	155,284	62,547	4,586	20,833	243,250
Additions	1,691	6,973	3,843	8,310	20,817
Transfers	6,824	286	1	(7,111)	–
Disposals	(941)	(5,603)	(121)	(1)	(6,666)
31 December 2016	162,858	64,203	8,309	22,031	257,401
Accumulated depreciation					
1 January 2016	(46,618)	(37,278)	(2,858)	–	(86,754)
Charge for the year	(7,934)	(7,953)	(377)	–	(16,264)
Eliminated on disposals	520	3,973	107	–	4,600
31 December 2016	(54,032)	(41,258)	(3,128)	–	(98,418)
Allowance for impairment losses					
1 January 2016	(299)	(9)	(2)	(8)	(318)
Impairment loss	(1)	–	–	–	(1)
Eliminated on disposals	4	1	–	–	5
31 December 2016	(296)	(8)	(2)	(8)	(314)
Carrying value					
31 December 2016	108,530	22,937	5,179	22,023	158,669
1 January 2016	108,367	25,260	1,726	20,825	156,178

According to the relevant laws and regulations, subsequent to the Bank's transformation into a joint stock company, the legal title of properties previously held by the Predecessor Entity are to be transferred to the Bank. As at 31 December 2017, the registration transfer processes of these transferred properties and other certain properties have not been completed. Management believes that the incomplete registration transfer process does not affect the rights of the Bank as the legal successor to those assets.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26 Deferred taxation

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following is the analysis of the deferred tax balances:

	As at 31 December	
	2017	2016
Deferred tax assets	**97,751**	83,187
Deferred tax liabilities	**(87)**	(58)
Net	**97,664**	83,129

(1) The following are the movements and major deferred tax assets and liabilities recognized:

	Allowance for impairment losses	**Accrued but unpaid staff cost**	**Early retirement benefits**	**Provision**	**Fair value changes of financial instruments, net**	**Others**	**Total**
1 January 2017	**75,931**	**6,818**	**1,331**	**3,398**	**(4,413)**	**64**	**83,129**
Credit/(charge) to the consolidated income statement	**2,725**	**558**	**(391)**	**(721)**	**4,588**	**188**	**6,947**
Credit to other comprehensive income	**–**	**–**	**–**	**–**	**7,588**	**–**	**7,588**
31 December 2017	**78,656**	**7,376**	**940**	**2,677**	**7,763**	**252**	**97,664**

	Allowance for impairment losses	Accrued but unpaid staff cost	Early retirement benefits	Provision	Fair value changes of financial instruments, net	Others	Total
1 January 2016	77,185	6,441	1,931	4,421	(8,607)	66	81,437
(Charge)/credit to the consolidated income statement	(1,254)	377	(600)	(1,023)	(2,190)	(2)	(4,692)
Credit to other comprehensive income	–	–	–	–	6,384	–	6,384
31 December 2016	75,931	6,818	1,331	3,398	(4,413)	64	83,129

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26 Deferred taxation (Continued)

(2) Deferred income tax assets/(liabilities) and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

	31 December 2017		31 December 2016	
	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)
Deferred tax assets				
Allowance for impairment losses	**314,625**	**78,656**	303,723	75,931
Fair value changes of financial instruments	**63,486**	**15,872**	24,340	6,085
Accrued but unpaid staff cost	**29,505**	**7,376**	27,270	6,818
Provision	**10,709**	**2,677**	13,590	3,398
Early retirement benefits	**3,762**	**940**	5,325	1,331
Others	**1,095**	**274**	359	88
Subtotal	**423,182**	**105,795**	374,607	93,651
Deferred tax liabilities				
Fair value changes of financial instruments	**(32,437)**	**(8,109)**	(41,992)	(10,498)
Others	**(89)**	**(22)**	(98)	(24)
Subtotal	**(32,526)**	**(8,131)**	(42,090)	(10,522)
Net	**390,656**	**97,664**	332,517	83,129

27 Other assets

		As at 31 December	
		2017	2016
Interest receivable		**118,693**	110,370
Accounts receivable and temporary payments	(1)	**35,169**	78,998
Land use rights	(2)	**21,798**	22,418
Premiums receivable and reinsurance assets		**2,903**	16,670
Investment property		**2,755**	3,213
Intangible assets		**2,737**	2,848
Long-term deferred expenses		**2,672**	3,103
Foreclosed assets		**2,666**	1,945
Value-added tax receivable		**1,581**	1,430
Others		**5,926**	3,834
Total		**196,900**	244,829

(1) Accounts receivable and temporary payments primarily include items in the process of clearing and settlement.

(2) According to the relevant laws and regulations, subsequent to the Bank's transformation into a joint stock company, land use rights previously held by the Predecessor Entity are to be transferred to the Bank. As at 31 December 2017, the registration transfer process of certain land use rights has not been completed. Management believes that the incomplete registration transfer process does not affect the rights of the Bank as the legal successor to those land use rights.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

28 Borrowings from central bank

As at 31 December 2017, borrowings from central bank mainly included Medium-term Lending Facilities from PBOC amounting to RMB464,500 million (31 December 2016: RMB289,000 million).

29 Deposits from banks and other financial institutions

	As at 31 December	
	2017	2016
Deposits from:		
Domestic banks	**117,401**	178,354
Other domestic financial institutions	**815,908**	947,210
Overseas banks	**9,262**	5,220
Other overseas financial institutions	**32,159**	25,260
Total	**974,730**	1,156,044

30 Placements from banks and other financial institutions

	As at 31 December	
	2017	2016
Placements from:		
Domestic banks and other financial institutions	**92,665**	123,108
Overseas banks and other financial institutions	**187,396**	178,913
Total	**280,061**	302,021

31 Financial liabilities held for trading

The financial liabilities held for trading are liabilities related to precious metal contracts.

32 Financial liabilities designated at fair value through profit or loss

	As at 31 December	
	2017	2016
Principal guaranteed wealth management products	**364,151**	283,666
Overseas debt securities	**6,503**	–
Total	**370,654**	283,666

The Group designates wealth management products with principal guaranteed by the Group as financial liabilities at fair value through profit or loss. The corresponding investments are designated as financial assets at fair value through profit or loss. As at 31 December 2017 and 31 December 2016, the difference between the fair value of these products issued by the Group and the contractual amount payable to the holders of these products upon maturity was not material.

For the current and prior year, there were no significant changes in the fair value of the Group's financial liabilities designated at fair value through profit or loss attributable to the changes in the Group's own credit risk.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 Financial assets sold under repurchase agreements

	As at 31 December	
	2017	2016
Analyzed by type of collateral:		
Debt securities	**319,608**	205,022
Bills	**181**	810
Total	**319,789**	205,832

The collateral pledged under repurchase agreement is disclosed in Note IV 47 Contingent Liabilities and Commitments – Collateral.

34 Due to customers

		As at 31 December	
		2017	2016
Demand deposits			
Corporate customers		**4,554,308**	3,902,828
Individual customers		**4,896,269**	4,536,249
Time deposits			
Corporate customers		**1,889,604**	1,778,060
Individual customers		**4,356,685**	4,286,428
Pledged deposits	(1)	**305,276**	338,065
Others		**192,137**	196,371
Total		**16,194,279**	15,038,001

(1) Analyzed by activity to which pledged deposits are related to:

	As at 31 December	
	2017	2016
Guarantee and letters of guarantee	**92,174**	100,896
Trade finance	**80,551**	75,375
Bank acceptance	**62,906**	86,167
Letters of credit	**24,856**	30,118
Others	**44,789**	45,509
Total	**305,276**	338,065

35 Debt securities issued

		As at 31 December	
		2017	2016
Bonds issued	(1)	**246,833**	202,107
Certificates of deposit issued	(2)	**196,412**	147,245
Commercial papers issued	(3)	**22,915**	28,711
Interbank certificates of deposit issued	(4)	**8,857**	10,152
Total		**475,017**	388,215

As at 31 December 2017 and 31 December 2016, there was no default related to any debt securities issued by the Group.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Debt securities issued (Continued)

(1) The carrying value of the Group's bonds issued are as follows:

		As at 31 December	
		2017	2016
4.15% RMB fixed rate Green Bonds maturing in October 2017	(i)	**–**	600
2.125% USD fixed rate Green Bonds maturing in October 2018	(ii)	**2,614**	2,775
2.75% USD fixed rate Green Bonds maturing in October 2020	(iii)	**3,267**	3,468
Medium term notes issued	(iv)	**45,951**	40,383
4.0% subordinated fixed rate bonds maturing in May 2024	(v)	**25,000**	25,000
5.3% subordinated fixed rate bonds maturing in June 2026	(vi)	**50,000**	50,000
4.99% subordinated fixed rate bonds maturing in December 2027	(vii)	**50,000**	50,000
5.8% Tier-two capital fixed rate bonds maturing in August 2024	(viii)	**30,000**	30,000
4.45% Tier-two capital fixed rate bonds maturing in August 2027	(ix)	**40,000**	–
Total nominal value		**246,832**	202,226
Less: Unamortized issuance cost and discounts		**1**	(119)
Carrying value		**246,833**	202,107

Pursuant to the approval by relevant regulatory authorities, the bonds issued by the Group are set out as below:

(i) The RMB green bonds issued in London in October 2015 have a tenor of 2 years, with a fixed coupon rate 4.15%, payable semi-annually.

(ii) The USD green bonds issued in London in October 2015 have a tenor of 3 years, with a fixed coupon rate 2.125%, payable semi-annually.

(iii) The USD green bonds issued in London in October 2015 have a tenor of 5 years, with a fixed coupon rate 2.75%, payable semi-annually.

(iv) The medium term notes ("MTNs") were issued by the Overseas Operations of the Group and are measured at amortized cost. The details of medium term notes issued were as follows:

	As at 31 December 2017		
	Maturity dates ranging from	***Coupon rates (%)***	***Outstanding balance***
Fixed rate USD MTNs	***May 2018 to June 2021***	***1.875-3.60***	***27,175***
Fixed rate RMB MTNs	***December 2018 to December 2019***	***2.375-3.80***	***2,761***
Floating rate USD MTNs	***May 2018 to September 2019***	***3-month USD LIBOR plus 0.75 to 0.98***	***13,068***
Fixed rate HKD MTNs	***August 2018 to August 2020***	***1.43-2.18***	***2,613***
Floating rate HKD MTNs	***September 2020***	***3-month HKD HIBOR plus 0.70***	***334***
Total			***45,951***

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Debt securities issued (Continued)

(1) The carrying value of the Group's bonds issued are as follows (Continued):

(iv) The medium term notes ("MTNs") were issued by the Overseas Operations of the Group and are measured at amortized cost. The details of medium term notes issued were as follows (Continued):

	As at 31 December 2016		
	Maturity dates ranging from	*Coupon rates (%)*	*Outstanding balance*
Fixed rate USD MTNs	*October 2017 to June 2021*	*1.875-2.875*	*26,769*
Fixed rate RMB MTNs	*May 2017 to August 2019*	*3.35-3.80*	*3,350*
Floating rate USD MTNs	*March 2017 to September 2019*	*3-month USD LIBOR plus 0.75 to 1.33*	*9,781*
Fixed rate EUR MTNs	*March 2017*	*0.48*	*365*
Zero coupon USD MTN	*February 2017*	*–*	*118*
Total			*40,383*

(v) The subordinated fixed rate bonds issued in May 2009 have a tenor of 15 years, with a fixed coupon rate of 4.0%, payable annually. The Bank has an option to redeem all of the bonds at face value on 20 May 2019. If the Bank did not exercise this option, the coupon rate of the bonds will increase to 7.0% per annum from 20 May 2019 onwards.

(vi) The subordinated fixed rate bonds issued in June 2011 have a tenor of 15 years, with a fixed coupon rate of 5.3%, payable annually. The Bank has an option to redeem all of the bonds at face value on 7 June 2021. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 5.3% per annum from 7 June 2021 onwards.

(vii) The subordinated fixed rate bonds issued in December 2012 have a tenor of 15 years, with a fixed coupon rate of 4.99%, payable annually. The Bank has an option to redeem all of the bonds at face value on 20 December 2022. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.99% per annum from 20 December 2022 onwards.

(viii) The Tier-two capital bonds issued in August 2014 have a tenor of 10 years, with a fixed coupon rate of 5.8% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 17 August 2019 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 5.8% per annum from 18 August 2019 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument, which allows the Bank to write down the entire principal of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable, and; they are qualified as Tier-two Capital Instruments in accordance with the CBRC requirements.

(ix) The Tier-two capital bonds issued in October 2017 have a tenor of 10 years, with a fixed coupon rate of 4.45% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 16 September 2022 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.45% per annum from 17 September 2022 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument, which allows the Bank to write down the entire principal of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable, and; they are qualified as Tier-two Capital Instruments in accordance with the CBRC requirements.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Debt securities issued (Continued)

(2) As at 31 December 2017, the certificates of deposit were issued by the Overseas Operations of the Group and were measured at amortized cost. The terms of the certificates of deposit range from one month to seven years, with interest rates ranging from 0% to 5.06%. As at 31 December 2016, the terms ranged from one month to seven years with interest rates ranging from 0% to 5.8%.

(3) As at 31 December 2017, the commercial papers were issued by the Overseas Operations of the Group and were measured at amortized cost. The terms of the commercial papers range from two months to one year, with interest rates ranging from 0.01% to 2.36%. As at 31 December 2016, the terms ranged from one month to two years, with interest rates ranging from 0.03% to 6.4%.

(4) As at 31 December 2017, the interbank certificates of deposit were issued by the Bank's Head Office. The terms of the interbank certificates of deposit range from one month to six months, with interest rates ranging from 4.30% to 4.60%. As at 31 December 2016, the terms ranged from one month to two years with interest rates ranging from 2.68% to 4.39%.

36 Other liabilities

		As at 31 December	
		2017	2016
Interest payable		**228,805**	229,115
Insurance liabilities		**73,869**	75,728
Clearing and settlement		**47,126**	87,993
Staff costs payable	(1)	**40,222**	39,902
Income taxes payable		**32,842**	16,356
Provision		**10,709**	13,590
VAT and other taxes payable		**7,322**	5,222
Amount payable to the MOF	(2)	**3,154**	26,293
Dormant accounts		**2,469**	1,782
Others		**44,913**	49,338
Total		**491,431**	545,319

(1) Staff costs payable

		As at 31 December	
		2017	2016
Short-term employee benefits	(i)	**35,894**	33,956
Defined contribution benefits	(ii)	**566**	621
Early retirement benefits	(iii)	**3,762**	5,325
Total		**40,222**	39,902

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Other liabilities (Continued)

(1) *Staff costs payable (Continued)*

(i) *Short-term employee benefits*

		2017			
		1 January	Increased	Decreased	31 December
Salaries, bonuses, allowance and subsidies	(a)	**25,524**	**73,140**	**(71,835)**	**26,829**
Housing funds	(a)	**155**	**8,212**	**(8,210)**	**157**
Social insurance including:	(a)	**176**	**5,109**	**(5,114)**	**171**
– Medical insurance		**156**	**4,611**	**(4,608)**	**159**
– Maternity insurance		**16**	**330**	**(339)**	**7**
– Employment injury insurance		**4**	**168**	**(167)**	**5**
Labor union fees and staff education expenses		**4,418**	**3,269**	**(2,343)**	**5,344**
Others		**3,683**	**8,799**	**(9,089)**	**3,393**
Total		**33,956**	**98,529**	**(96,591)**	**35,894**

		2016			
		1 January	Increased	Decreased	31 December
Salaries, bonuses, allowance and subsidies	(a)	23,773	70,770	(69,019)	25,524
Housing funds	(a)	178	8,638	(8,661)	155
Social insurance including:	(a)	124	5,016	(4,964)	176
– Medical insurance		107	4,524	(4,475)	156
– Maternity insurance		9	312	(305)	16
– Employment injury insurance		8	180	(184)	4
Labor union fees and staff education expenses		3,981	2,625	(2,188)	4,418
Others		3,665	9,424	(9,406)	3,683
Total		31,721	96,473	(94,238)	33,956

(a) *Salaries, bonuses, allowance and subsidies, housing funds and social insurance are timely distributed and paid in accordance with the relevant laws and regulations and the Group's policy.*

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Other liabilities (Continued)

(1) *Staff costs payable* (Continued)

(ii) *Defined contribution benefits*

	2017			
	1 January	Increased	Decreased	31 December
Basic pensions	**456**	**11,413**	**(11,342)**	**527**
Unemployment insurance	**35**	**351**	**(354)**	**32**
Annuity Scheme	**130**	**3,469**	**(3,592)**	**7**
Total	**621**	**15,233**	**(15,288)**	**566**

	2016			
	1 January	Increased	Decreased	31 December
Basic pensions	396	11,332	(11,272)	456
Unemployment insurance	44	545	(554)	35
Annuity Scheme	5	3,427	(3,302)	130
Total	445	15,304	(15,128)	621

The defined contribution benefits are timely distributed and paid in accordance with the relevant laws and regulations and the Group's policy.

(iii) *Early retirement benefits*

	2017			
	1 January	Increased	Decreased	31 December
Early retirement benefits	**5,325**	**77**	**(1,640)**	**3,762**

	2016			
	1 January	Increased	Decreased	31 December
Early retirement benefits	7,724	(241)	(2,158)	5,325

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Other liabilities (Continued)

(1) Staff costs payable (Continued)

(iii) Early retirement benefits (Continued)

The principal assumptions used for the purpose of the actuarial valuations were as follows:

	As at 31 December 2017	2016
Discount rate	**3.80%**	3.05%
Annual average medical expense growth rate	**8.00%**	8.00%
Annual subsidies growth rate	**8.00%**	8.00%
Normal retirement age		
– Male	**60**	60
– Female	**55**	55

Assumptions regarding future mortality experience are based on the China Life Insurance Mortality Table (year 2010 – 2013) (published historical statistics in China).

Any difference arising from the actual result or changes in assumptions may affect the amount of expense recognized in the consolidated income statement.

(2) Amount payable to the MOF

Pursuant to the "Notice on Relevant Issues Concerning the Disposal of Non-performing Assets of Agricultural Bank of China" (Caijin [2008] No. 138) issued by the MOF, the MOF commissioned the Bank to manage and dispose of non-performing assets transferred. The amount payable to the MOF represents proceeds collected by the Bank from the disposal of these non-performing assets on behalf of the MOF.

37 Ordinary shares

There was no change in the Bank's ordinary share capital during the current and prior year.

