



INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED

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

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2016

Capital Adequacy Ratio Report

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This report is prepared in both Chinese and English. In the case of discrepancy between the two versions, the Chinese version shall prevail.

Introduction

Company Profile

Industrial and Commercial Bank of China was established on 1 January 1984. On 28 October 2005, the Bank was wholly restructured to a joint-stock limited company. On 27 October 2006, the Bank was successfully listed on both Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited. Through its continuous endeavor and stable development, the Bank has developed into the leading bank in the world, possessing an excellent customer base, a diversified business structure, strong innovation capabilities and market competitiveness. The Bank regards service as the very foundation to seek further development and has made efforts to build a “bank to the satisfaction of customers” while providing a wide range of financial products and services to 5,784 thousand corporate customers and 530 million personal customers. Taking the provision of service to the real economy as the starting point and the ultimate goal, the Bank remains steadfast in new finance and new service under the guidance of new concept, has supported the supply-side structural reform and the economic transformation and upgrading and has realized healthy and sustainable development. Through deepening of reform, innovation and operation transformation, retail banking, asset management and financial market business emerged as the important growth engines of profit. The pattern of internationalized and diversified operation was further improved, covering 42 countries and regions, contributing more to the Bank’s profit-making.

Disclosure Basis

This report is prepared and disclosed in accordance with the Capital Regulation promulgated by CBRC in June 2012 and related regulations.

Disclosure Statement

The report contains forward-looking statements on the Bank’s financial positions, business performance and development. The statements are made based on existing plans, estimates and forecast, and bear upon future external events or the Group’s future finance, business or performance in other aspects, and may involve future plans which do not constitute substantive commitment to investors. Hence, investors and persons concerned shall be fully aware of the risks and understand the difference between plans, estimates and commitments.

Scope of Calculation of Capital Adequacy Ratio

Investees' Consolidation Treatment under Capital Adequacy Ratio Calculation

The Bank calculated capital adequacy ratios at all tiers in accordance with the Capital Regulation. The scope of calculation of consolidated capital adequacy ratio includes the Bank and financial institutions in which the Bank directly or indirectly invested in accordance with the Capital Regulation.

TREATMENT OF DIFFERENT TYPES OF INVESTMENTS FOR THE CALCULATION OF CONSOLIDATED CAPITAL ADEQUACY RATIO

S/N	Type of investee	Treatment for the calculation of capital adequacy ratio
1	Financial institutions with majority voting rights or controlling interest (excluding insurance companies)	Included in the calculation of capital adequacy ratio
2	Insurance companies with majority voting rights or controlling interest	Excluded from the calculation of capital adequacy ratio, deducted corresponding capital investment from capital at all tiers; deducted the corresponding capital shortfall, if any
3	Significant minority investments in capital instruments issued by financial institutions	Excluded from the calculation of capital adequacy ratio, deducted the part of core tier 1 capital investments exceeding 10% of the Bank's core tier 1 capital and deducted all of additional tier 1 and tier 2 capital investments from corresponding tiers of capital. The part failing to reach the deduction threshold shall be calculated as risk-weighted assets
4	Non-significant minority investments in capital instruments issued by financial institutions	Excluded from the calculation of capital adequacy ratio and deducted the part of total investments exceeding 10% of the Bank's core tier 1 capital from corresponding tiers of regulatory capital. The part failing to reach the deduction threshold shall be calculated as risk-weighted assets
5	Minority investments in the equity of commercial entities	Excluded from the calculation of capital adequacy ratio and calculated as risk-weighted assets

At the end of 2016, the difference between the scope of the calculation of consolidated capital adequacy ratio and the scope of financial reporting consolidation is ICBC-AXA. Pursuant to the Capital Regulation, ICBC-AXA was excluded from the calculation of consolidated capital adequacy ratio.