	As at 31 December 2017 and 2016	
	Number of shares (millions)	Nominal value
Registered, issued and fully paid:		
A shares of RMB1 each	294,055	294,055
H shares of RMB1 each	30,739	30,739
Total	**324,794**	**324,794**

A share refers to the ordinary shares listed in the Mainland China. They are offered and traded in RMB. H share refers to the ordinary shares listed in Hong Kong. Their par value is denominated in RMB when they were initially offered and are currently traded in HKD.

As at 31 December 2017 and 31 December 2016, all of the Bank's A Shares and H Shares were not subject to lock-up restriction.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

38 Preference shares

Financial instruments in issue	Dividend rate	Issued price (RMB yuan)	Issued number of shares (millions)	Issued nominal value (millions)	Maturity date	Conversions
Preference shares – first tranche	6% per annum for the first 5 years after issuance, and re-priced every 5 years as stated below	100	400	40,000	No maturity date	No conversion during the year
Preference shares – second tranche	5.5% per annum for the first 5 years after issuance, and re-priced every 5 years as stated below	100	400	40,000	No maturity date	No conversion during the year

The Bank was authorized to issue 800 million preference shares of RMB100 each, pursuant to the approval by its ordinary equity holders and relevant regulatory authorities.

The first tranche of 400 million preference shares were issued at par in November 2014. The carrying amount, net of direct issuance expenses, was RMB39,944 million as at 31 December 2017. The first tranche preference shares bear a dividend rate of 6% per annum, dividends are non-cumulative and where payable, is paid annually, for the first five years from issuance. The dividend rate will be repriced every five years thereafter with reference to the five-year PRC treasury bonds yield plus a fixed premium of 2.29%.

The second tranche of 400 million preference shares were issued at par in March 2015. The carrying amount, net of direct issuance expenses, was RMB39,955 million as at 31 December 2017. The second tranche preference shares bear a dividend rate of 5.5% per annum, dividends are non-cumulative and where payable, is paid annually, for the first five years from issuance. The dividend rate will be re-priced every five years thereafter with reference to the five-year PRC treasury bonds yield plus a fixed premium of 2.24%.

There were no changes in the carrying amounts of the preference shares since issuance.

As authorized by the ordinary equity holders in the annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on preference shares. The Bank shall not distribute any dividends to its ordinary equity holders before it declares such dividends to preference shareholders for the relevant period. The distribution of preference shares dividend is at the Bank's discretion and is non-cumulative. Preference shareholders are not entitled to participate in the distribution of retained profits except for the dividends stated above.

The Bank has redemption option when specified conditions as stipulated in the offering documents are met, subject to regulatory approval, whereas preference shareholders have no right to require the Bank to redeem the preference shares.

Upon liquidation, the claims of preference shareholders have priority over ordinary equity holders on the residual assets of the Bank, but are subordinated to those of depositors, general creditors, Tier-two Capital Instruments holders or any other subordinated debt holders with equivalent rights.

Upon occurrence of the triggering events as stipulated in paragraph 2(3) of the Guidance of the China Banking Regulatory Commission on Commercial Banks' Innovation on Capital Instruments (CBRC No. 56 [2012]) and subject to regulatory approval, preference shares shall be mandatorily converted into ordinary A shares of the Bank at the conversion price of RMB2.43 yuan per share, partially or entirely. The conversion price of the preference shares will be adjusted when certain events occur including bonus issues, rights issue, capitalization of reserves and new issuances of ordinary shares, subject to terms and formulas provided for in the offering documents, to maintain the relative interests between preference shareholders and ordinary equity holders.

These preference shares are classified as equity instruments, and presented as equity in the consolidated statement of financial position, and; are qualified as Additional Tier-one Capital Instruments in accordance with the CBRC requirements.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 Capital reserve

The capital reserve represents the premium related to ordinary shares issued by the Bank in 2010. Share premium was recorded in the capital reserve after deducting direct issue expenses, which consisted primarily of underwriting fees and professional fees.

40 Investment revaluation reserve

	2017		
	Gross amount	**Tax effect**	**Net effect**
1 January 2017	**4,775**	**(1,197)**	**3,578**
Fair value changes on available-for-sale financial assets			
– Amount of losses recognized directly in other comprehensive income	**(31,348)**	**7,752**	**(23,596)**
– Amount removed from other comprehensive income and recognized in profit or loss	**438**	**(110)**	**328**
31 December 2017	**(26,135)**	**6,445**	**(19,690)**

	2016		
	Gross amount	Tax effect	Net effect
1 January 2016	29,907	(7,478)	22,429
Fair value changes on available-for-sale financial assets			
– Amount of losses recognized directly in other comprehensive income	(24,570)	6,140	(18,430)
– Amount removed from other comprehensive income and recognized in profit or loss	(562)	141	(421)
31 December 2016	4,775	(1,197)	3,578

41 Surplus reserve

Under PRC Law, the Bank is required to transfer 10% of its net profit determined under the PRC GAAP to a non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of this reserve has reached 50% of share capital. Pursuant to the resolution of the Board of Directors' Meeting held on 26 March 2018, an appropriation of 10% of the profit for the current year, determined under the generally accepted accounting principles of the PRC, to the statutory surplus reserve, in the amount of RMB19,171 million (2016: RMB18,294 million) was approved. In addition, certain subsidiaries and overseas branches also appropriated surplus reserves in accordance with local requirements.

Subject to the approval of the ordinary equity holders, the statutory surplus reserves can be used for replenishing accumulated losses or increasing the Bank's ordinary share capital. The statutory surplus reserves amount used to increase the ordinary share capital is limited to a level where the balance of the statutory surplus reserves after such capitalization is not less than 25% of the ordinary share capital.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 General reserve

Pursuant to Caijin [2012] No. 20 "Requirements on Impairment Allowance for Financial Institutions" (the "Requirement") issued by the MOF, effective 1 July 2012, in addition to impairment allowance, the Bank establishes a general reserve within ordinary equity holders' equity through the appropriation of profit to address unidentified potential impairment risks. The general reserve should not be less than 1.5% of the aggregate amount of risk assets as defined by the Requirement. The general reserve includes regulatory reserve appropriated by the Bank's overseas branches ("Overseas Institutions") pursuant to local regulatory requirements.

Pursuant to relevant PRC regulatory requirements, some domestic subsidiaries of the Bank are required to appropriate certain amounts of their net profit as general reserves.

During the year ended 31 December 2017, the Group transferred RMB32,445 million (2016: RMB22,699 million) to the General Reserve pursuant to the regulatory requirements in the PRC and overseas jurisdictions. Of this amount, RMB31,947 million (2016: RMB22,464 million) related to the appropriation proposed for the year ended 31 December 2016 which was approved in the annual general meeting held on 28 June 2017.

On 26 March 2018, the Board of Directors' meeting approved a proposal of appropriation of RMB8,380 million to general reserve. Such appropriation will be recognized in the Group's consolidated financial statements after approval by ordinary equity holders in the forthcoming annual general meeting.

43 Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include the following balances with an original maturity of three months or less:

	As at 31 December	
	2017	2016
Cash	**108,497**	111,607
Balance with central banks	**45,847**	114,830
Deposits with banks and other financial institutions	**98,590**	168,369
Placements with and loans to banks and other financial institutions	**252,570**	172,012
Financial assets held under resale agreements	**495,742**	260,880
Total	**1,001,246**	827,698

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Operating segments

Operating segments are identified on the basis of internal management reports with respect to the components of the Group that are regularly reviewed by the Board and relevant management committees, which constitute the chief operating decision makers, for the purposes of allocating resources to segments and assessing their performance. The Group's chief operating decision makers review three different sets of financial information based on (i) geographical locations, (ii) business activities and (iii) County Area and Urban Area banking business.

The measurement of segment assets and liabilities, as well as segment revenue, expense and results is based on the Group's accounting policies. There is no difference between the accounting policies used in the preparation of the consolidated financial statements and those used in preparing the operating segment information.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer pricing are determined with reference to market rates and have been reflected in the performance of each segment.

Segment revenue, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Geographical operating segments

The details of the geographical operating segments are as follows:

Head Office	
Yangtze River Delta:	Shanghai, Jiangsu, Zhejiang, Ningbo
Pearl River Delta:	Guangdong, Shenzhen, Fujian, Xiamen
Bohai Rim:	Beijing, Tianjin, Hebei, Shandong, Qingdao
Central China:	Shanxi, Hubei, Henan, Hunan, Jiangxi, Hainan, Anhui
Western China:	Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang (including Xinjiang Bingtuan), Tibet, Inner Mongolia, Guangxi
Northeastern China:	Liaoning, Heilongjiang, Jilin, Dalian
Overseas and Others:	Subsidiaries and overseas branches

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Operating segments (Continued)

Geographical operating segments (Continued)

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and Others	Eliminations	Consolidated total
For the year ended 31 December 2017										
External interest income	268,082	100,934	66,983	68,460	64,374	103,393	17,701	23,772	–	713,699
External interest expense	(37,623)	(55,790)	(30,608)	(43,439)	(36,783)	(41,631)	(12,717)	(13,178)	–	(271,769)
Inter-segment interest (expense)/income	(220,318)	48,063	26,492	47,025	43,279	42,558	13,844	(943)	–	–
Net interest income	10,141	93,207	62,867	72,046	70,870	104,320	18,828	9,651	–	441,930
Fee and commission income	19,984	15,987	11,780	10,092	9,716	13,984	2,775	939	–	85,257
Fee and commission expense	(2,373)	(2,222)	(1,803)	(1,603)	(1,596)	(2,204)	(486)	(67)	–	(12,354)
Net fee and commission income	17,611	13,765	9,977	8,489	8,120	11,780	2,289	872	–	72,903
Net trading (loss)/gain	(5,969)	(32)	5	53	(27)	52	45	(2,956)	–	(8,829)
Net (loss)/gain on financial instruments designated at fair value through profit or loss	(5,237)	1	18	980	(1)	8	–	987	–	(3,244)
Net gain on investment securities	(959)	–	–	68	–	18	–	1,009	–	136
Other operating income	6,386	1,085	677	536	541	4,326	83	26,368	–	40,002
Operating income	21,973	108,026	73,544	82,172	79,503	120,504	21,245	35,931	–	542,898
Operating expenses	(5,775)	(31,317)	(22,776)	(28,579)	(31,033)	(43,548)	(13,553)	(28,687)	–	(205,268)
Impairment losses on assets	192	(21,022)	(13,083)	(25,927)	(10,955)	(21,480)	(4,030)	(1,861)	–	(98,166)
Operating profit	16,390	55,687	37,685	27,666	37,515	55,476	3,662	5,383	–	239,464
Share of results of associates	14	–	–	–	–	–	–	–	–	14
Profit before tax	16,404	55,687	37,685	27,666	37,515	55,476	3,662	5,383	–	239,478
Income tax expense										(46,345)
Profit for the year										193,133
Depreciation and amortization included in operating expenses	1,601	2,796	2,087	2,931	3,155	4,148	1,231	330	–	18,279
Capital expenditure	789	1,085	1,579	2,193	2,263	3,301	897	3,508	–	15,615
As at 31 December 2017										
Segment assets	5,245,493	4,685,961	2,721,293	3,673,909	3,087,743	4,353,179	946,065	926,250	(4,684,262)	20,955,631
Including: Investment in associate	227	–	–	–	–	–	–	–	–	227
Unallocated assets										97,751
Total assets										21,053,382
Include: non-current assets (1)	11,782	31,931	17,599	29,337	28,021	41,821	11,843	12,875	–	185,209
Segment liabilities	(3,874,946)	(4,691,262)	(2,720,278)	(3,690,361)	(3,084,338)	(4,362,114)	(950,890)	(901,129)	4,684,262	(19,591,056)
Unallocated liabilities										(32,929)
Total liabilities										(19,623,985)
Credit commitments	39,053	488,442	241,298	334,741	201,770	287,590	66,396	89,588	–	1,748,878

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Operating segments (Continued)

Geographical operating segments *(Continued)*

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and Others	Eliminations	Consolidated total
For the year ended 31 December 2016										
External interest income	249,147	94,849	60,600	65,338	56,112	95,937	16,965	18,242	–	657,190
External interest expense	(21,227)	(57,135)	(31,466)	(46,229)	(37,594)	(42,768)	(12,996)	(9,671)	–	(259,086)
Inter-segment interest (expense)/income	(205,448)	42,389	25,520	45,441	41,005	37,475	14,020	(402)	–	–
Net interest income	22,472	80,103	54,654	64,550	59,523	90,644	17,989	8,169	–	398,104
Fee and commission income	23,010	17,811	14,224	12,427	11,071	17,287	3,949	1,040	–	100,819
Fee and commission expense	(1,340)	(1,934)	(1,660)	(1,227)	(1,315)	(1,898)	(425)	(85)	–	(9,884)
Net fee and commission income	21,670	15,877	12,564	11,200	9,756	15,389	3,524	955	–	90,935
Net trading gain/(loss)	6,144	(11)	(26)	(55)	(79)	13	–	(529)	–	5,457
Net (loss)/gain on financial instruments designated at fair value through profit or loss	(1,645)	59	(32)	(1)	–	(2)	–	330	–	(1,291)
Net gain on investment securities	112	–	1	–	–	4	–	803	–	920
Other operating (loss)/income	(1,880)	1,178	783	371	379	3,452	180	11,540	–	16,003
Operating income	46,873	97,206	67,944	76,065	69,579	109,500	21,693	21,268	–	510,128
Operating expenses	(7,642)	(32,125)	(23,561)	(28,029)	(32,176)	(42,143)	(14,128)	(17,245)	–	(197,049)
Impairment losses on assets	(7,746)	(13,975)	(8,226)	(9,471)	(10,244)	(31,276)	(3,698)	(1,810)	–	(86,446)
Operating profit	31,485	51,106	36,157	38,565	27,159	36,081	3,867	2,213	–	226,633
Share of results of associates	(9)	–	–	–	–	–	–	–	–	(9)
Profit before tax	31,476	51,106	36,157	38,565	27,159	36,081	3,867	2,213	–	226,624
Income tax expense										(42,564)
Profit for the year										184,060
Depreciation and amortization included in operating expenses	1,662	3,026	2,209	2,963	3,329	4,345	1,317	186	–	19,037
Capital expenditure	2,348	3,387	1,585	2,931	2,727	4,144	1,069	4,730	–	22,921
As at 31 December 2016										
Segment assets	4,565,308	4,149,290	2,532,893	3,378,776	2,833,496	3,922,132	913,274	807,402	(3,615,697)	19,486,874
Including: Investment in associate	213	–	–	–	–	–	–	–	–	213
Unallocated assets										83,187
Total assets										19,570,061
Include: non-current assets (1)	12,806	33,865	17,993	30,287	28,931	42,839	12,191	11,261	–	190,173
Segment liabilities	(3,291,426)	(4,162,053)	(2,528,928)	(3,386,705)	(2,833,390)	(3,943,549)	(915,912)	(785,790)	3,615,697	(18,232,056)
Unallocated liabilities										(16,414)
Total liabilities										(18,248,470)
Credit commitments	42,861	464,193	208,914	317,307	187,281	222,055	66,799	124,924	–	1,634,334

(1) Non-current assets include property and equipment, investment properties, land use rights, intangible assets and other long-term assets.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Operating segments (Continued)

Business operating segments

The details of the business operating segments are as follows:

Corporate banking

The corporate banking segment provides financial products and services to corporations, government agencies and financial institutions. The range of products and services includes corporate loans and advances, trade finance, deposit products, corporate wealth management services and other types of corporate intermediary services.

Personal banking

The personal banking segment provides financial products and services to individual customers. The range of products and services includes personal loans, deposit products, card business, personal wealth management services and other types of personal intermediary services.

Treasury operations

The Group's treasury operations conduct money market and repurchase transactions, debt instruments investments, precious metal transactions and derivative transactions for its own accounts or on behalf of customers.

Others

Others comprise components of the Group that are not attributable to any of the above segments, along with certain assets, liabilities, income or expenses of the Head Office that could not be allocated on a reasonable basis.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Operating segments (Continued)

***Business operating segments** (Continued)*

	Corporate banking	Personal banking	Treasury operations	Others	Consolidated total
For the year ended 31 December 2017					
External interest income	288,486	158,017	260,417	6,779	713,699
External interest expense	(84,260)	(143,031)	(42,375)	(2,103)	(271,769)
Inter-segment interest Income/(expense)	4,603	159,790	(164,393)	–	–
Net interest income	208,829	174,776	53,649	4,676	441,930
Fee and commission income	42,349	41,572	–	1,336	85,257
Fee and commission expense	(4,891)	(7,422)	(2)	(39)	(12,354)
Net fee and commission income	37,458	34,150	(2)	1,297	72,903
Net trading loss	–	–	(8,766)	(63)	(8,829)
Net gain/(loss) on financial instruments designated at fair value through profit or loss	338	(5,630)	1,086	962	(3,244)
Net (loss)/gain on investment securities	–	–	(847)	983	136
Other operating income	2,708	2,634	11,470	23,190	40,002
Operating income	249,333	205,930	56,590	31,045	542,898
Operating expenses	(68,169)	(88,182)	(22,326)	(26,591)	(205,268)
Impairment losses on assets	(92,610)	(3,610)	(391)	(1,555)	(98,166)
Operating profit	88,554	114,138	33,873	2,899	239,464
Share of results of associates	–	–	–	14	14
Profit before tax	88,554	114,138	33,873	2,913	239,478
Income tax expense					(46,345)
Profit for the year					193,133
Depreciation and amortization included in operating expenses	3,590	10,683	3,744	262	18,279
Capital expenditure	2,526	7,518	2,635	2,936	15,615
At 31 December 2017					
Segment assets	6,584,597	4,468,376	9,635,618	267,040	20,955,631
Including: Investment in associate	–	–	–	227	227
Unallocated assets					97,751
Total assets					21,053,382
Segment liabilities	(7,306,002)	(10,302,042)	(1,826,344)	(156,668)	(19,591,056)
Unallocated liabilities					(32,929)
Total liabilities					(19,623,985)
Credit commitments	1,234,005	514,873	–	–	1,748,878

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Operating segments (Continued)

***Business operating segments** (Continued)*

	Corporate banking	Personal banking	Treasury operations	Others	Consolidated total
For the year ended 31 December 2016					
External interest income	281,890	135,229	235,294	4,777	657,190
External interest expense	(89,004)	(148,393)	(20,464)	(1,225)	(259,086)
Inter-segment interest (expense)/income	(3,993)	167,567	(163,574)	–	–
Net interest income	188,893	154,403	51,256	3,552	398,104
Fee and commission income	53,339	46,209	–	1,271	100,819
Fee and commission expense	(3,193)	(6,642)	(2)	(47)	(9,884)
Net fee and commission income	50,146	39,567	(2)	1,224	90,935
Net trading gain	284	–	5,116	57	5,457
Net gain/(loss) on financial instruments designated at fair value through profit or loss	288	(1,639)	(296)	356	(1,291)
Net gain on investment securities	–	–	289	631	920
Other operating income/(expense)	2,153	1,884	(46)	12,012	16,003
Operating income	241,764	194,215	56,317	17,832	510,128
Operating expenses	(70,025)	(89,683)	(20,952)	(16,389)	(197,049)
Impairment losses on assets	(55,612)	(24,051)	(6,187)	(596)	(86,446)
Operating profit	116,127	80,481	29,178	847	226,633
Share of results of associates	–	–	–	(9)	(9)
Profit before tax	116,127	80,481	29,178	838	226,624
Income tax expense					(42,564)
Profit for the year					184,060
Depreciation and amortization included in operating expenses	3,822	11,298	3,797	120	19,037
Capital expenditure	3,740	11,054	3,715	4,412	22,921
At 31 December 2016					
Segment assets	6,332,417	3,730,943	9,223,479	200,035	19,486,874
Including: Investment in associate	–	–	–	213	213
Unallocated assets					83,187
Total assets					19,570,061
Segment liabilities	(6,778,331)	(9,760,885)	(1,542,284)	(150,556)	(18,232,056)
Unallocated liabilities					(16,414)
Total liabilities					(18,248,470)
Credit commitments	1,234,807	399,527	–	–	1,634,334

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Operating segments (Continued)

County Area and Urban Area segments

The Group's operating segments organized by County Area and Urban Area banking business are set out as follows:

County Area banking business

The Group's County Area banking business provides a broad range of financial products and services to customers in designated County Area, through its operating branches in the counties or county-level cities throughout the PRC. The products and services mainly comprise loans, deposits, bank cards, and other types of intermediary services.

Urban Area banking business

The Group's Urban Area banking business comprises all banking activities outside of the County Area banking business, overseas branches and subsidiaries.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Operating segments (Continued)

County Area and Urban Area segments *(Continued)*

	County Area banking business	Urban Area banking business	Eliminations	Consolidated total
For the year ended 31 December 2017				
External interest income	157,305	556,394	–	713,699
External interest expense	(86,537)	(185,232)	–	(271,769)
Inter-segment interest income/(expense)	106,176	(106,176)	–	–
Net interest income	176,944	264,986	–	441,930
Fee and commission income	34,442	50,815	–	85,257
Fee and commission expense	(4,423)	(7,931)	–	(12,354)
Net fee and commission income	30,019	42,884	–	72,903
Net trading gain/(loss)	88	(8,917)	–	(8,829)
Net loss on financial instruments designated at fair value through profit or loss	(1,407)	(1,837)	–	(3,244)
Net gain on investment securities	–	136	–	136
Other operating income	5,956	34,046	–	40,002
Operating income	211,600	331,298	–	542,898
Operating expenses	(83,915)	(121,353)	–	(205,268)
Impairment losses on assets	(44,474)	(53,692)	–	(98,166)
Operating profit	83,211	156,253	–	239,464
Share of results of associates	–	14	–	14
Profit before tax	83,211	156,267	–	239,478
Income tax expense				(46,345)
Profit for the year				193,133
Depreciation and amortization included in operating expenses	8,395	9,884	–	18,279
Capital expenditure	4,440	11,175	–	15,615
At 31 December 2017				
Segment assets	7,585,643	13,400,362	(30,374)	20,955,631
Including: Investment in associate	–	227	–	227
Unallocated assets				97,751
Total assets				21,053,382
Segment liabilities	(7,097,974)	(12,523,456)	30,374	(19,591,056)
Unallocated liabilities				(32,929)
Total liabilities				(19,623,985)
Credit commitments	449,431	1,299,447	–	1,748,878

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Operating segments (Continued)

***County Area and Urban Area segments** (Continued)*

	County Area banking business	Urban Area banking business	Eliminations	Consolidated total
For the year ended 31 December 2016				
External interest income	143,479	513,711	–	657,190
External interest expense	(88,268)	(170,818)	–	(259,086)
Inter-segment interest income/(expense)	102,598	(102,598)	–	–
Net interest income	157,809	240,295	–	398,104
Fee and commission income	35,605	65,214	–	100,819
Fee and commission expense	(3,718)	(6,166)	–	(9,884)
Net fee and commission income	31,887	59,048	–	90,935
Net trading gain	17	5,440	–	5,457
Net gain/(loss) on financial instruments designated at fair value through profit or loss	19	(1,310)	–	(1,291)
Net gain on investment securities	–	920	–	920
Other operating income	4,579	11,424	–	16,003
Operating income	194,311	315,817	–	510,128
Operating expenses	(84,205)	(112,844)	–	(197,049)
Impairment losses on assets	(44,186)	(42,260)	–	(86,446)
Operating profit	65,920	160,713	–	226,633
Share of results of associates	–	(9)	–	(9)
Profit before tax	65,920	160,704	–	226,624
Income tax expense				(42,564)
Profit for the year				184,060
Depreciation and amortization included in operating expenses	8,855	10,182	–	19,037
Capital expenditure	5,494	17,427	–	22,921
At 31 December 2016				
Segment assets	7,040,416	12,554,090	(107,632)	19,486,874
Including: Investment in associate	–	213	–	213
Unallocated assets				83,187
Total assets				19,570,061
Segment liabilities	(6,598,859)	(11,740,829)	107,632	(18,232,056)
Unallocated liabilities				(16,414)
Total liabilities				(18,248,470)
Credit commitments	380,806	1,253,528	–	1,634,334

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Related party transactions

(1) The Group and the MOF

As at 31 December 2017, the MOF directly owned 39.21% (31 December 2016: 39.21%) of the ordinary shares of the Bank.

The MOF is a Chinese government ministry, primarily responsible for managing state fiscal revenue and expenditure, and establishing and enforcing taxation policies. It reports to the Chinese State Council.

The Group had the following balances and transactions with the MOF in its ordinary course of business under normal commercial terms:

	As at 31 December	
	2017	2016
Assets		
Treasury bonds and special government bond	**604,345**	640,131
Receivable from the MOF (Note IV 22)	**271,678**	272,023
Interest receivable		
– treasury bonds and special government bond	**6,132**	7,648
– receivable from the MOF	**125**	3,802
Other accounts receivable	**10,147**	13,147
Liabilities		
Amount payable to the MOF (Note IV 36)	**3,154**	26,293
Customer deposits	**8,127**	10,265
Interest payable	**44**	23
Other liability		
– redemption of treasury bonds on behalf of the MOF	**87**	102

	Year ended 31 December	
	2017	2016
Interest income	**28,778**	29,607
Interest expense	**(213)**	(189)
Fee and commission income	**1,009**	15,072

Interest rate ranges for transactions with the MOF during the year are as follows:

	Year ended 31 December	
	2017	2016
	%	%
Treasury bonds and receivable from the MOF	**2.25-9.00**	1.94-9.00
Customer deposits	**0.05-2.12**	0.05-1.76

The Group's redemption commitment for treasury bonds underwriting is disclosed in Note IV 47 Contingent Liabilities and Commitments.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Related party transactions (Continued)

(2) The Group and Huijin

Central Huijin Investment Ltd. ("Huijin") is a wholly-owned subsidiary of China Investment Corporation Limited, which is incorporated in Beijing, PRC. Huijin was established to hold certain equity interests in state-owned financial institutions as authorized by the Chinese State Council and does not engage in other commercial activities. Huijin exercises its legal rights and assumes obligations related to the Bank on behalf of the PRC Government.

As at 31 December 2017, Huijin directly owned 40.03% (31 December 2016: 40.03%) of the ordinary shares of the Bank.

Transactions with Huijin

The Group had the following balances and transactions with Huijin in its ordinary course of business under normal commercial terms:

	As at 31 December	
	2017	2016
Assets		
Loans and advances to customers	**28,000**	–
Investment in debt securities	**13,839**	12,103
Interest receivable	**771**	145
Liabilities		
Principal guaranteed wealth management products issued by the Bank	**15,000**	7,000
Customer deposits	**5,301**	27
Interest payable	**122**	49

	Year ended 31 December	
	2017	2016
Interest income	**1,029**	463
Interest expense	**(903)**	(518)

Interest rate ranges for transactions with Huijin during the year are as follows:

	Year ended 31 December	
	2017	2016
	%	%
Loans and advances to customers	**3.92-4.35**	–
Investment in debt securities	**3.32-4.98**	3.16-4.20
Principal guaranteed wealth management products issued by the Bank	**2.95-4.41**	2.90-5.00
Customer deposits	**1.26-1.76**	1.38-2.80

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Related party transactions (Continued)

(2) The Group and Huijin (Continued)

Transactions with companies under Huijin

Huijin has equity interests in certain other banks and financial institutions under the direction of the Chinese government. The Group enters into transactions with these banks and financial institutions in the ordinary course of business under normal commercial terms. Corresponding balances with these banks and financial institutions were as follows:

	As at 31 December	
	2017	2016
Assets		
Deposits with banks and other financial institutions	**28,959**	120,985
Precious metal leasing	**2,061**	930
Placements with and loans to banks and other financial institutions	**42,563**	56,783
Derivative financial assets	**4,642**	2,671
Financial assets held under resale agreements	**30,335**	74,740
Loans and advances to customers	**17,548**	12,876
Investment securities	**742,623**	817,129
Liabilities		
Deposits from banks and other financial institutions	**39,220**	63,007
Placements from banks and other financial institutions	**44,498**	85,744
Derivative financial liabilities	**1,929**	2,238
Financial assets sold under repurchase agreements	**16,405**	12,438
Equity		
Preference shares	**2,000**	2,000
Off-balance sheet items		
Non-principal guaranteed wealth management products issued by the Bank	**2,943**	22,642

(3) The Group and other government related entities

Other than disclosed above, a significant portion of the Group's banking transactions are entered into with government authorities, agencies, affiliates and other State controlled entities. These transactions are entered into under normal commercial terms and conditions and mainly include provision of credit and guarantee, deposits, foreign exchange transactions, derivative transactions, agency services, underwriting and distribution of bonds issued by government agencies, purchase, sales and redemption of investment securities issued by government agencies.

Management considers that these transactions are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government authorities, agencies, affiliates and other State controlled entities.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Related party transactions (Continued)

(4) The Bank and its subsidiaries

The Bank had the following balances and transactions with its subsidiaries in its ordinary course of business under normal commercial terms:

	As at 31 December	
	2017	2016
Assets		
Deposits with banks and other financial institutions	**–**	3
Placements with and loans to banks and other financial institutions	**11,067**	11,411
Loans and advances to customers	**3,649**	4,398
Interest receivable	**68**	68
Other assets	**7**	6
Liabilities		
Deposits from banks and other financial institutions	**4,771**	5,887
Placements from banks and other financial institutions	**160**	1,041
Customer deposits	**2,117**	1,758
Interest payable	**42**	44
Off-balance sheet items		
Letters of guarantee issued and guarantees	**10,357**	11,388

	Year ended 31 December	
	2017	2016
Interest income	**312**	144
Fee and commission income	**925**	810
Other operating income	**20**	16
Interest expense	**(141)**	(29)
Operating expenses	**(29)**	(28)

	Year ended 31 December	
	2017	2016
	%	%
Placements with and loans to banks and other financial institutions	**0.01-5.15**	0.01-3.29
Loans and advances to customers	**1.73-4.79**	1.73-4.13
Deposits from banks and other financial institutions	**0.01-5.20**	0.00-4.90
Placements from banks and other financial institutions	**0.10-2.30**	1.15-1.25
Customer deposits	**0.30-2.94**	0.30-2.94

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Related party transactions (Continued)

(5) The Group and its associate

The Group had the following balances and transactions with its associate in its ordinary course of business under normal commercial terms:

	As at 31 December	
	2017	2016
Placements with and loans to banks and other financial institutions	**133**	183

	Year ended 31 December	
	2017	2016
	%	%
Placements with and loans to banks and other financial institutions	**0.10**	0.02-0.30

For the year ended 31 December 2017 and 31 December 2016, transaction profit or loss between the Group and its associate was not significant.

(6) Key management personnel

Key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group. Key management personnel of the Group, their close relatives, and entities that are controlled, jointly controlled, or significantly influenced by either the key management personnel of the Group or their close relatives, are considered as related parties of the Group. The Group enters into banking transactions with key management personnel and their related parties in the normal course of business. As at 31 December 2017, the balance of loans and advances to the key management personnel and their related parties is RMB3.06 million (31 December 2016: RMB4.91 million).

The remuneration of Directors and other members of key management during the years was as follows:

	Year ended 31 December	
	2017	2016 (Restated)
Salaries, bonuses and staff welfare	**8.52**	10.67

According to the regulations of the relevant authorities in the PRC, the key management personnel's final emoluments for the year ended 31 December 2017 have not been finalized. Management of the Group believes that difference between the final emoluments and that disclosed above will not have significant impact on the consolidated financial statements of the Group. The final compensation will be disclosed in a separate announcement when determined.

The compensation of key management personnel for the year ended 31 December 2016 was not decided at the time when the Group's 2016 consolidated financial statements were released and the amount of remuneration of Directors and other members of key management recognized in the consolidated income statement for the year of 2016 was RMB8.43 million. Supplementary announcement on final compensation of RMB10.67 million was released by the Bank on 30 August 2017. The comparative figures for the year of 2016 have been restated accordingly.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Related party transactions (Continued)

(7) The Group and the Annuity Scheme

The Group had the following balances and transactions with the Annuity Scheme set up by the Bank apart from the obligation for defined contribution to the Annuity Scheme:

	As at 31 December	
	2017	2016
Deposits from Annuity Scheme	**135**	16,367
Interest payable	**–**	619

	Year ended 31 December	
	2017	2016
Interest expense	**(225)**	(394)

Interest rate range for transactions with the Annuity Scheme during the year is as follows:

	Year ended 31 December	
	2017	2016
	%	%
Deposits from Annuity Scheme	**0.72-6.20**	0.72-6.20

46 Structured entities

(1) Consolidated structured entities

Principal guaranteed wealth management products sponsored and managed by the Group

Principal guaranteed wealth management products sponsored and managed by the Group represent products to which the Group has guaranteed the investor's principal investment, regardless of their actual performance. Investments made by these products and the corresponding liabilities to the investors of these products are presented in financial assets and financial liabilities designated at fair value through profit or loss, respectively.

Other consolidated structured entities

Other structured entities consolidated by the Group include certain trust investment plans, asset management plans, funds and securitization products issued, managed and/or invested by the Group. The Group controls these entities because the Group has power over, is exposed to, or has rights to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns.

As at 31 December 2017, the total assets of these consolidated structured entities were RMB482,441 million (31 December 2016: RMB306,177 million).

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 Structured entities (Continued)

(2) Unconsolidated structured entities

Unconsolidated structured entities sponsored and managed by the Group

Unconsolidated structured entities sponsored and managed by the Group mainly include non-principal guaranteed wealth management products ("WMPs"), which are not subject to any guarantee by the Group of the principal invested or interest to be paid. The WMPs invest in a range of primarily fixed-rate assets, most typically money market instruments, debt securities and loan assets. As the manager of these WMPs, the Group invests, on behalf of the investors in these WMPs, the funds raised in the assets as described in the investment plan related to each WMP and receives fee and commission income.

As at 31 December 2017, the total assets invested by these WMPs amounted to RMB1,580,527 million (31 December 2016: RMB1,379,009 million) and the corresponding outstanding WMPs issued by the Group amounted to RMB1,368,878 million (31 December 2016: RMB1,299,375 million). During the year ended 31 December 2017, the Group's interest in these WMPs included net fee and commission income of RMB7,645 million (2016: RMB8,313 million) and net interest income of RMB803 million (2016: RMB261 million), which related to placements and repo transactions entered into by the Group with these WMP Vehicles.

The Group entered into placements and repo transactions at market interest rates with these WMPs. The average balance during 2017 and the outstanding balance as at 31 December 2017 of these transactions were RMB23,168 million (weighted average outstanding period of 5.31 days) (2016: RMB8,776 million and 3.06 days) and RMB84,862 million (31 December 2016: RMB125,627 million), respectively. The Group was under no obligation to enter into these transactions. As at 31 December 2017 and 31 December 2016, the outstanding balance of these transactions was presented in placements with and loans to banks and other financial institutions and financial assets held under resale agreements, which represented the Group's maximum exposure to the WMPs.

There were no contractual liquidity arrangements, guarantees or other commitments among or between the Group, WMPs or any third parties that could increase the level of the Group's risk from WMPs disclosed above during the years ended 31 December 2017 and 31 December 2016. The Group was not required to absorb any losses incurred by WMPs. During the years ended 31 December 2017 and 2016, no losses was incurred by these WMPs relating to the Group's interests in these WMPs, and the WMPs did not experience difficulty in financing their activities.

Unconsolidated structured entities held by the Group

The Group invests in other unconsolidated structured entities which are sponsored and managed by other entities for investment return, and records trading gains or losses and interest income therefrom. These unconsolidated structured entities primarily include asset management plans, funds and asset-backed securities. As at 31 December 2017, the related carrying amount of investments and the maximum exposure by the Group to these other unconsolidated structured entities was RMB45,230 million (31 December 2016: RMB34,463 million), included under the financial assets designated at fair value through profit or loss, the available-for-sale financial assets, the held-to-maturity investments and the debt instruments classified as receivables categories in the consolidated statement of financial position. The information on the size of total assets of these unconsolidated structured entities was not readily available from the public domain.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 Contingent liabilities and commitments

Legal proceedings and others

The Bank and its subsidiaries are involved as defendants in certain lawsuits arising from their normal business operations. As at 31 December 2017, provisions of RMB6,240 million were made by the Group (31 December 2016: RMB6,030 million) based on court judgments or advice of legal counsel, and included in Note IV 36 Other Liabilities. Management of the Group believes that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group.

On 28 September 2016, the Bank and its New York Branch entered into a Cease and Desist Order with the Board of Governors of the Federal Reserve System of the United States. On 4 November 2016, the Bank and its New York Branch entered into a Consent Order with New York State Department of Financial Services (the "Department") and paid a civil monetary penalty to the Department accordingly. The Bank and its New York Branch are taking affirmative actions to respond to other requirements under these two orders.

As at 31 December 2016, the above-mentioned civil monetary penalty was paid and reflected in the consolidated financial statements for the year ended 31 December 2016. As at the date of this report, the Group is of the view that it is not practicable to estimate whether there will be any further regulatory actions undertaken by the US regulators as this will be dependent upon the regulatory conclusion after the Bank's and its New York Branch's actions towards the other requirements under these two orders. As such, the Group did not accrue any provision over this matter as at 31 December 2017.