Scope of Calculation of Capital Adequacy Ratio

Major Investees Included in and Deducted from the Calculation of Capital Adequacy Ratio

TOP 10 INVESTEES INCLUDED IN THE CALCULATION OF CAPITAL ADEQUACY RATIO

In RMB millions, except for percentages

S/N	Name of investee	Balance of investment	Shareholding percentage (%)	Place of incorporation	Principal activities
1	ICBC (Asia)	40,754	100.00	Hong Kong, China	Commercial banking
2	ICBC Leasing	11,000	100.00	Tianjin, China	Leasing
3	ICBC (Macau)	10,316	89.33	Macau, China	Commercial banking
4	ICBC (Thai)	4,898	97.86	Bangkok, Thailand	Commercial banking
5	ICBC (Argentina)	4,521	80.00	Buenos Aires, Argentina	Commercial banking
6	ICBC Standard Bank	4,251	60.00	London, UK	Commercial banking
7	ICBC International	4,066	100.00	Hong Kong, China	Investment banking
8	ICBC (Europe)	3,294	100.00	Luxembourg	Commercial banking
9	ICBC (Turkey)	1,923	92.82	Istanbul, Turkey	Commercial banking
10	ICBC (Indonesia)	1,883	98.61	Jakarta, Indonesia	Commercial banking

INVESTEEES DEDUCTED FROM THE CALCULATION OF CAPITAL ADEQUACY RATIO

In RMB millions, except for percentages

S/N	Name of investee	Balance of investment	Shareholding percentage (%)	Place of incorporation	Principal activities
1	ICBC-AXA	5,700	60.00	Shanghai, China	Insurance

Capital Deficiencies and Restrictions on Capital Transfer

As at the end of 2016, there is no capital deficiency in the financial institutions in which the majority or controlling interests is held by the Bank as measured in accordance with local regulatory requirements. During the reporting period, there is no material restriction on the fund transfer within the Group.

Capital and Capital Adequacy Ratio

Implementation of Advanced Capital Management Approaches

In April 2014, CBRC officially approved the Bank's implementation of advanced capital management approaches. According to the scope of implementing the advanced capital management approaches as approved by CBRC, the internal ratings-based (IRB) foundation approach was adopted for corporate credit risk, the IRB approach for retail credit risk, the internal model approach (IMA) for market risk, and the standardized approach for operational risk meeting regulatory requirements. The weighted approach was adopted for credit risk uncovered by the IRB approach and the standardized approach for market risk uncovered by the IMA approach.

Capital Adequacy Ratio

RESULTS OF CAPITAL ADEQUACY RATIO CALCULATION OF THE GROUP AND PARENT COMPANY

In RMB millions, except for percentages

Item	At 31 December 2016		At 31 December 2015	
	Group	Parent Company	Group	Parent Company
Calculated in accordance with the Capital Regulation:				
Net core tier 1 capital	1,874,976	1,723,839	1,701,495	1,571,403
Net tier 1 capital	1,954,770	1,803,214	1,781,062	1,650,778
Net capital base	2,127,462	1,960,840	2,012,103	1,869,237
Core tier 1 capital adequacy ratio	12.87%	12.90%	12.87%	12.88%
Tier 1 capital adequacy ratio	13.42%	13.49%	13.48%	13.53%
Capital adequacy ratio	14.61%	14.67%	15.22%	15.32%
Calculated in accordance with the Regulation Governing Capital Adequacy of Commercial Banks and related regulations:				
Core capital adequacy ratio	11.71%	11.96%	11.83%	12.09%
Capital adequacy ratio	14.29%	14.26%	14.75%	14.67%

Capital Composition

As at the end of 2016, the core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio calculated by the Bank in accordance with the Capital Regulation stood at 12.87%, 13.42% and 14.61%, respectively, complying with regulatory requirements.

Capital and Capital Adequacy Ratio

CAPITAL ADEQUACY RATIO OF THE GROUP CALCULATED IN ACCORDANCE WITH THE CAPITAL REGULATION

In RMB millions, except for percentages

Item	At 31 December 2016	At 31 December 2015
Core tier 1 capital	1,886,536	1,713,160
Paid-in capital	356,407	356,407
Valid portion of capital reserve	151,998	151,963
Surplus reserve	205,021	178,040
General reserve	251,349	246,356
Retained profits	940,237	781,853
Valid portion of minority interests	3,164	4,340
Others	(21,640)	(5,799)
Core tier 1 capital deductions	11,560	11,665
Goodwill	9,001	8,478
Other intangible assets other than land use rights	1,477	1,356
Cash flow hedge reserves that relate to the hedging of items that are not fair valued on the balance sheet	(4,618)	(3,869)
Investments in core tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	5,700	5,700
Net core tier 1 capital	1,874,976	1,701,495
Additional tier 1 capital	79,794	79,567
Additional tier 1 capital instruments and related premium	79,375	79,375
Valid portion of minority interests	419	192
Net tier 1 capital	1,954,770	1,781,062
Tier 2 capital	178,292	244,641
Valid portion of tier 2 capital instruments and related premium	154,861	180,242
Surplus provision for loan impairment	19,195	63,398
Valid portion of minority interests	4,236	1,001
Tier 2 capital deductions	5,600	13,600
Significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	5,600	13,600
Net capital base	2,127,462	2,012,103
Risk-weighted assets⁽¹⁾	14,564,617	13,216,687
Core tier 1 capital adequacy ratio	12.87%	12.87%
Tier 1 capital adequacy ratio	13.42%	13.48%
Capital adequacy ratio	14.61%	15.22%

Note: (1) Refers to risk-weighted assets after capital floor and adjustments.

For information disclosed in accordance with the Notice on Enhancing Disclosure Requirements for Composition of Capital, Appendix 2 to CBRC's Notice on Issuing Regulatory Documents on Capital Regulation for Commercial Banks, please refer to the Appendixes of this report, including Capital Composition, Balance Sheet at the Group's level (financial consolidation and regulatory consolidation), Illustrated Balance Sheet, Mapped Components of Balance Sheet to Capital Items as well as Main Features of Eligible Capital Instruments.

CAPS IN THE CAPITAL CALCULATION

In RMB millions

Item	At 31 December 2016	At 31 December 2015
I. Valid caps of surplus provision for loan impairment in tier 2 capital		
Parts covered by internal ratings-based approach		
Provision for loan impairment	267,008	262,825
Expected loss	253,510	204,808
Surplus provision for loan impairment	13,498	58,017
Valid cap of surplus provision for loan impairment in tier 2 capital irrespective of adjustment during the parallel period	55,828	51,702
Valid portion of surplus provision for loan impairment in tier 2 capital during the parallel period	13,498	58,017
Parts uncovered by internal ratings-based approach		
Provision for loan impairment	22,504	17,829
Minimum requirement on provision for loan impairment	16,807	12,448
Surplus provision for loan impairment	5,697	5,381
Valid caps of surplus provision for loan impairment in tier 2 capital	47,926	40,532
Valid portion of surplus provision for loan impairment in tier 2 capital	5,697	5,381
II. Deduction cap for items applicable to thresholds deduction		
Non-significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	37,049	48,007
Relevant cap	187,498	170,150
Deductible portion	–	–
Significant minority investments in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	26,859	21,669
Relevant cap	187,498	170,150
Deductible portion	–	–
Deferred tax assets arising from temporary differences	28,072	20,313
Relevant cap	187,498	170,150
Deductible portion	–	–
Significant minority investments in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation and deferred tax assets arising from temporary differences	54,931	41,982
Relevant cap	281,246	255,224
Deductible portion	–	–

For changes in share capital of the Bank during the reporting period, please refer to “Details of Changes in Share Capital and Shareholding of Substantial Shareholders” in the 2016 Annual Report. For material capital investment activities of the Bank during the reporting period, please refer to “Significant Events” in the 2016 Annual Report.