Capital commitments

	As at 31 December	
	2017	2016
Contracted but not provided for	**5,062**	4,951

In addition, as at 31 December 2017 and 31 December 2016, the Group did not have outstanding equity investment commitments for its investee companies.

Credit commitments

	As at 31 December	
	2017	2016
Loan commitments		
– With an original maturity of less than 1 year	**58,038**	38,433
– With an original maturity of 1 year or above	**669,524**	549,968
Subtotal	**727,562**	588,401
Bank acceptance	**233,788**	312,255
Credit card commitments	**426,668**	323,217
Guarantee and letters of guarantee	**220,826**	229,177
Letters of credit	**140,034**	181,284
Total	**1,748,878**	1,634,334

Credit commitments represent credit cards and general credit facility limits granted to customers. These general credit facilities may be drawn in the form of loans or through the issuance of letters of credit, guarantee and letters of guarantee or bank acceptance.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 Contingent liabilities and commitments (Continued)

Credit risk weighted amount for credit commitments

Credit risk weighted amount for credit commitments represents the counterparty credit risk associated with credit commitments and is calculated in accordance with the "Capital Rules for Commercial Banks (Provisional)" issued by the CBRC which was effective 1 January 2013 and is dependent on, among other factors, creditworthiness of counterparties and maturity characteristics of each type of contract. As at 31 December 2017 and 31 December 2016, credit risk weighted amount for credit commitments was measured under the Internal Ratings – Based approach.

	As at 31 December	
	2017	2016
Credit risk weighted amount for credit commitments	**866,063**	831,636

Operating lease commitments

At the end of each reporting period, the Group, as a lessee, had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December	
	2017	2016
Within 1 year	**3,892**	3,948
1 to 2 years	**2,950**	3,051
2 to 3 years	**2,023**	2,262
3 to 5 years	**2,069**	2,451
Above 5 years	**1,005**	1,255
Total	**11,939**	12,967

During the year of 2017, operating lease expense recognized as operating expense by the Group was RMB4,990 million (2016: RMB5,190 million), and is included in Note IV 6 Operating Expenses.

Finance lease commitments

As at 31 December 2017, no non-cancellable finance lease commitments of the Group, as a lessor (31 December 2016: RMB338 million).

As at 31 December 2017, the gross amount of finance lease receivables included in the Group's loans and advances was RMB36,500 million (31 December 2016: RMB38,245 million) with the remaining maturity as follows:

	As at 31 December	
	2017	2016
Overdue	**3,317**	4,256
Within 1 year	**6,235**	7,643
1 to 5 years	**17,245**	17,748
Above 5 years	**9,703**	8,598
Total	**36,500**	38,245

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 Contingent liabilities and commitments (Continued)

Collateral

Assets pledged

At the end of each reporting period, the carrying amounts of assets pledged as collateral under repurchase agreements are as follows:

	As at 31 December	
	2017	2016
Debt securities	**328,469**	208,529
Bills	**183**	814
Total	**328,652**	209,343

The carrying value of financial assets sold under repurchase agreements by the Group as at 31 December 2017 was RMB319,789 million (31 December 2016: RMB205,832 million) as set out in Note IV 33 Financial Assets Sold under Repurchase Agreements. Repurchase agreements are due within 12 months from the effective dates of these agreements.

Financial assets sold under repurchase agreements included certain transactions under which, title of the pledged securities has been transferred to counterparties. These transactions have been disclosed in Note IV 48 Transferred Financial Assets.

In addition, debt securities and deposits with banks and other financial institutions pledged in accordance with regulatory requirements or as collateral for derivative transactions and borrowings from central banks etc. by the Group as at 31 December 2017 amounted to RMB703,492 million in total (31 December 2016: RMB365,153 million).

Collateral accepted

The Group received debt securities and bills as collateral in connection with the securities lending transactions and the purchase of assets under resale agreements (Note IV 18 Financial Assets Held Under Resale Agreements). The Group did not hold any collateral that can be resold or re-pledged as at 31 December 2017 and 31 December 2016.

Redemption commitment for treasury bonds

The Group is entrusted by the MOF to underwrite certain treasury bonds. The investors of these treasury bonds have a right to redeem the bonds at par at any time prior to maturity and the Group is committed to honor such redemption requests. The redemption price is calculated as the par value of the bond plus unpaid interest in accordance with the terms of the related early redemption arrangement.

As at 31 December 2017, the nominal value of treasury bonds the Group was obligated to redeem prior to maturity was RMB65,419 million (31 December 2016: RMB56,555 million). The original maturities of these bonds vary from 3 to 5 years. Management of the Group expects the amount of redemption before the maturity dates of these bonds will not be material.

The MOF will not provide funding for the early redemption of these bonds on a back-to-back basis, but will settle the principal and interest upon maturity.

Commitment on security underwriting

As at 31 December 2017 and 31 December 2016, the Group did not have unfulfilled commitment in respect of securities underwriting business.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Transferred financial assets

The Group enters into transactions in the normal course of business whereby it transfers recognized financial assets to third parties or to structured entities. In some cases these transfers may give rise to full or partial de-recognition of the financial assets concerned. In other cases where the transferred assets do not qualify for de-recognition as the Group retains substantially all the risks and rewards of these assets, the Group continued to recognize the transferred assets.

Securitization transactions

The Group enters into securitization transactions by which it transfers loans to structured entities which issue asset-backed securities to investors. The Group assessed among other factors, whether or not to derecognize the transferred assets by evaluating the extent to which it retains the risks and rewards of the assets and whether it has relinquished its controls over these assets based on the criteria as detailed in Note II 8.6 and Note III 7.

As at 31 December 2017, the unexpired asset-backed securities included accumulative loans transferred by the Group before impairment allowance of RMB24,531 million (31 December 2016: RMB18,364 million). RMB11,723 million of this balance (31 December 2016: RMB10,154 million) was in respect of non-performing loans and the Group concluded that these loans transferred were qualified for full de-recognition. The remaining balance of RMB12,808 million (31 December 2016: RMB8,210 million) was in respect of performing loans and the Group concluded that it had continuing involvement in these assets. As at 31 December 2017, the Group continued to recognize assets of RMB2,941 million (31 December 2016: RMB712 million) under loans and advances to customers. The Group also recognized other assets and other liabilities of the same amount arising from such continuing involvement.

Transfer of non-performing loans

During the year ended 31 December 2017, the Group transferred non-performing loans through disposal to third parties or issuing asset-back securities, with gross loan balance of RMB54,331 million (2016: RMB72,969 million), of which RMB1,569 million (2016: RMB10,154 million) was through issuing asset-back securities disclosed above. The Group carried out an assessment based on the criteria as detailed in Note II 8.6 and Note III 7 and concluded that these transferred assets qualified for full de-recognition.

Financial assets sold under repurchase agreements

The Group did not derecognize financial assets transferred as collateral in connection with repurchase agreements. As at 31 December 2017, of these collateral pledged disclosed in Note IV 47 Contingent Liabilities and Commitments – Collateral, RMB40,647 million (31 December 2016: RMB14,087 million) represented debt securities whereby legal title has been transferred to counterparties.

Securities lending transactions

For debt securities lent to counterparties under securities lending agreements, the counterparties are allowed to sell or repledge these securities in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognized them. As at 31 December 2017, the carrying amount of debt securities lent to counterparties was RMB67,373 million (31 December 2016: RMB15,415 million).

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management

Overview

The Group's primary risk management objective is to maintain risk within acceptable parameters to meet the requirements of regulators, depositors and other stakeholders, as well as to maximize return for investors within an acceptable level of risk.

The Group has designed risk management policies, which address, among other things, the establishment of risk limits and controls to identify, analyze, monitor and report risks. Relevant and timely information used to conduct these risk management activities is provided through information systems maintained by the Group and intended to address the Group's information needs in this area. The Group regularly reviews its risk management policies and systems to address changes in markets, products and emerging best practices.

The most significant types of risk to which the Group is exposed are credit risk, market risk and liquidity risk. Market risk includes foreign exchange rate risk, interest rate risk and other price risk.

Risk management framework

The Board of Directors is responsible for establishing the overall risk appetite of the Group and reviewing and approving its risk management objectives and strategies.

Within this framework, the Group's senior management has overall responsibility for managing all aspects of risk, including implementing risk management strategies, initiatives and credit policies and approving internal rules, measures and procedures related to risk management. The Risk Management Department of the Group implements procedures for managing the significant risks to which the Group is exposed.

49.1 Credit risk

Credit risk management

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligations when due. Credit risk can also arise from operational failures that result in an unauthorized or inappropriate advance, commitment or investment. The Group's major credit risks arise from loans and receivables, treasury operations and off-balance sheet related credit risk exposures.

The Group's credit risk management and governance structure comprise the Board of Directors and its Risk Management Committee, Senior Management and its Risk Management Committee, Credit Approval Committee and Asset Disposal Committee, as well as the Risk Management Department, Credit Management Department, Credit Approval Department and related front-office customer departments. The Group's credit risk management function operates under centralized management and authorization under a range of specified limits.

The Group performs standardized credit management procedures, including credit due diligence and proposal submission, credit underwriting review, loan disbursement, post-lending monitoring and non-performing loan management. The Group enhances its credit risk management by strictly complying with its credit management procedures; strengthening customer investigation, credit rating, lending approval and post-lending monitoring measures; enhancing risk mitigation effect of loans through collateral; accelerating disposal process of non-performing loans and continuously upgrading its credit management system.

In 2017, the Group took a combination of measures, including the strict implementation of the state's macro-economic policies, continuous optimization of its credit structure, strengthening the building of its credit risk management system, heightening risk management and control in key areas, timely identification and mitigation of various risks and potential vulnerabilities, and expanding options and channels for recovery and disposal of non-performing loans, and maintained a steady and solid level of asset quality.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.1 Credit risk (Continued)

Credit risk management (Continued)

Apart from the credit risk exposures on credit-related assets, deposits and placements with and loans to banks and other financial institutions, the credit risk arising from treasury business is managed by selecting counterparties with acceptable credit quality, balancing credit risk and return, referencing to both internal and external credit rating information where available and by applying appropriate limits subject to different level of management authority, and by timely reviewing and adjusting those limit in credit system. In addition, the Group also provides loan commitments and financial guarantee services to customers which may require the Group to make payments on behalf of customers upon their failure to perform under the terms of the related contract. Risks arising from loan commitments and financial guarantees are similar to those associated with loans and advances. These transactions are, therefore, subject to the same risk management policies and procedures.

Impairment assessment

Key factors related to the Group's impairment assessment

In accordance with the "Guideline for Loan Credit Risk Classification" issued by the CBRC, the Group has established a loan credit risk classification system and performs credit risk management based on loan classification in one of five categories. The Group classifies loans into the following five categories: normal, special-mention, substandard, doubtful and loss. Loans classified as substandard, doubtful and loss are regarded as non-performing loans. The primary factors considered in loan impairment assessment include probability of loan repayment and recoverability of principal and interest, which reflect borrowers' repayment ability, repayment record and intention, projected profitability, bank guarantees or collateral and legal responsibility of repayment. The allowance for impairment losses is assessed collectively or individually, as appropriate.

The five categories of loan classification into which the Group classifies its loans and advances to customers are set out below:

Normal	Borrowers can honor the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special – mention	Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.
Substandard	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal operating revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful	Borrowers cannot repay principal and interest in full and significant losses will need to be recognized even when collateral or guarantees are invoked.
Loss	Only a small portion or none of the principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.

With respect to investments in debt securities other than held for trading or designated at fair value through profit or loss, the Group assesses for indicators of impairment at the end of each reporting period based on objective evidence and performs impairment assessment individually or collectively, as appropriate. For the impaired available-for-sale investments, the amount of the impairment allowance for available-for-sale investments is equal to the existing unrealized loss, which is recorded as a charge in the consolidated income statement.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.1 Credit risk (Continued)

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements

The maximum exposure to credit risk represents the credit risk exposure to the Group at the end of each reporting period, without taking into account any collateral held or other credit enhancements. The exposure to credit risk at the end of each reporting period primarily arises from credit and treasury operations; as well as off-balance sheet items such as loan commitments, credit card commitments, bank acceptance, guarantee and letters of guarantee and letters of credit, as credit risks arising from these items are similar to those associated with loans and receivables.

A summary of the maximum exposure to credit risk is as follows:

	As at 31 December	
	2017	2016
Balances with central banks	**2,788,122**	2,700,046
Deposits with banks and other financial institutions	**130,245**	622,665
Placements with and loans to banks and other financial institutions	**505,269**	580,949
Financial assets held for trading	**193,551**	123,282
Financial assets designated at fair value through profit or loss	**368,051**	286,564
Derivative financial assets	**28,284**	31,460
Financial assets held under resale agreements	**540,386**	323,051
Loans and advances to customers	**10,316,311**	9,319,364
Available-for-sale financial assets	**1,398,884**	1,390,678
Held-to-maturity investments	**3,489,135**	2,882,152
Debt instruments classified as receivables	**659,223**	624,547
Other financial assets	**155,111**	205,718
Subtotal	**20,572,572**	19,090,476
Credit commitments	**1,748,878**	1,634,334
Total	**22,321,450**	20,724,810

The Group has implemented specific policies and credit enhancement practices to mitigate credit risk exposure to an acceptable level. The most typical practice is obtaining guarantee deposits, collateral and guarantees. The amount and type of acceptable collateral are determined by credit risk evaluations of borrowers or counterparties. The Group implements guidelines on the acceptability of specific classes of collateral and evaluation parameters.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.1 Credit risk (Continued)

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements (Continued)

The main types of collateral obtained are as follows:

– Mortgage loans to retail customers are generally collateralized by mortgages over residential properties;

– Other personal lending and corporate loans and advances are primarily collateralized by charges over land and properties or other assets of the borrowers; and

– Financial assets held under resale agreements transactions are primarily collateralized by debt securities and bills.

The Group monitors the market value of collateral periodically and requests for additional collateral in accordance with the underlying agreement when necessary.

Loans and advances to customers

The following tables set out the concentration of risk for loans and advances to customers by geographical area and industry.

(1) The composition of loans and advances to customers by geographical area is analyzed as follows:

	As at 31 December			
	2017		2016	
	Amount	**% of total**	Amount	% of total
Corporate loans and advances				
Head Office	**246,123**	**3.7**	279,658	4.4
Yangtze River Delta	**1,420,351**	**21.2**	1,310,376	20.6
Pearl River Delta	**762,152**	**11.3**	752,897	11.8
Bohai Rim	**1,061,001**	**15.8**	1,001,682	15.7
Central China	**929,075**	**13.8**	857,319	13.5
Western China	**1,629,197**	**24.3**	1,463,806	22.9
Northeastern China	**287,187**	**4.3**	272,460	4.3
Overseas and Others	**379,633**	**5.6**	435,027	6.8
Subtotal	**6,714,719**	**100.0**	6,373,225	100.0
Personal loans and advances				
Head Office	**74**	**–**	104	–
Yangtze River Delta	**994,938**	**25.0**	860,092	25.6
Pearl River Delta	**873,154**	**21.8**	713,500	21.3
Bohai Rim	**621,563**	**15.5**	498,332	14.9
Central China	**590,247**	**14.7**	451,954	13.5
Western China	**778,946**	**19.4**	694,461	20.8
Northeastern China	**141,351**	**3.5**	122,436	3.7
Overseas and Others	**5,619**	**0.1**	5,535	0.2
Subtotal	**4,005,892**	**100.0**	3,346,414	100.0
Gross loans and advances to customers	**10,720,611**		9,719,639	

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.1 Credit risk (Continued)

Loans and advances to customers (Continued)

(2) The composition of loans and advances to customers by industry is analyzed as follows:

	As at 31 December			
	2017		2016	
	Amount	**% of total**	Amount	% of total
Corporate loans and advances				
Manufacturing	**1,286,480**	**19.2**	1,325,386	20.9
Transportation, logistics and postal services	**1,268,677**	**18.9**	1,052,336	16.5
Retail and wholesale	**405,678**	**6.0**	497,976	7.8
Production and supply of power, heat, gas and water	**812,850**	**12.1**	673,621	10.6
Real estate	**573,248**	**8.5**	510,470	8.0
Leasing and commercial services	**803,575**	**12.0**	560,270	8.8
Finance	**373,461**	**5.6**	735,915	11.5
Mining	**232,699**	**3.5**	243,396	3.8
Construction	**227,238**	**3.4**	187,931	2.9
Water, environment and public utilities management	**372,581**	**5.5**	241,365	3.8
Others	**358,232**	**5.3**	344,559	5.4
Subtotal	**6,714,719**	**100.0**	6,373,225	100.0
Personal loans and advances				
Residential mortgage	**3,133,503**	**78.3**	2,558,149	76.4
Personal business	**205,549**	**5.1**	232,728	7.0
Personal consumption	**142,184**	**3.5**	119,781	3.6
Credit cards	**317,547**	**7.9**	242,451	7.2
Others	**207,109**	**5.2**	193,305	5.8
Subtotal	**4,005,892**	**100.0**	3,346,414	100.0
Gross loans and advances to customers	**10,720,611**		9,719,639	

Certain comparative amounts in this footnote relating to personal loans and advances have been reclassified to conform with the current year's presentation.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.1 Credit risk (Continued)

Loans and advances to customers (Continued)

(3) The composition of loans and advances to customers by contractual maturity and security type is analyzed as follows:

	31 December 2017			
	Less than 1 year	1 to 5 years	Over 5 years	Total
Unsecured loans	1,266,909	620,786	1,028,232	2,915,927
Guaranteed loans	606,458	327,650	425,404	1,359,512
Loans secured by collateral	817,342	409,405	3,718,936	4,945,683
Pledged loans	438,651	79,322	981,516	1,499,489
Total	**3,129,360**	**1,437,163**	**6,154,088**	**10,720,611**

	31 December 2016			
	Less than 1 year	1 to 5 years	Over 5 years	Total
Unsecured loans	992,899	466,138	886,821	2,345,858
Guaranteed loans	618,532	330,718	344,430	1,293,680
Loans secured by collateral	947,139	519,723	3,127,606	4,594,468
Pledged loans	786,985	69,113	629,535	1,485,633
Total	3,345,555	1,385,692	4,988,392	9,719,639

(4) Past due loans

	31 December 2017				
	Up to 90 days	91-360 days	361 days to 3 years	Over 3 years	Total
Unsecured loans	6,489	6,984	2,015	1,249	16,737
Guaranteed loans	22,362	12,158	17,004	5,864	57,388
Loans secured by collateral	51,287	29,410	43,171	8,885	132,753
Pledged loans	10,962	968	3,135	2,123	17,188
Total	**91,100**	**49,520**	**65,325**	**18,121**	**224,066**

	31 December 2016				
	Up to 90 days	91-360 days	361 days to 3 years	Over 3 years	Total
Unsecured loans	4,411	8,619	4,460	406	17,896
Guaranteed loans	19,386	23,586	26,612	2,937	72,521
Loans secured by collateral	53,772	52,054	60,454	6,405	172,685
Pledged loans	1,976	2,209	6,901	447	11,533
Total	79,545	86,468	98,427	10,195	274,635

When either loan principal or interest is past due by one day in any period, the whole loan is classified as past due loan.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.1 Credit risk (Continued)

Loans and advances to customers (Continued)

(5) Credit quality of loans and advances to customers

		As at 31 December 2017	2016
Neither past due nor impaired	(i)	**10,471,150**	9,433,058
Past due but not impaired	(ii)	**55,429**	55,747
Impaired	(iii)	**194,032**	230,834
Subtotal		**10,720,611**	9,719,639
Allowance for impairment losses of loans and advances to customers		**(404,300)**	(400,275)
Loans and advances to customers, net		**10,316,311**	9,319,364

(i) Loans and advances neither past due nor impaired

	31 December 2017		
	Normal	**Special-mention**	**Total**
Corporate loans and advances	**6,234,570**	**298,077**	**6,532,647**
Personal loans and advances	**3,934,840**	**3,663**	**3,938,503**
Total	**10,169,410**	**301,740**	**10,471,150**

	31 December 2016		
	Normal	Special-mention	Total
Corporate loans and advances	5,832,088	321,400	6,153,488
Personal loans and advances	3,276,326	3,244	3,279,570
Total	9,108,414	324,644	9,433,058

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.1 Credit risk (Continued)

Loans and advances to customers (Continued)

(5) Credit quality of loans and advances to customers (Continued)

(ii) Loans and advances past due but not impaired

	31 December 2017				
	Up to 30 days	31 – 60 days	61 – 90 days	Total	Including: Exposure covered by collateral and pledge
Corporate loans and advances	**24,500**	**460**	**8**	**24,968**	**20,477**
Personal loans and advances	**19,365**	**6,514**	**4,582**	**30,461**	**22,174**
Total	**43,865**	**6,974**	**4,590**	**55,429**	**42,651**

	31 December 2016				
	Up to 30 days	31 – 60 days	61 – 90 days	Total	Including: Exposure covered by collateral and pledge
Corporate loans and advances	21,940	4,902	18	26,860	23,588
Personal loans and advances	17,124	6,590	5,173	28,887	20,430
Total	39,064	11,492	5,191	55,747	44,018

(iii) Impaired loans and advances

	31 December 2017		
	Book value	Allowance for impairment losses	Net book value
Individually assessed	**159,805**	**(122,311)**	**37,494**
Collectively assessed	**34,227**	**(26,723)**	**7,504**
Total	**194,032**	**(149,034)**	**44,998**

	31 December 2016		
	Book value	Allowance for impairment losses	Net book value
Individually assessed	192,848	(133,605)	59,243
Collectively assessed	37,986	(28,999)	8,987
Total	230,834	(162,604)	68,230

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.1 Credit risk (Continued)

Loans and advances to customers (Continued)

(5) Credit quality of loans and advances to customers (Continued)

(iii) Impaired loans and advances (Continued)

Including:

	As at 31 December 2017	2016
Individually assessed and impaired	**159,805**	192,848
Individually assessed and impaired as a percentage of gross loans and advances of the Group	**1.49%**	1.98%
Including: exposure covered by collateral and pledge	**24,802**	39,021

The composition of impaired loans and advances to customers by geographical area is analyzed as follows:

	31 December 2017		31 December 2016	
	Amount	% of total	Amount	% of total
Head Office	**7**	**–**	7	–
Yangtze River Delta	**29,460**	**15.2**	35,471	15.4
Pearl River Delta	**26,957**	**13.9**	30,530	13.2
Bohai Rim	**39,031**	**20.1**	45,728	19.8
Central China	**27,377**	**14.1**	30,194	13.1
Western China	**59,314**	**30.6**	76,046	32.9
Northeastern China	**8,438**	**4.3**	8,772	3.8
Overseas and Others	**3,448**	**1.8**	4,086	1.8
Total	**194,032**	**100.0**	230,834	100.0

(6) Rescheduled loans and advances

Rescheduled loans and advances are those loans and advances to customers which have been renegotiated because of deterioration in the financial position of the borrowers, or of the inability of the borrowers to meet their original repayment schedule. Concessions are given by the Group that would not otherwise be granted to these borrowers for economic or legal reasons relating to their financial difficulties. Rescheduled loans and advances of the Group as at 31 December 2017 amounted to RMB55,120 million (31 December 2016: RMB52,491 million).

During the year ended 31 December 2017, as a result of loan renegotiations, the Group recognized ordinary shares upon renegotiation of RMB1,873 million. The loss associated with these loan renegotiations was not significant.

(7) Assets foreclosed under credit enhancement arrangement

Such assets are disclosed as foreclosed assets in Note IV 27 Other Assets.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.1 Credit risk (Continued)

Debt instruments

Credit quality of debt instruments

The table below represents the carrying value and accumulated impairment charges of held-to-maturity investments and debt instruments classified as receivables:

		As at 31 December	
		2017	2016
Neither past due nor impaired	(1)	**4,152,386**	3,509,837
Impaired	(2)	**6,498**	5,542
Subtotal		**4,158,884**	3,515,379
Individually assessed		**(3,068)**	(3,516)
Collectively assessed		**(7,458)**	(5,164)
Allowance for impairment losses		**(10,526)**	(8,680)
Total held-to-maturity investments and debt instruments classified as receivables, net		**4,148,358**	3,506,699

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.1 *Credit risk (Continued)*

Debt instruments (Continued)

Credit quality of debt instruments (Continued)

(1) Debt instruments neither past due nor impaired

	31 December 2017				
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Debt instruments classified as receivables	Total
Debt securities issued by:					
– Governments	31,464	510,794	1,774,655	169,336	2,486,249
– Public sector and quasi-governments	140,712	312,292	1,269,267	–	1,722,271
– Financial institutions	103,650	398,098	302,240	81,075	885,063
– Corporates	60,762	177,655	149,146	13,273	400,836
Special government bond	–	–	–	93,300	93,300
Receivable from the MOF	–	–	–	271,678	271,678
Certificate treasury bonds and savings treasury bonds	–	–	–	3,612	3,612
Others	12,835	–	–	24,804	37,639
Total	**349,423**	**1,398,839**	**3,495,308**	**657,078**	**5,900,648**

	31 December 2016				
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Debt instruments classified as receivables	Total
Debt securities issued by:					
– Governments	20,900	464,613	1,320,638	120,618	1,926,769
– Public sector and quasi-governments	99,784	383,824	1,129,986	29,997	1,643,591
– Financial institutions	109,989	353,335	263,950	64,130	791,404
– Corporates	48,665	188,869	171,604	20,436	429,574
Special government bond	–	–	–	93,300	93,300
Receivable from the MOF	–	–	–	272,023	272,023
Certificate treasury bonds and savings treasury bonds	–	–	–	2,990	2,990
Others	15,883	–	–	20,165	36,048
Total	295,221	1,390,641	2,886,178	623,659	5,195,699

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.1 Credit risk (Continued)

Debt instruments (Continued)

Credit quality of debt instruments (Continued)

(2) Impaired debt instruments

	31 December 2017		
	Held-to-maturity investments	**Debt instruments classified as receivables**	**Total**
Corporate bonds	**–**	**2,614**	**2,614**
Others	**–**	**3,884**	**3,884**
Subtotal	**–**	**6,498**	**6,498**
Allowance for impairment losses	**–**	**(3,068)**	**(3,068)**
Impaired held-to-maturity investments and debt instruments classified as receivables, net	**–**	**3,430**	**3,430**

	31 December 2016		
	Held-to-maturity investments	Debt instruments classified as receivables	Total
Corporate bonds	–	547	547
Others	–	4,995	4,995
Subtotal	–	5,542	5,542
Allowance for impairment losses	–	(3,516)	(3,516)
Impaired held-to-maturity investments and debt instruments classified as receivables, net	–	2,026	2,026

The Group's available-for-sale debt instruments were individually assessed for impairment. As at 31 December 2017, the carrying amount of the impaired available-for-sale debt instruments of the Group was RMB45 million (31 December 2016: RMB37 million). The accumulative impairment losses recognized for these impaired available-for- sale debt instruments by the Group as at 31 December 2017 was RMB312 million (31 December 2016: RMB331 million).

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.1 Credit risk (Continued)

Debt instruments (Continued)

Credit quality of debt instruments (Continued)

(3) Debt instruments analyzed by credit rating

The Group adopts a credit rating approach to manage the credit risk of the debt securities portfolio held. The ratings are obtained from major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analyzed by rating as at the end of the reporting period are as follows:

		31 December 2017					
		Unrated (i)	AAA	AA	A	Below A	Total
Debt securities issued by:							
– Governments		1,607,333	867,410	5,072	1,731	56	2,481,602
– Public sector and quasi-governments		1,483,157	176,302	2,391	60,193	–	1,722,043
– Financial institutions		551,733	194,393	27,860	78,676	30,349	883,011
– Corporates	(ii)	50,568	305,743	3,224	24,994	18,341	402,870
Special government bond		93,300	–	–	–	–	93,300
Receivable from the MOF		271,678	–	–	–	–	271,678
Certificate treasury bonds and savings treasury bonds		3,612	–	–	–	–	3,612
Others		54,846	–	–	–	–	54,846
Total		**4,116,227**	**1,543,848**	**38,547**	**165,594**	**48,746**	**5,912,962**

		31 December 2016					
		Unrated(i)	AAA	AA	A	Below A	Total
Debt securities issued by:							
– Governments		1,322,981	594,641	5,249	1,033	705	1,924,609
– Public sector and quasi-governments		1,469,672	162,840	10,692	209	–	1,643,413
– Financial institutions		526,761	144,056	36,508	51,620	30,377	789,322
– Corporates	(ii)	47,367	337,875	4,262	23,743	16,116	429,363
Special government bond		93,300	–	–	–	–	93,300
Receivable from the MOF		272,023	–	–	–	–	272,023
Certificate treasury bonds and savings treasury bonds		2,990	–	–	–	–	2,990
Others		37,578	–	–	–	–	37,578
Total		3,772,672	1,239,412	56,711	76,605	47,198	5,192,598

(i) Unrated debt investments held by the Group are bonds issued primarily by policy banks, the Chinese government, municipal government bonds and receivable from the MOF.

(ii) The ratings of super short-term commercial papers of the Group amounted to RMB17,110 million (31 December 2016: RMB23,420 million), as included in corporate bonds above are based on issuer rating for this credit risk analysis.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.2 Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. This may arise from cash flows or maturity mismatches of assets and liabilities.

The Group's Assets and Liabilities Management Department manages its liquidity risk through:

– Optimizing asset and liability structure;

– Maintaining stability of deposit base;

– Making projections of future cash flows, and evaluating the appropriate liquid asset position;

– Maintaining an efficient internal funds transfer mechanism within the Group; and

– Performing stress testing on a regular basis.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.2 Liquidity risk (Continued)

Analysis of the remaining contractual maturity of financial assets and financial liabilities

The tables below summarize the maturity analysis of financial assets and financial liabilities by remaining contractual maturities based on the carrying amount at the end of each reporting period.

	31 December 2017								
	Past due	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
Cash and balances with central banks	–	151,906	3,740	2,403	5,952	–	–	2,732,618	2,896,619
Deposits with banks and other financial institutions	–	48,237	58,819	9,001	13,807	381	–	–	130,245
Placements with and loans to banks and other financial institutions	–	–	226,817	80,021	153,026	41,519	3,886	–	505,269
Financial assets held for trading	–	1,089	12,546	33,069	68,200	75,772	3,964	–	194,640
Financial assets designated at fair value through profit or loss	–	–	37,565	107,387	51,978	125,641	47,457	13,297	383,325
Derivative financial assets	–	–	4,497	4,850	17,604	1,029	304	–	28,284
Financial assets held under resale agreements	3,872	–	499,251	17,869	19,394	–	–	–	540,386
Loans and advances to customers	23,581	–	499,209	646,162	2,345,151	2,115,703	4,686,505	–	10,316,311
Available-for-sale financial assets	–	–	133,444	102,788	139,887	753,385	285,678	11,238	1,426,420
Held-to-maturity investments	–	–	54,929	128,831	269,426	1,791,968	1,243,981	–	3,489,135
Debt instruments classified as receivables	–	143	2,842	22,286	46,800	127,629	459,523	–	659,223
Other financial assets	2,321	28,530	38,751	33,884	50,971	544	110	–	155,111
Total financial assets	29,774	229,905	1,572,410	1,188,551	3,182,196	5,033,571	6,731,408	2,757,153	20,724,968
Borrowings from central bank	–	(30)	(40,000)	(70,540)	(354,923)	(454)	–	–	(465,947)
Deposits from banks and other financial institutions	–	(495,065)	(220,930)	(126,369)	(73,107)	(59,259)	–	–	(974,730)
Placements from banks and other financial institutions	–	–	(96,494)	(115,380)	(57,125)	(6,330)	(4,732)	–	(280,061)
Financial liabilities held for trading	–	(21,118)	–	–	–	–	–	–	(21,118)
Financial liabilities designated at fair value through profit or loss	–	–	(163,471)	(110,444)	(91,841)	(4,860)	(38)	–	(370,654)
Derivative financial liabilities	–	–	(2,230)	(3,990)	(23,957)	(497)	(198)	–	(30,872)
Financial assets sold under repurchase agreements	–	–	(277,813)	(28,113)	(13,535)	(328)	–	–	(319,789)
Due to customers	–	(10,030,752)	(535,504)	(1,249,943)	(2,551,584)	(1,826,342)	(154)	–	(16,194,279)
Debt securities issued	–	–	(44,803)	(94,537)	(97,102)	(43,679)	(194,896)	–	(475,017)
Other financial liabilities	–	(100,567)	(21,696)	(78,555)	(74,326)	(82,131)	(36,791)	–	(394,066)
Total financial liabilities	–	(10,647,532)	(1,402,941)	(1,877,871)	(3,337,500)	(2,023,880)	(236,809)	–	(19,526,533)
Net position	29,774	(10,417,627)	169,469	(689,320)	(155,304)	3,009,691	6,494,599	2,757,153	1,198,435

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.2 *Liquidity risk* (Continued)

Analysis of the remaining contractual maturity of financial assets and financial liabilities (Continued)

	31 December 2016								
	Past due	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
Cash and balances with central banks	–	223,360	5,110	4,836	16,262	–	–	2,562,085	2,811,653
Deposits with banks and other financial institutions	–	63,917	127,622	168,455	261,620	1,051	–	–	622,665
Placements with and loans to banks and other financial institutions	–	–	159,166	86,942	293,126	41,715	–	–	580,949
Financial assets held for trading	–	336	9,115	18,899	57,602	35,087	2,579	–	123,618
Financial assets designated at fair value through profit or loss	–	–	13,386	47,815	88,784	99,849	36,730	7,773	294,337
Derivative financial assets	–	–	2,121	2,485	25,284	1,165	405	–	31,460
Financial assets held under resale agreements	3,872	–	274,766	26,276	18,137	–	–	–	323,051
Loans and advances to customers	46,908	–	496,239	630,872	2,541,515	1,895,689	3,708,141	–	9,319,364
Available-for-sale financial assets	–	–	34,068	54,098	235,151	719,158	348,203	18,203	1,408,881
Held-to-maturity investments	–	–	51,331	90,654	315,762	1,362,537	1,061,868	–	2,882,152
Debt instruments classified as receivables	–	103	2,205	12,876	52,418	109,354	447,591	–	624,547
Other financial assets	1,607	73,522	32,579	50,698	46,485	776	51	–	205,718
Total financial assets	52,387	361,238	1,207,708	1,194,906	3,952,146	4,266,381	5,605,568	2,588,061	19,228,395
Borrowings from central bank	–	(30)	(16,342)	(69,000)	(205,059)	(621)	–	–	(291,052)
Deposits from banks and other financial institutions	–	(523,652)	(296,656)	(146,008)	(94,165)	(95,563)	–	–	(1,156,044)
Placements from banks and other financial institutions	–	–	(132,600)	(94,050)	(68,138)	(4,820)	(2,413)	–	(302,021)
Financial liabilities held for trading	–	(16,587)	(393)	(524)	–	–	–	–	(17,504)
Financial liabilities designated at fair value through profit or loss	–	–	(77,589)	(63,996)	(125,422)	(16,621)	(38)	–	(283,666)
Derivative financial liabilities	–	–	(2,576)	(3,582)	(13,143)	(1,111)	(346)	–	(20,758)
Financial assets sold under repurchase agreements	–	–	(193,068)	(12,004)	(760)	–	–	–	(205,832)
Due to customers	–	(9,007,828)	(499,909)	(1,185,880)	(2,637,833)	(1,705,965)	(586)	–	(15,038,001)
Debt securities issued	–	–	(34,405)	(56,128)	(89,372)	(52,699)	(155,611)	–	(388,215)
Other financial liabilities	–	(168,287)	(16,390)	(73,738)	(74,678)	(93,281)	(36,768)	–	(463,142)
Total financial liabilities	–	(9,716,384)	(1,269,928)	(1,704,910)	(3,308,570)	(1,970,681)	(195,762)	–	(18,166,235)
Net position	52,387	(9,355,146)	(62,220)	(510,004)	643,576	2,295,700	5,409,806	2,588,061	1,062,160

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.2 Liquidity risk (Continued)

Analysis of the undiscounted contractual cash flows

Assets available to meet obligations related to the Group's liabilities and outstanding credit commitments primarily include cash and balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets held for trading, financial assets designated at fair value through profit or loss, and financial assets held under resale agreements. In the normal course of business, the majority of customer deposits repayable on demand or on maturity are expected to be retained. In addition, the Group is able to sell the available-for-sale financial assets to repay matured liabilities, if necessary.