Capital and Capital Adequacy Ratio

Risk-Weighted Assets

In RMB millions

Item	At 31 December 2016	At 31 December 2015
Credit risk-weighted assets	13,144,466	11,864,984
Parts covered by internal ratings-based approach	9,304,653	8,617,028
Parts uncovered by internal ratings-based approach	3,839,813	3,247,956
Market risk-weighted assets	229,250	199,557
Parts covered by internal model approach	150,951	139,840
Parts uncovered by internal model approach	78,299	59,717
Operational risk-weighted assets	1,190,901	1,152,146
Total	14,564,617	13,216,687

Internal Capital Adequacy Assessment

The Bank's internal capital adequacy assessment comprises the substantive risk assessment, capital adequacy forecast and comprehensive risk stress test. The substantive risk assessment system provides an assessment on all substantive risks of the Bank and conducts a comprehensive analysis on the risk profile and management status of various substantive risks to compute the target capital adequacy ratio of the Bank. The capital adequacy forecast is to forecast changes in risk-weighted assets and capital, taking into account the Bank's business planning and financial planning so as to further predict the capital adequacy levels in the following years. The comprehensive risk stress test is to set stress scenarios reflecting business operation, asset-liability portfolio and risk features of the Bank under the premise of analysis on future macroeconomic trends to work out changes in indicators such as capital adequacy ratios of the Bank under the stress scenarios.

Capital Planning and Management Plan for Capital Adequacy Ratios

In 2014, the Board of Directors and the Shareholders' General Meeting of the Bank reviewed and approved the 2015-2017 Capital Planning of ICBC in response to the new economic and financial trends and regulatory requirements. Comprehensively taking into account domestic and overseas regulatory requirements and the needs for sustainable development and shareholder return, the Planning defined the capital management objectives and specific measures to be undertaken. During the planning period, the Bank will endeavor to ensure that capital adequacy ratios at all tiers comply with regulatory rules of China and regulatory requirements on capital surcharges of Global Systemically Important Banks. The Bank will also endeavor to maintain a safety margin and buffer, so as to support its strategic development and prevent capital adequacy ratio from falling below the regulatory requirement due to unforeseen circumstances. On the basis of keeping capital adequacy ratio at a reasonable level, the Bank will attach great importance to the balance between capital adequacy and return on capital, and maintain stable capital adequacy ratio. Moreover, the Bank will continue to strengthen capital replenishment and coordinated management on capital use, further improve capital management mechanism and deepen the reform on economic capital management to increase capital use efficiency and return on capital. In 2016, the Bank met the objectives set in the medium and long-term capital planning and the annual management plan for capital adequacy ratios.