The tables below present the undiscounted cash flows of non-derivative financial assets and financial liabilities by remaining contractual maturities at the end of each reporting period:

	31 December 2017								
	Past due	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
Non-derivative financial assets									
Cash and balances with central banks	–	151,906	3,741	3,688	5,952	–	–	2,732,618	2,897,905
Deposits with banks and other financial institutions	–	48,237	59,316	9,121	14,059	433	–	–	131,166
Placements with and loans to banks and other financial institutions	–	–	227,887	81,885	157,594	44,296	5,499	–	517,161
Financial assets held for trading	–	1,089	12,581	33,427	69,312	76,739	4,311	–	197,459
Financial assets designated at fair value through profit or loss	–	–	38,335	109,821	57,576	144,268	54,383	13,297	417,680
Financial assets held under resale agreements	3,872	–	500,347	18,110	19,967	–	–	–	542,296
Loans and advances to customers	128,314	–	558,620	755,681	2,733,620	3,282,327	6,800,862	–	14,259,424
Available-for-sale financial assets	–	–	134,272	104,752	146,132	793,772	326,900	11,238	1,517,066
Held-to-maturity investments	–	–	56,957	134,287	286,304	1,881,236	1,396,308	–	3,755,092
Debt instruments classified as receivables	–	143	2,986	22,954	49,168	138,050	471,212	–	684,513
Other financial assets	–	28,448	795	5,258	1,898	12	7	–	36,418
Total non-derivative financial assets	132,186	229,823	1,595,837	1,278,984	3,541,582	6,361,133	9,059,482	2,757,153	24,956,180
Non-derivative financial liabilities									
Borrowings from central bank	–	(30)	(41,220)	(72,789)	(366,463)	(447)	–	–	(480,949)
Deposits from banks and other financial institutions	–	(495,066)	(223,308)	(131,541)	(79,749)	(66,309)	–	–	(995,973)
Placements from banks and other financial institutions	–	–	(96,846)	(116,595)	(58,214)	(7,649)	(5,445)	–	(284,749)
Financial liabilities held for trading	–	(21,118)	–	–	–	–	–	–	(21,118)
Financial liabilities designated at fair value through profit or loss	–	–	(164,332)	(111,693)	(94,451)	(4,876)	(38)	–	(375,390)
Financial assets sold under repurchase agreements	–	–	(278,384)	(28,329)	(13,757)	(356)	–	–	(320,826)
Due to customers	–	(10,037,044)	(573,267)	(1,304,326)	(2,654,872)	(2,033,087)	(154)	–	(16,602,750)
Debt securities issued	–	–	(44,924)	(94,770)	(97,647)	(44,666)	(195,000)	–	(477,007)
Other financial liabilities	–	(94,303)	(762)	(31,827)	(1,389)	(195)	(36,785)	–	(165,261)
Total non-derivative financial liabilities	–	(10,647,561)	(1,423,043)	(1,891,870)	(3,366,542)	(2,157,585)	(237,422)	–	(19,724,023)
Net position	132,186	(10,417,738)	172,794	(612,886)	175,040	4,203,548	8,822,060	2,757,153	5,232,157

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.2 Liquidity risk (Continued)

Analysis of the undiscounted contractual cash flows (Continued)

	31 December 2016								
	Past due	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
Non-derivative financial assets									
Cash and balances with central banks	–	223,360	5,111	6,056	16,262	–	–	2,562,085	2,812,874
Deposits with banks and other financial institutions	–	63,917	128,856	171,825	267,814	1,082	–	–	633,494
Placements with and loans to banks and other financial institutions	–	–	159,871	88,487	300,526	42,951	–	–	591,835
Financial assets held for trading	–	336	9,275	19,285	61,304	36,647	2,624	–	129,471
Financial assets designated at fair value through profit or loss	–	–	13,846	49,621	94,604	114,089	42,651	7,773	322,584
Financial assets held under resale agreements	3,872	–	275,769	26,782	18,654	–	–	–	325,077
Loans and advances to customers	170,526	–	556,130	724,261	2,879,489	2,852,032	5,326,820	–	12,509,258
Available-for-sale financial assets	–	–	35,142	55,927	247,596	747,779	376,454	18,203	1,481,101
Held-to-maturity investments	–	–	53,256	94,931	333,034	1,430,249	1,198,113	–	3,109,583
Debt instruments classified as receivables	–	103	2,283	13,552	54,372	114,864	456,142	–	641,316
Other financial assets	–	73,449	1,333	18,492	1,922	145	7	–	95,348
Total non-derivative financial assets	174,398	361,165	1,240,872	1,269,219	4,275,577	5,339,838	7,402,811	2,588,061	22,651,941
Non-derivative financial liabilities									
Borrowings from central bank	–	(30)	(16,839)	(70,067)	(209,950)	(622)	–	–	(297,508)
Deposits from banks and other financial institutions	–	(523,653)	(297,533)	(153,366)	(102,476)	(111,199)	–	–	(1,188,227)
Placements from banks and other financial institutions	–	–	(132,947)	(94,693)	(69,026)	(5,491)	(2,548)	–	(304,705)
Financial liabilities held for trading	–	(16,587)	(394)	(525)	–	–	–	–	(17,506)
Financial liabilities designated at fair value through profit or loss	–	–	(78,493)	(65,059)	(132,069)	(18,375)	(39)	–	(294,035)
Financial assets sold under repurchase agreements	–	–	(193,213)	(12,047)	(791)	–	–	–	(206,051)
Due to customers	–	(9,013,383)	(513,834)	(1,224,360)	(2,737,611)	(1,925,423)	(586)	–	(15,415,197)
Debt securities issued	–	–	(34,492)	(56,479)	(90,211)	(55,385)	(155,720)	–	(392,287)
Other financial liabilities	–	(162,912)	(649)	(31,945)	(1,415)	(338)	(36,768)	–	(234,027)
Total non-derivative financial liabilities	–	(9,716,565)	(1,268,394)	(1,708,541)	(3,343,549)	(2,116,833)	(195,661)	–	(18,349,543)
Net position	174,398	(9,355,400)	(27,522)	(439,322)	932,028	3,223,005	7,207,150	2,588,061	4,302,398

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.2 Liquidity risk (Continued)

Derivative cash flows

Derivatives settled on a net basis

The fair values of the Group's derivatives that will be settled on a net basis are primarily interest rates products. The tables below present the undiscounted contractual cash flows of the Group's net derivative positions based on their remaining contractual maturities:

	31 December 2017					
	Less than 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Interest rate derivatives	**–**	**12**	**43**	**637**	**125**	**817**

	31 December 2016					
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Interest rate derivatives	4	29	11	400	34	478

Derivatives settled on a gross basis

The fair values of the Group's derivatives that will be settled on a gross basis are primarily foreign exchange rates and precious metal products. The tables below present the undiscounted contractual cash flows of the Group's gross derivative positions based on their remaining contractual maturities:

	31 December 2017					
	Less than 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Derivatives settled on a gross basis						
– Cash inflow	**343,773**	**300,972**	**1,505,759**	**26,930**	**477**	**2,177,911**
– Cash outflow	**(341,540)**	**(300,112)**	**(1,511,810)**	**(26,987)**	**(496)**	**(2,180,945)**
Total	**2,233**	**860**	**(6,051)**	**(57)**	**(19)**	**(3,034)**

	31 December 2016					
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a gross basis						
– Cash inflow	305,839	230,340	1,032,215	36,311	485	1,605,190
– Cash outflow	(306,299)	(231,425)	(1,018,999)	(36,568)	(469)	(1,593,760)
Total	(460)	(1,085)	13,216	(257)	16	11,430

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.2 Liquidity risk (Continued)

Credit Commitments

The tables below summarize the amounts of credit commitments by remaining maturity.

	31 December 2017			
	Less than 1 year	**1-5 years**	**Over 5 years**	**Total**
Loan commitments	**103,736**	**149,075**	**474,751**	**727,562**
Bank acceptance	**233,788**	**–**	**–**	**233,788**
Credit card commitments	**426,668**	**–**	**–**	**426,668**
Guarantee and letters of guarantee	**115,371**	**85,801**	**19,654**	**220,826**
Letters of credit	**133,670**	**6,364**	**–**	**140,034**
Total	**1,013,233**	**241,240**	**494,405**	**1,748,878**

	31 December 2016			
	Less than 1 year	1-5 years	Over 5 years	Total
Loan commitments	84,529	142,003	361,869	588,401
Bank acceptance	312,255	–	–	312,255
Credit card commitments	323,217	–	–	323,217
Guarantee and letters of guarantee	107,922	94,520	26,735	229,177
Letters of credit	161,127	20,157	–	181,284
Total	989,050	256,680	388,604	1,634,334

49.3 Market risk

Market risk represents the potential loss arising from changes in market rates of interest and foreign exchange, as well as commodity and equity prices. Market risk arises from both the Group's proprietary positions and customer driven transactions, in both cases related to on- and off-balance sheet activities.

The Group is primarily exposed to interest rate risk through its lending, fixed-income and funding activities. Interest rate risk is inherent in many of the Group's businesses and this situation is common among large banks. It fundamentally arises through mismatches between the maturity and re-pricing dates of interest-earning assets and interest-bearing liabilities. As discussed further below, interest rate risk is actively managed.

Foreign exchange rate risk is the potential loss related to changes in foreign exchange rates affecting the translation of foreign currency denominated monetary assets and liabilities. The risk of loss results from movements in foreign currency exchange rates.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.3 Market risk (Continued)

The Group is also exposed to commodity risk, primarily related to gold and other precious metals. The risk of loss results from movements in commodity price. The Group manages the risk related to gold price together with foreign exchange rate risk.

The Group has determined that the levels of market risk related to changes in equity prices and commodity prices other than gold, with respect to the related exposures in its trading and investment portfolios, are immaterial.

Segregation of Trading Book and Banking Book

To enhance the effectiveness of market risk management, as well as the accuracy of determining the levels of regulatory capital required related to market risk, the Group segregates all financial instruments and commodities, both on-and off-balance sheet, into either the trading book or banking book. The trading book is comprised of financial instruments and commodity positions held for trading, including all derivatives instruments. Any other financial instruments are included in the banking book.

Market Risk Management for Trading Book

The Group manages market risk in the trading book through methodologies that include Value at Risk (VaR), monitoring and management of established limits, sensitivity analysis, duration analysis, exposure analysis and stress testing.

The Group has formulated policies, which are subject to review annually or as circumstances otherwise dictate, to manage market risk. Further, in this regard, the Group's market risk management is focused on movements in domestic and global financial markets, as well as the composition of the trading book and management's trading strategies, within approved limits. Moreover, the Group has implemented more specific policies for financial instruments, closely monitoring the exposure to specific issuers and counterparties, as well as the tenor of individual positions and trading strategies. The foundation of the Group's limit and risk monitoring system is based on VaR, which is used consistently to monitor all classes of financial instruments in the trading book.

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

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.3 Market risk (Continued)

Market Risk Management for Trading Book (Continued)

VaR Analysis for the Trading Book

Bank

		2017			
		At the end of the year	**Average**	**Maximum**	**Minimum**
Interest rate risk		**32**	**49**	**72**	**32**
Exchange rate risk	(1)	**33**	**51**	**105**	**18**
Commodity risk		**8**	**11**	**20**	**6**
Overall VaR		**56**	**73**	**153**	**40**

		2016			
		At the end of the year	Average	Maximum	Minimum
Interest rate risk		53	63	71	39
Exchange rate risk	(1)	20	86	213	14
Commodity risk		9	13	28	3
Overall VaR		44	96	213	44

The Bank calculates VaR for its trading book (excluding RMB foreign currency settlement contracts with customers under relevant regulations). The Bank conducts stress testing for its trading book quarterly. The specific areas subject to this testing include the major areas of exposure, such as bonds, interest rate derivatives, foreign exchange derivatives and gold. The stress testing uses a range of scenarios, to assess the potential impact on profit and loss.

(1) VaR related to gold is recognized as a component of foreign exchange rate risk.

Market Risk Management for Banking Book

The Group manages market risk related to the banking book by consistently applying techniques across the Group that include exposure limit management, stress testing, scenario analysis and gap analysis.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.3 Market risk (Continued)

Market Risk Management for Banking Book (Continued)

Interest Rate Risk Management

The interest rate risk existing in the banking book broadly relates to the mismatch of the maturity or re-pricing dates of interest rate-sensitive financial assets and financial liabilities, as well as inconsistencies in the change of the benchmark interest rates on which most domestic interest rate-sensitive financial assets and financial liabilities are based.

The Group closely monitors changes in the macro-economic environment and the monetary policies of the PBOC, enabling it to timely and flexibly adjusts its pricing strategy. The Group establishes comprehensive interest rate risk management policies and protocols and has improved the consistency of interest rate risk measurement, monitoring, analysis and management of interest rate risk across the Group.

The Group regularly measures and analyzes the Group's interest rate risk by conducting gap analysis, sensitivity analysis, scenario analysis and stress testing to manage interest rate risk within established limits.

Foreign Exchange Rate Risk Management

Foreign exchange rate risk relates to the mismatch of foreign currency denominated monetary assets and liabilities, and the potential loss related to changes in foreign exchange rates, which largely arises through operational activities.

The Group performs monitoring and sensitivity analysis of foreign exchange rate risk exposure, manages the mismatch of foreign currency denominated assets and liabilities to effectively manage foreign exchange rate risk exposure within acceptable limits.

Market Risk Exposure Limit Management

Market risk exposure limits are classified as either directive limits or indicative limits, based on the characteristics of the underlying instruments or transactions, including exposure limit monitoring, enforcement of stop-loss limits, VaR limits, and stress testing limits.

The Group is committed to continuous improvement of its market risk exposure limit management. The Group establishes exposure limits reflecting its risk appetite and continuously refines the categorization of market risk exposure limits. Further, it regularly monitors, reports, refines, and implements improvements to the market risk exposure limit process.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.3 Market risk (Continued)

Foreign exchange rate risk

The Group primarily conducts its business activities in RMB, with certain transactions denominated in USD, HKD and, to a lesser extent, other currencies. The composition of all financial assets and liabilities at the end of each reporting period analyzed by currency is as follows:

	31 December 2017				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash and balances with central banks	2,855,850	32,052	1,094	7,623	2,896,619
Deposits with banks and other financial institutions	86,294	27,063	3,068	13,820	130,245
Placements with and loans to banks and other financial institutions	337,956	136,594	23,209	7,510	505,269
Financial assets held for trading	194,614	26	–	–	194,640
Financial assets designated at fair value through profit or loss	362,680	6,992	10,383	3,270	383,325
Derivative financial assets	26,228	1,215	21	820	28,284
Financial assets held under resale agreements	540,386	–	–	–	540,386
Loans and advances to customers	9,898,540	314,143	57,764	45,864	10,316,311
Available-for-sale financial assets	1,224,918	162,075	2,955	36,472	1,426,420
Held-to-maturity investments	3,445,956	27,771	12,500	2,908	3,489,135
Debt instruments classified as receivables	653,663	1,346	1,093	3,121	659,223
Other financial assets	145,442	7,001	1,014	1,654	155,111
Total financial assets	19,772,527	716,278	113,101	123,062	20,724,968
Borrowings from central bank	(464,830)	–	–	(1,117)	(465,947)
Deposits from banks and other financial institutions	(932,491)	(28,566)	(13,309)	(364)	(974,730)
Placements from banks and other financial institutions	(41,217)	(164,459)	(54,727)	(19,658)	(280,061)
Financial liabilities held for trading	(21,118)	–	–	–	(21,118)
Financial liabilities designated at fair value through profit or loss	(363,885)	(6,769)	–	–	(370,654)
Derivative financial liabilities	(323)	(29,929)	(390)	(230)	(30,872)
Financial assets sold under repurchase agreements	(276,888)	(37,034)	–	(5,867)	(319,789)
Due to customers	(15,805,966)	(321,932)	(29,750)	(36,631)	(16,194,279)
Debt securities issued	(220,357)	(204,948)	(18,570)	(31,142)	(475,017)
Other financial liabilities	(378,204)	(12,408)	(1,651)	(1,803)	(394,066)
Total financial liabilities	(18,505,279)	(806,045)	(118,397)	(96,812)	(19,526,533)
Net on-balance sheet position	1,267,248	(89,767)	(5,296)	26,250	1,198,435
Net notional amount of derivatives	(46,787)	59,135	18,397	(14,681)	16,064
Credit commitments	1,484,322	228,505	5,724	30,327	1,748,878

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.3 Market risk (Continued)

Foreign exchange rate risk (Continued)

	31 December 2016				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash and balances with central banks	2,756,422	46,480	2,030	6,721	2,811,653
Deposits with banks and other financial institutions	569,193	28,974	3,630	20,868	622,665
Placements with and loans to banks and other financial institutions	476,480	100,020	1	4,448	580,949
Financial assets held for trading	123,426	192	–	–	123,618
Financial assets designated at fair value through profit or loss	283,113	2,140	8,187	897	294,337
Derivative financial assets	5,491	25,501	112	356	31,460
Financial assets held under resale agreements	323,051	–	–	–	323,051
Loans and advances to customers	8,849,459	375,380	64,594	29,931	9,319,364
Available-for-sale financial assets	1,193,761	170,794	11,844	32,482	1,408,881
Held-to-maturity investments	2,860,670	19,843	–	1,639	2,882,152
Debt instruments classified as receivables	624,411	–	135	1	624,547
Other financial assets	159,614	43,831	1,013	1,260	205,718
Total financial assets	18,225,091	813,155	91,546	98,603	19,228,395
Borrowings from central bank	(289,089)	–	(1,342)	(621)	(291,052)
Deposits from banks and other financial institutions	(1,110,244)	(34,464)	(10,976)	(360)	(1,156,044)
Placements from banks and other financial institutions	(60,936)	(194,150)	(33,178)	(13,757)	(302,021)
Financial liabilities held for trading	(17,504)	–	–	–	(17,504)
Financial liabilities designated at fair value through profit or loss	(282,781)	(885)	–	–	(283,666)
Derivative financial liabilities	(18,639)	(172)	(281)	(1,666)	(20,758)
Financial assets sold under repurchase agreements	(190,118)	(12,647)	–	(3,067)	(205,832)
Due to customers	(14,610,341)	(361,250)	(23,866)	(42,544)	(15,038,001)
Debt securities issued	(202,803)	(156,819)	(13,801)	(14,792)	(388,215)
Other financial liabilities	(449,526)	(10,316)	(1,576)	(1,724)	(463,142)
Total financial liabilities	(17,231,981)	(770,703)	(85,020)	(78,531)	(18,166,235)
Net on-balance sheet position	993,110	42,452	6,526	20,072	1,062,160
Net notional amount of derivatives	1,442	614	10,566	(18,232)	(5,610)
Credit commitments	1,385,194	223,195	5,322	20,623	1,634,334

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.3 Market risk (Continued)

Foreign exchange rate risk (Continued)

The table below indicates the potential effect on profit before tax and other comprehensive income arising from a 5% appreciation or depreciation of RMB spot and forward foreign exchange rates against a basket of all other currencies on the net positions of foreign currency monetary assets and liabilities and derivative instruments in the consolidated statement of financial position.

RMB	**31 December 2017** Profit before tax	Other comprehensive income	31 December 2016 Profit before tax	Other comprehensive income
5% appreciation	**(1,094)**	**(33)**	(1,892)	(9)
5% depreciation	**1,094**	**33**	1,892	9

The effect on profit before tax and other comprehensive income is calculated based on the assumption that the Group's foreign currency sensitive exposures and foreign currency derivative instruments net position at the end of each reporting period remain unchanged. The Group mitigates its foreign exchange rate risk through active management of its foreign currency exposures and the appropriate use of derivative instruments, based on management expectation of future foreign currency exchange rate movements. Such analysis does not take into account the correlation effect of changes in different foreign currencies, nor any further actions that could be taken by management to mitigate the effect of foreign exchange differences. Therefore, the sensitivity analysis above may differ from actual results occurring through changes in foreign exchange rates.

Interest rate risk

The Group's interest rate risk arises from the mismatches between contractual maturities or re-pricing dates of interest-generating assets and interest-bearing liabilities. The Group's interest-generating assets and interest-bearing liabilities are primarily denominated in RMB. The PBOC established RMB benchmark interest rates for loans whereby financial institutions are in a position to price their loans based on credit risk; commercial and market factors. The deposit interest rate floating ceiling was removed by the PBOC with effect from 24 October 2015 for commercial banks.

The Group manages its interest rate risk by:

– Regularly monitoring the macro-economic factors that potentially impact the PBOC benchmark interest rates;

– Optimizing the management over the differences in timing between contractual maturities or re-pricing dates of interest-generating assets and interest-bearing liabilities; and

– Enhancing the interest rate margin on interest-generating assets and interest-bearing liabilities, with reference to the prevailing PBOC benchmark interest rates where appropriate.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.3 *Market risk (Continued)*

Interest rate risk (Continued)

The tables below summarize the contractual maturity or re-pricing date, whichever is earlier, of the Group's financial assets and liabilities at the end of each reporting period.

	31 December 2017						
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with central banks	2,612,008	2,403	5,952	–	–	276,256	2,896,619
Deposits with banks and other financial institutions	105,307	9,801	14,506	381	–	250	130,245
Placements with and loans to banks and other financial institutions	228,642	85,460	151,545	35,736	3,886	–	505,269
Financial assets held for trading	12,546	33,328	67,991	75,722	3,964	1,089	194,640
Financial assets designated at fair value through profit or loss	38,297	108,121	50,598	125,556	47,456	13,297	383,325
Derivative financial assets	–	–	–	–	–	28,284	28,284
Financial assets held under resale agreements	499,251	17,869	19,394	–	–	3,872	540,386
Loans and advances to customers	4,572,496	1,678,914	3,596,541	253,948	214,412	–	10,316,311
Available-for-sale financial assets	171,410	152,062	129,293	688,494	273,923	11,238	1,426,420
Held-to-maturity investments	59,497	171,547	270,895	1,743,231	1,243,965	–	3,489,135
Debt instruments classified as receivables	3,185	22,485	49,238	133,846	450,469	–	659,223
Other financial assets	–	–	–	–	–	155,111	155,111
Total financial assets	8,302,639	2,281,990	4,355,953	3,056,914	2,238,075	489,397	20,724,968
Borrowings from central bank	(40,000)	(70,540)	(354,923)	(454)	–	(30)	(465,947)
Deposits from banks and other financial institutions	(715,735)	(126,369)	(73,110)	(59,259)	–	(257)	(974,730)
Placements from banks and other financial institutions	(96,495)	(119,229)	(57,017)	(4,369)	(2,951)	–	(280,061)
Financial liabilities held for trading	–	–	–	–	–	(21,118)	(21,118)
Financial liabilities designated at fair value through profit or loss	(134,625)	(139,290)	(91,841)	(4,860)	(38)	–	(370,654)
Derivative financial liabilities	–	–	–	–	–	(30,872)	(30,872)
Financial assets sold under repurchase agreements	(277,813)	(28,113)	(13,535)	(328)	–	–	(319,789)
Due to customers	(10,400,858)	(1,249,742)	(2,551,341)	(1,825,885)	(1)	(166,452)	(16,194,279)
Debt securities issued	(52,470)	(118,698)	(89,021)	(19,932)	(194,896)	–	(475,017)
Other financial liabilities	–	–	–	–	–	(394,066)	(394,066)
Total financial liabilities	(11,717,996)	(1,851,981)	(3,230,788)	(1,915,087)	(197,886)	(612,795)	(19,526,533)
Interest rate gap	(3,415,357)	430,009	1,125,165	1,141,827	2,040,189	(123,398)	1,198,435

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.3 Market risk (Continued)

Interest rate risk (Continued)

	31 December 2016						
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with central banks	2,538,115	4,836	16,262	–	–	252,440	2,811,653
Deposits with banks and other financial institutions	189,386	168,262	261,871	1,051	–	2,095	622,665
Placements with and loans to banks and other financial institutions	161,388	93,665	290,302	35,594	–	–	580,949
Financial assets held for trading	9,323	19,037	57,624	34,741	2,557	336	123,618
Financial assets designated at fair value through profit or loss	13,386	41,993	43,614	98,920	88,651	7,773	294,337
Derivative financial assets	–	–	–	–	–	31,460	31,460
Financial assets held under resale agreements	274,766	26,276	18,137	–	–	3,872	323,051
Loans and advances to customers	3,744,515	1,438,931	3,706,198	217,857	211,863	–	9,319,364
Available-for-sale financial assets	63,969	107,182	248,715	630,290	340,522	18,203	1,408,881
Held-to-maturity investments	56,045	112,776	319,438	1,338,194	1,055,699	–	2,882,152
Debt instruments classified as receivables	2,902	14,960	51,865	107,229	447,591	–	624,547
Other financial assets	–	–	–	–	–	205,718	205,718
Total financial assets	7,053,795	2,027,918	5,014,026	2,463,876	2,146,883	521,897	19,228,395
Borrowings from central bank	(16,342)	(69,000)	(205,059)	(621)	–	(30)	(291,052)
Deposits from banks and other financial institutions	(819,981)	(146,008)	(94,165)	(95,563)	–	(327)	(1,156,044)
Placements from banks and other financial institutions	(132,599)	(97,112)	(68,183)	(4,127)	–	–	(302,021)
Financial liabilities held for trading	(393)	(524)	–	–	–	(16,587)	(17,504)
Financial liabilities designated at fair value through profit or loss	(77,589)	(63,996)	(125,422)	(16,621)	(38)	–	(283,666)
Derivative financial liabilities	–	–	–	–	–	(20,758)	(20,758)
Financial assets sold under repurchase agreements	(193,068)	(12,004)	(760)	–	–	–	(205,832)
Due to customers	(9,350,819)	(1,185,810)	(2,637,484)	(1,705,236)	(6)	(158,646)	(15,038,001)
Debt securities issued	(40,107)	(61,302)	(85,162)	(46,033)	(155,611)	–	(388,215)
Other financial liabilities	–	–	–	–	–	(463,142)	(463,142)
Total financial liabilities	(10,630,898)	(1,635,756)	(3,216,235)	(1,868,201)	(155,655)	(659,490)	(18,166,235)
Interest rate gap	(3,577,103)	392,162	1,797,791	595,675	1,991,228	(137,593)	1,062,160

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Financial risk management (Continued)

49.3 Market risk (Continued)

Interest rate risk (Continued)

The following table illustrates the potential pre-tax impact, of a parallel upward or downward shift of 100 basis points in relevant interest rate curves on the Group's net Interest Income and other comprehensive income for the next twelve months from the reporting date, based on the Group's positions of interest-earning assets and interest-bearing liabilities at the end of each reporting period. This analysis assumes that interest rates of all maturities move by the same amount, and does not reflect the potential impact of unparalleled yield curve movements.

The sensitivity analysis on net interest income is based on reasonably possible changes in interest rates with the assumption that the structure of financial assets and financial liabilities held at the period end remains unchanged, and does not take changes in customer behavior, basis risk or any prepayment options on debt securities into consideration.

The sensitivity analysis on other comprehensive income reflects only the effect of changes in fair value of those financial instruments classified as available-for-sale financial assets held, whose fair value changes are recorded as an element of other comprehensive income.

	31 December 2017		31 December 2016	
	Net interest income	**Other comprehensive income**	Net interest income	Other comprehensive income
+100 basis points	**(24,928)**	**(37,095)**	(24,271)	(40,354)
– 100 basis points	**24,928**	**37,095**	24,271	40,354

The assumptions do not reflect actions that might be taken under the Group's capital and interest rate risk management policy to mitigate changes to the Group's interest rate risk. Therefore the above analysis may differ from the actual situation.

In addition, the presentation of interest rate sensitivity above is for illustration purposes only, showing the potential impact on net interest income and other comprehensive income of the Group under different parallel yield curve movements, relative to their position at period-end, excluding the derivative positions.

49.4 Insurance risk

The Group engages in its insurance business primarily in Mainland China. Insurance risk refers to the financial impact resulting from the unexpected occurrence of insured events. These risks are actively managed by the Group through effective sales management, underwriting control, reinsurance management and claim management. Through effective sales management, the risk of mis-selling could be reduced and the accuracy of information used for underwriting is improved. Through underwriting control, risk of adverse selection could be reduced and moreover differential pricing policy based on the level of each kind of risk could be utilized. Through reinsurance, the Group's insurance capacity could be enhanced and targeted risks could be mitigated. Effective claims management is designed to ensure that insurance payments are controlled according to established criteria.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term life insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality. The Group conducts experience analysis of mortality rate and surrender rate, in order to improve its risk assessment and as a basis for reasonable estimates.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

50 Capital management

The Group's capital management objectives are as follows:

- maintain an adequate capital base to support the development of its business;
- support the Group's financial stability and profitable growth;
- allocate capital through an efficient and risk based approach to optimize risk-adjusted return to shareholders; and
- Safeguard the long-term sustainability of the Group's franchise so that it can continue to provide sufficient shareholder returns and benefits for other stakeholders.

The "Capital Rules for Commercial Banks (Provisional)" issued by the CBRC in 2012 includes, among other things, requirements for minimum capital, capital conservation buffer, additional capital surcharge for systemically important banks, countercyclical buffer and Pillar II capital as follows:

- minimum regulatory requirements for Common Equity Tier-one Capital Adequacy Ratio, Tier-one Capital Adequacy Ratio and Capital Adequacy Ratio are 5%, 6% and 8%, respectively;
- capital conservation buffer requires additional 2.5% of Common Equity Tier-one Capital Adequacy Ratio;
- additional capital surcharge for systemically important banks requires additional 1% of Common Equity Tier-one Capital Adequacy Ratio;
- should the regulators require countercyclical buffer under particular circumstances or regulators impose additional Pillar II capital requirements for specific banks, these requirements shall be met within the specified time limits.

In April 2014, the CBRC officially approved the Group to adopt advanced capital management approach. Within the scope of the approval, the Internal Ratings-Based approach is adopted to Credit Risk-weighted Assets for both retail and non-retail risk exposures, and the Standardized approach for both Operational Risk-weighted Assets and Market Risk-weighted Assets. The CBRC will determine the parallel run period for the Group, which should last for at least three years. During the parallel run period, the Group should calculate its Capital Adequacy Ratios under the advanced approach and the non-advanced approach, and should conform to the capital floor requirements as stipulated in the "Capital Rules for Commercial Banks (Provisional)".

In January 2017, the CBRC has officially approved the Group to adopt the Internal Models approach to measure its Market Risk-weighted Assets for qualified risk exposures.

Capital adequacy and the utilization of regulatory capital are closely monitored by the Group's management in accordance with the guidelines developed by the Basel Committee and relevant regulations promulgated by the CBRC. Required information related to capital levels and utilization is filed quarterly with the CBRC.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

50 Capital management (Continued)

The Group's capital adequacy ratio calculated in accordance with the "Capital Rules for Commercial Banks (Provisional)" issued by the CBRC as at the end of the reporting period is as follows:

		31 December 2017	31 December 2016
Common Equity Tier-one Capital Adequacy Ratio	(1)	**10.63%**	10.38%
Tier-one Capital Adequacy Ratio	(1)	**11.26%**	11.06%
Capital Adequacy Ratio	(1)	**13.74%**	13.04%
Common Equity Tier-one Capital	(2)	**1,347,453**	1,238,683
Deductible Items from Common Equity Tier-one Capital	(3)	**(7,500)**	(7,653)
Net Common Equity Tier-one Capital		**1,339,953**	1,231,030
Additional Tier-one Capital	(4)	**79,906**	79,904
Net Tier-one Capital		**1,419,859**	1,310,934
Tier-two Capital	(5)	**312,087**	235,566
Net Capital		**1,731,946**	1,546,500
Risk-weighted Assets	(6)	**12,605,577**	11,856,530

Pursuant to the "Capital Rules for Commercial Banks (Provisional)":

(1) The scope of consolidation related to the calculation of the Group's Capital Adequacy Ratios includes Domestic Institutions, Overseas Institutions and affiliated financial subsidiaries specified in the Regulation.

The Common Equity Tier-one Capital Adequacy Ratio is calculated as Net Common Equity Tier-one Capital divided by Risk-weighted Assets. The Tier-one Capital Adequacy Ratio is calculated as Net Tier-one Capital divided by Risk-weighted Assets. The Capital Adequacy Ratio is calculated as Net Capital divided by Risk-weighted Assets.

(2) The Group's Common Equity Tier-one Capital includes: ordinary share capital, capital reserve (subject to regulatory limitations), investment revaluation reserve, surplus reserve, general reserve, retained earnings, non-controlling interests (to the extent permitted in the Common Equity Tier-one Capital under the Regulation), and the foreign currency translation reserve.

(3) The Group's Deductible Items from Common Equity Tier-one Capital include: other intangible assets (excluding land-use rights), and Common Equity Tier-one Capital investments made in financial institutions over which the Group has control but are outside the regulatory consolidation scope for the Capital Adequacy Ratios calculation.

(4) The Group's Additional Tier-one Capital includes: preference shares issued and non-controlling interests (to the extent permitted in the Additional Tier-one Capital definition under the Regulation).

(5) The Group's Tier-two Capital includes: Tier-two capital instruments and related premium (to the extent allowed under the Regulation), excessive allowance for loan losses, and minority interests (to the extent permitted in the Tier-two Capital definition under the Regulation).

(6) Risk-weighted Assets include Credit Risk-weighted Assets, Market Risk-weighted Assets and Operational Risk-weighted Assets.

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51 Fair value of financial instruments

The majority of the Group's assets and liabilities in the consolidated statement of financial position are financial assets and financial liabilities. Fair value measurement of non-financial assets and non-financial liabilities do not have a material impact on the Group's financial position and operations, taken as a whole.

The Group does not have any financial assets or financial liabilities subject to non-recurring fair value measurements for the years ended 31 December 2017 and 31 December 2016.

51.1 Valuation technique, input and process

The fair value of the Group's financial assets and financial liabilities are determined as follows:

– If traded in active markets, fair values of financial assets and financial liabilities with standard terms and conditions are determined with reference to quoted market bid prices and ask prices, respectively;

– If not traded in active markets, fair values of financial assets and financial liabilities are determined by using valuation techniques. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and generally accepted pricing models.

The Group has established an independent valuation process for financial assets and financial liabilities. The Financial Market Department is responsible for the valuation of financial assets and financial liabilities, and the Risk Management Department performs an independent review of the valuation methodologies, inputs, assumptions and valuation results. The Operations Department records the accounting for these items and prepares the disclosure of the financial assets and financial liabilities, based on the independently reviewed valuation.

The Group's valuation policies and procedures for different types of financial instruments are approved by the Risk Management Committee. Any change to the valuation policies, or the related procedures, must be reported to the Risk Management Committee for approval before they are implemented.

For the year ended 31 December 2017, there was no significant change in the valuation techniques or inputs used to determine fair value measurements.

51.2 Fair value hierarchy

The Group classifies financial assets and financial liabilities into the following three levels based on the extent to which inputs to valuation techniques used to measure fair value of the financial assets and financial liabilities are observable.

Level 1: fair value measurements are those derived from quoted prices (unadjusted) in an active market for identical assets or liabilities;

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: fair value measurements are not based on observable market data.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51 Fair value of financial instruments (Continued)

51.3 Financial assets and financial liabilities not measured at fair value on the consolidated statement of financial position

The tables below summarize the carrying amounts and fair values of those financial assets and financial liabilities not measured in the consolidated statement of financial position at their fair value. Financial assets and financial liabilities for which the carrying amounts approximate fair value, such as balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets held under resale agreements, loans and advances to customers, receivable from the MOF, special government bond, borrowings from central bank, deposits and placements from banks and other financial institutions, due to customers, financial assets sold under repurchase agreements and certificates of deposit issued, interbank certificate of deposits issued and commercial papers issued are not included in the tables below.

	31 December 2017				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	**3,489,135**	**3,395,950**	**355**	**3,395,571**	**24**
Debt instruments classified as receivables (excluding receivable from the MOF and special government bond)	**294,245**	**285,737**	**–**	**135,993**	**149,744**
Subtotal	**3,783,380**	**3,681,687**	**355**	**3,531,564**	**149,768**
Financial liabilities					
Bonds issued	**246,833**	**246,877**	**1,954**	**244,923**	**–**
Subtotal	**246,833**	**246,877**	**1,954**	**244,923**	**–**

	31 December 2016				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	2,882,152	2,892,525	1,528	2,890,997	–
Debt instruments classified as receivables (excluding receivable from the MOF and special government bond)	259,224	257,948	–	117,334	140,614
Subtotal	3,141,376	3,150,473	1,528	3,008,331	140,614
Financial liabilities					
Bonds issued	202,107	202,084	10,392	191,692	–
Subtotal	202,107	202,084	10,392	191,692	–

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51 Fair value of financial instruments (Continued)

51.4 Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position

The tables below summarize the fair values of the financial assets and financial liabilities measured in the consolidated statement of financial position at their fair value.

	31 December 2017			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
– Debt securities	496	163,453	–	163,949
– Precious metal contracts	–	30,691	–	30,691
Subtotal	496	194,144	–	194,640
Financial assets designated at fair value through profit or loss				
– Debt securities	8,347	161,407	2,885	172,639
– Deposits with banks and other financial institutions	–	93,741	–	93,741
– Placements with and loans to banks and other financial institutions	–	–	92,388	92,388
– Others	1,378	2,489	20,690	24,557
Subtotal	9,725	257,637	115,963	383,325
Derivative financial assets				
– Exchange rate derivatives	–	25,276	18	25,294
– Interest rate derivatives	–	1,125	7	1,132
– Precious metal contracts and others	–	1,858	–	1,858
Subtotal	–	28,259	25	28,284
Available-for-sale financial assets				
– Debt securities	17,672	1,378,581	2,631	1,398,884
– Fund investments	2,783	–	932	3,715
– Equity instruments	3,848	–	3,378	7,226
– Others	–	46	16,252	16,298
Subtotal	24,303	1,378,627	23,193	1,426,123
Total assets	34,524	1,858,667	139,181	2,032,372
Financial liabilities held for trading				
– Financial liabilities related to precious metals	–	(21,118)	–	(21,118)
Financial liabilities designated at fair value through profit or loss				
– Principal guaranteed wealth management products	–	–	(364,151)	(364,151)
– Overseas debt securities	–	(6,503)	–	(6,503)
Subtotal	–	(6,503)	(364,151)	(370,654)
Derivative financial liabilities				
– Exchange rate derivatives	–	(30,083)	(30)	(30,113)
– Interest rate derivatives	–	(399)	(7)	(406)
– Precious metal contracts	–	(353)	–	(353)
Subtotal	–	(30,835)	(37)	(30,872)
Total liabilities	–	(58,456)	(364,188)	(422,644)

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51 Fair value of financial instruments (Continued)

51.4 *Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position (Continued)*

	31 December 2016			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
– Debt securities	–	108,095	–	108,095
– Precious metal contracts	–	15,523	–	15,523
Subtotal	–	123,618	–	123,618
Financial assets designated at fair value through profit or loss				
– Debt securities	6,256	163,137	1,850	171,243
– Deposits with banks and other financial institutions	–	–	40,953	40,953
– Placements with and loans to banks and other financial institutions	–	–	58,485	58,485
– Others	1,456	1,710	20,490	23,656
Subtotal	7,712	164,847	121,778	294,337
Derivative financial assets				
– Exchange rate derivatives	–	25,153	54	25,207
– Interest rate derivatives	–	1,042	19	1,061
– Precious metal contracts and – others	–	5,192	–	5,192
Subtotal	–	31,387	73	31,460
Available-for-sale financial assets				
– Debt securities	46,517	1,343,906	255	1,390,678
– Fund investments	7,015	–	–	7,015
– Equity instruments	3,482	–	1,567	5,049
– Others	–	–	5,818	5,818
Subtotal	57,014	1,343,906	7,640	1,408,560
Total assets	64,726	1,663,758	129,491	1,857,975
Financial liabilities held for trading				
– Financial liabilities related to precious metals	–	(17,504)	–	(17,504)
Financial liabilities designated at fair value through profit or loss				
– Principal guaranteed wealth management products	–	–	(283,666)	(283,666)
Derivative financial liabilities				
– Exchange rate derivatives	–	(19,650)	(113)	(19,763)
– Interest rate derivatives	–	(585)	(19)	(604)
– Precious metal contracts	–	(391)	–	(391)
Subtotal	–	(20,626)	(132)	(20,758)
Total liabilities	–	(38,130)	(283,798)	(321,928)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51 Fair value of financial instruments (Continued)

51.4 Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position (Continued)

Substantially all financial instruments classified within Level 2 of the fair value hierarchy are debt investments, deposits with banks and other financial institutions, currency forwards, currency swaps, interest rate swaps, currency options and precious metal contracts. Fair value of debt investments denominated in RMB is determined based upon the valuation published by the China Central Depository & Clearing Co., Ltd. Fair value of debt investments denominated in foreign currencies is determined based upon the valuation results published by Bloomberg. The fair value of deposits with banks and other financial institutions, currency forwards, currency swaps, interest rate swaps and currency options are calculated by applying discounted cash flow analysis or the Black Scholes Pricing Model. The fair value of precious metal contracts that are related to the Group's trading activities is determined with reference to the relevant observable market parameters. All significant inputs are observable in the market.

Level 3 financial assets of the Group mainly represented underlying assets invested by principal-guaranteed wealth management products issued by the Group including deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions and credit assets. The counterparties of these deposits and placements are primarily commercial banks and non-bank financial institutions in Mainland China. The credit assets are loans and advances to corporate customers in Mainland China. Level 3 financial liabilities largely represented liabilities to the investors of these products. As not all of the inputs needed to estimate the fair value of these assets and liabilities are observable, the Group classified these investment products within Level 3 of the fair value measurement hierarchy. The significant unobservable inputs related to these assets and liabilities are those parameter related credit risk,liquidity and discount rate. Management has made assumptions on unobservable inputs based on observed indicators of impairment, significant changes in yield, external credit ratings and comparable credit spreads, but the fair value of these underlying assets and liabilities could be different from those disclosed.

There were no significant transfers amongst the different levels of the fair value hierarchy during the years ended 31 December 2017 and 31 December 2016.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51 Fair value of financial instruments (Continued)

51.4 Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position (Continued)

The reconciliation of Level 3 classified financial assets and financial liabilities presented at fair value on the consolidated statement of financial position is as follows:

	2017				
	Financial assets designated at fair value through profit or loss	Derivative financial assets	Available-for-sale financial assets	Financial liabilities designated at fair value through profit or loss	Derivative financial liabilities
1 January 2017	121,778	73	7,640	(283,666)	(132)
Purchases	1,975,472	–	20,960	–	–
Issuance	–	–	–	(3,778,572)	–
Settlements/disposals	(1,991,329)	(6)	(5,321)	3,707,985	12
Total gains/(losses) recognized in					
– Profit or loss	10,042	(42)	–	(9,898)	83
– Other comprehensive income	–	–	(86)	–	–
31 December 2017	115,963	25	23,193	(364,151)	(37)
Change in unrealized gains/(losses) for the year included in profit or loss for assets/liabilities held at the end of the year	1,605	(43)	–	(44)	73

	2016				
	Financial assets designated at fair value through profit or loss	Derivative financial assets	Available-for-sale financial assets	Financial liabilities designated at fair value through profit or loss	Derivative financial liabilities
1 January 2016	216,565	58	3,631	(406,407)	(91)
Purchases	487,191	–	5,995	–	–
Issuance	–	–	–	(1,758,926)	–
Settlements/disposals	(588,006)	(11)	(1,999)	1,891,502	14
Total gains/(losses) recognized in					
– Profit or loss	6,028	26	–	(9,835)	(55)
– Other comprehensive income	–	–	13	–	–
31 December 2016	121,778	73	7,640	(283,666)	(132)
Change in unrealized (losses)/gains for the year included in profit or loss for assets/liabilities held at the end of the year	(657)	21	–	175	(47)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51 Fair value of financial instruments (Continued)

51.4 Financial assets and financial liabilities measured at fair value on the consolidated statement of financial position (Continued)

In Level 3 of the fair value hierarchy, total gains or losses included in profit or loss for the year are presented in Net Gain on Financial Instruments Designated at fair value through profit or loss of the consolidated income statement.

52 Events after the reporting period

52.1 Profit appropriation

(1) Pursuant to the resolutions of the Board of Directors' meeting on 11 January 2018, a cash dividend at the dividend rate of 5.5% per annum related to the second tranche of preference shares amounting to RMB2,200 million in total was approved and the dividend was distributed on 12 March 2018.

(2) Pursuant to the meeting of the Board of Directors on 26 March 2018, the proposal for profit appropriations of the Bank for the year ended 31 December 2017 are set forth as follows:

(i) An appropriation of RMB19,171 million to the statutory surplus reserve (Note IV 41);

(ii) An appropriation of RMB8,380 million to the general reserve (Note IV 42);

(iii) A cash dividend of RMB0.1783 per ordinary share in respect of the year ended 31 December 2017 based on the number of ordinary shares issued as at 31 December 2017 totaling RMB57,911 million (Note IV 10).

As at 31 December 2017, the statutory surplus reserve under item (i) above had been recognized as appropriation in the statement of changes in equity of the Group. Items (ii) and (iii) will be recognized in the Group's consolidated financial statements after approval by ordinary equity holders in the forthcoming annual general meeting.

52.2 General Mandate for Issuance of Shares

On 12 March 2018, the Board resolved to submit to the 2018 first extraordinary general meeting of the Bank to be held on 29 March 2018 ("EGM") a proposal for the consideration and approval by way of special resolution in respect of granting a General Mandate to the Board. Pursuant to such General Mandate (if granted), the Board may, separately or concurrently, allot, issue and/or deal with up to 58,811,058,780 A Shares and/or 6,147,764,619 H Shares, representing 20% of the respective number of each of the issued A Shares and/or H Shares as at the date of approval of such General Mandate at the EGM, assuming that the numbers of issued A Shares and issued H Shares will remain unchanged on the date of approval of such General Mandate at the EGM.

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

52 Events after the reporting period (Continued)

52.3 Proposed Private Placement of A Shares

The Board resolved on 12 March 2018 to approve the Bank's Private Placement of no more than 27,472,527,469 A Shares, subject to the satisfaction of various conditions. On the same date, the Bank entered into conditional share subscription agreements, respectively, with each of target subscribers, stipulating relevant matters in relation to the subscription of the A Shares under the Private Placement at the issuance price to be determined as stipulated.

Pursuant to the relevant PRC laws and regulations as well as the Hong Kong Listing Rules, the implementation of the Private Placement is subject to, among others, the approval of the General Mandate and the Private Placement at the shareholders' general meeting by way of special resolutions and the approval of regulatory authorities including the CBRC and the CSRC, and also subject to the final plan approved by the aforesaid regulatory authorities.

53 Statement of financial position of the bank

		As at 31 December	
	Notes IV	**2017**	2016
Assets			
Cash and balances with central banks		**2,896,341**	2,809,879
Deposits with banks and other financial institutions		**115,998**	616,450
Precious metals		**32,008**	59,105
Placements with and loans to banks and other financial institutions		**515,371**	590,223
Financial assets held for trading		**120,172**	93,880
Financial assets designated at fair value through profit or loss		**367,552**	286,123
Derivative financial assets		**28,150**	31,430
Financial assets held under resale agreements		**536,521**	322,948
Loans and advances to customers		**10,277,039**	9,282,320
Available-for-sale financial assets		**1,379,329**	1,375,156
Held-to-maturity investments		**3,477,280**	2,869,711
Debt instruments classified as receivables		**586,826**	604,991
Investment in subsidiaries	23	**21,660**	11,660
Investments in associates		**227**	213
Controlled structured entities investments		**126,400**	30,000
Property and equipment		**147,214**	152,457
Deferred tax assets		**97,320**	82,670
Other assets		**187,922**	221,425
Total assets		**20,913,330**	19,440,641
Liabilities			
Borrowings from central bank		**465,647**	290,992
Deposits from banks and other financial institutions		**979,501**	1,161,931
Placements from banks and other financial institutions		**239,044**	269,591
Financial liabilities held for trading		**21,118**	17,504
Financial liabilities designated at fair value through profit or loss		**370,654**	283,666
Derivative financial liabilities		**30,736**	20,734
Financial assets sold under repurchase agreements		**314,479**	202,938
Due to customers		**16,192,746**	15,035,744
Debt securities issued		**465,323**	378,094
Other liabilities		**410,575**	463,621
Total liabilities		**19,489,823**	18,124,815

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

53 Statement of financial position of the bank (Continued)

	Notes IV	As at 31 December 2017	2016
Equity			
Ordinary shares	37	**324,794**	324,794
Preference shares	38	**79,899**	79,899
Capital reserve	39	**98,574**	98,574
Investment revaluation reserve		**(18,934)**	3,768
Surplus reserve	41	**134,061**	114,890
General reserve	42	**230,065**	197,695
Retained earnings		**574,931**	494,573
Foreign currency translation reserve		**117**	1,633
Total equity		**1,423,507**	1,315,826
Total equity and liabilities		**20,913,330**	19,440,641

Approved and authorized for issue by the Board of Directors on 26 March 2018.

Chairman

Vice Chairman

(Amounts in millions of Renminbi, unless otherwise stated)

IV NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

54 Statement of changes in equity of the bank

	Note IV	Ordinary shares	Preference shares	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Foreign currency translation reserve	Total
As at 1 January 2017		324,794	79,899	98,574	3,768	114,890	197,695	494,573	1,633	1,315,826
Profit for the year		–	–	–	–	–	–	191,714	–	191,714
Other comprehensive income		–	–	–	(22,702)	–	–	–	(1,516)	(24,218)
Total comprehensive income for the year		–	–	–	(22,702)	–	–	191,714	(1,516)	167,496
Appropriation to surplus reserve	41	–	–	–	–	19,171	–	(19,171)	–	–
Appropriation to general reserve	42	–	–	–	–	–	32,370	(32,370)	–	–
Dividends to ordinary equity holders	10	–	–	–	–	–	–	(55,215)	–	(55,215)
Dividends to preference shareholders	10	–	–	–	–	–	–	(4,600)	–	(4,600)
As at 31 December 2017		324,794	79,899	98,574	(18,934)	134,061	230,065	574,931	117	1,423,507

	Note IV	Ordinary shares	Preference shares	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Foreign currency translation reserve	Total
As at 1 January 2016		324,794	79,899	98,574	22,258	96,567	175,021	411,401	17	1,208,531
Profit for the year		–	–	–	–	–	–	182,945	–	182,945
Other comprehensive income		–	–	–	(18,490)	–	–	–	1,616	(16,874)
Total comprehensive income for the year		–	–	–	(18,490)	–	–	182,945	1,616	166,071
Appropriation to surplus reserve	41	–	–	–	–	18,323	–	(18,323)	–	–
Appropriation to general reserve	42	–	–	–	–	–	22,674	(22,674)	–	–
Dividends to ordinary equity holders	10	–	–	–	–	–	–	(54,176)	–	(54,176)
Dividends to preference shareholders	10	–	–	–	–	–	–	(4,600)	–	(4,600)
As at 31 December 2016		324,794	79,899	98,574	3,768	114,890	197,695	494,573	1,633	1,315,826

According to Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Banking (Disclosure) Rules, the Group discloses the following supplementary information:

1. LIQUIDITY COVERAGE RATIOS

	Three months ended			
	31 March 2017	30 June 2017	30 September 2017	31 December 2017
Average Liquidity Coverage Ratio	**139.8%**	**131.2%**	**128.2%**	**121.2%**

The liquidity coverage ratios were in accordance with the Rules on Liquidity Risk Management of Commercial Banks (Provisional) issued by the CBRC and applicable calculation requirements, and based on the data determined under the PRC GAAP.

2. CURRENCY CONCENTRATIONS

	Equivalent in millions of RMB			
	USD	HKD	Other	Total
31 December 2017				
Spot assets	**722,187**	**113,826**	**122,616**	**958,629**
Spot liabilities	**(776,116)**	**(118,007)**	**(96,582)**	**(990,705)**
Forward purchases	**1,017,341**	**51,333**	**64,337**	**1,133,011**
Forward sales	**(930,737)**	**(32,936)**	**(78,870)**	**(1,042,543)**
Net options position	**(27,469)**	**–**	**(148)**	**(27,617)**
Net long position	**5,206**	**14,216**	**11,353**	**30,775**
Net structural position	**4,502**	**6,953**	**2,524**	**13,979**

	Equivalent in millions of RMB			
	USD	HKD	Other	Total
31 December 2016				
Spot assets	796,141	91,772	99,101	987,014
Spot liabilities	(770,531)	(84,739)	(76,865)	(932,135)
Forward purchases	727,185	53,211	47,571	827,967
Forward sales	(635,018)	(42,645)	(65,803)	(743,466)
Net options position	(91,553)	–	–	(91,553)
Net long position	26,224	17,599	4,004	47,827
Net structural position	3,426	6,133	1,541	11,100

(Amounts in millions of Renminbi, unless otherwise stated)

3. INTERNATIONAL CLAIMS

International claims are the sum of cross-border claims in all currencies and local claims in foreign currencies. The Group is principally engaged in business operations within Mainland China, and regards all the claims on third parties outside Mainland China as cross border claims.

International claims include balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets held for trading, financial assets designated at fair value through profit or loss, loans and advances to customers, financial assets held under resale agreements, available-for-sale financial assets, held-to-maturity investments and debt instruments classified as receivables.

International claims are disclosed based on different countries or regions. A country or region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account of any risk transfers. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	Banks	**Official sector**	**Non-bank private sector**	**Total**
31 December 2017				
Asia Pacific	**83,176**	**23,981**	**117,958**	**225,115**
– of which attributable to Hong Kong	**21,552**	**9,434**	**95,962**	**126,948**
Europe	**25,518**	**6,106**	**38,172**	**69,796**
North and South America	**175,405**	**45,373**	**185,319**	**406,097**
Africa	**606**	**–**	**–**	**606**
Total	**284,705**	**75,460**	**341,449**	**701,614**

	Banks	Official sector	Non-bank private sector	Total
31 December 2016				
Asia Pacific	85,923	19,290	99,834	205,047
– of which attributable to Hong Kong	31,327	6,606	63,763	101,696
Europe	34,844	3,763	36,331	74,938
North and South America	162,511	48,612	175,762	386,885
Africa	640	–	279	919
Total	283,918	71,665	312,206	667,789

(Amounts in millions of Renminbi, unless otherwise stated)

4. OVERDUE AND RESCHEDULED ASSETS

(1) Gross amount of overdue loans and advances to customers

	As at 31 December 2017	2016
Overdue		
within 3 months	**91,100**	79,545
between 3 and 6 months	**18,798**	29,080
between 6 and 12 months	**30,722**	57,388
over 12 months	**83,446**	108,622
Total	**224,066**	274,635
Percentage of overdue loans and advances to customers in total loans		
within 3 months	**0.85%**	0.82%
between 3 and 6 months	**0.18%**	0.30%
between 6 and 12 months	**0.29%**	0.59%
over 12 months	**0.77%**	1.12%
Total	**2.09%**	2.83%

(2) Overdue and rescheduled loans and advances to customers

	As at 31 December 2017	2016
Total rescheduled loans and advances to customers	**55,120**	52,491
Including: rescheduled loans and advances to customers overdue for not more than 3 months	**18,176**	17,437
Percentage of rescheduled loans and advances to customers overdue for not more than 3 months in total loans	**0.17%**	0.18%

(3) Gross amount of overdue placements with and loans to banks and other financial institutions

There were no overdue in the Group's placements with and loans to banks and other financial institutions as at 31 December 2017 and 31 December 2016.

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