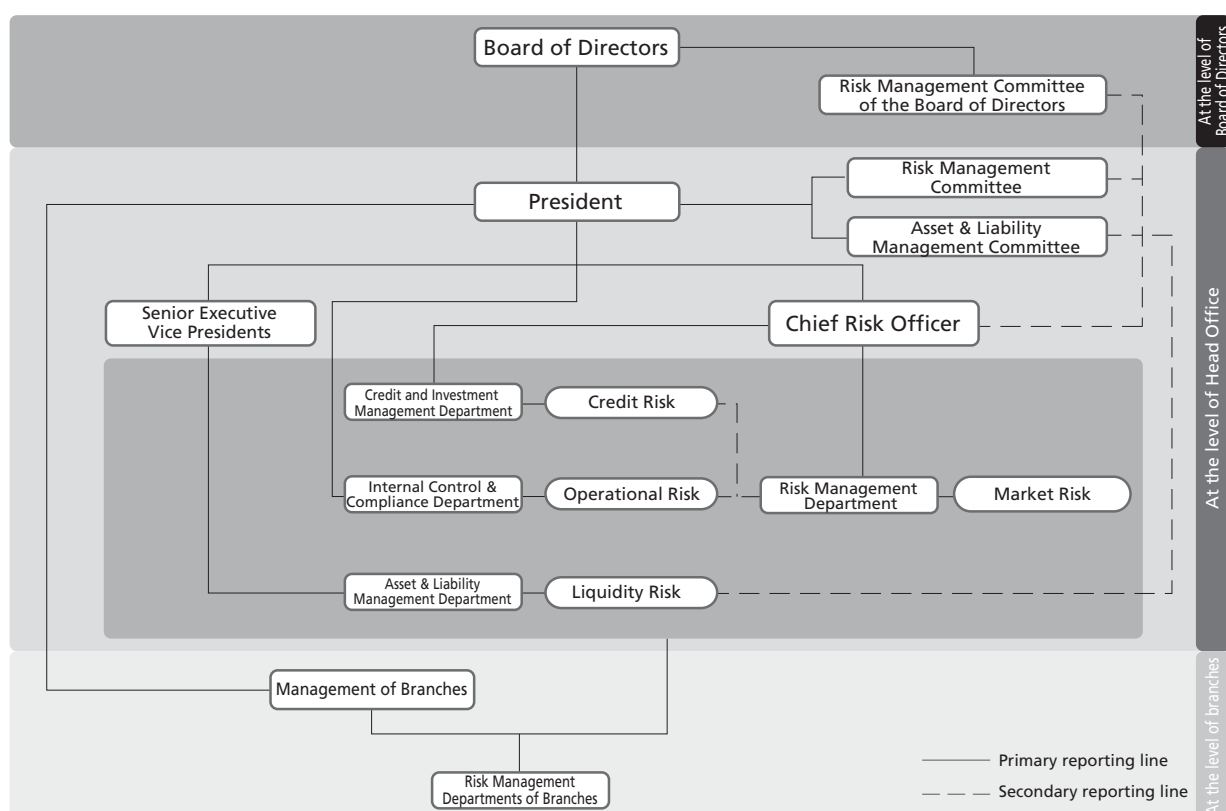
The Capital Regulation specifies that Chinese commercial banks shall ensure that their capital adequacy ratio will comply with new regulatory requirements by the end of 2018 and encourages qualified commercial banks to achieve the compliance ahead of the schedule. In accordance with relevant regulatory policies and the Compliance Planning for Capital Adequacy Ratio of Industrial and Commercial Bank of China, the Bank's capital adequacy ratios at all tiers had reached the regulatory standard during the reporting period and will continue to fulfill the regulatory requirements.

The Bank proactively carried out external capital replenishment and constantly promoted the issuance of new capital instruments on the basis of achieving capital replenishment by retained profits. The Board of Directors of the Bank convened a meeting in March 2016 to review and approve the proposal on the new issuance of write-down eligible tier 2 capital instruments up to RMB88.0 billion equivalent by the end of 2017, which was deliberated and approved by the Shareholders' General Meeting in June 2016. Please refer to the announcements published by the Bank on the websites of SEHK and SSE.

Enterprise Risk Management System

Enterprise risk management is a process where the Board of Directors, the Senior Management and other employees of the Bank perform their respective duties and responsibilities to take effective control of all the risks at various business levels in order to provide reasonable guarantee to the achievement of objectives of the Bank. The principles of risk management include matching return with risk, internal check and balance with consideration as to efficiency, risk diversification, combination of quantitative and qualitative analysis, dynamic adaptability adjustments and gradual improvement, etc.

The Bank's organizational structure of risk management comprises the Board of Directors and its special committees, the Senior Management and its special committees, the Risk Management Department, the Internal Audit Department, etc. The risk management organizational structure is illustrated below:



Note: Substantial risks including country risk and reputational risk have been incorporated into the enterprise risk management system.

In 2016, the Bank further improved the enterprise risk management system, continuously upgraded risk management technologies and methods, enhanced the capacity of risk pre-judgment and dynamic control, so as to push the enterprise risk management to a new level. It also promoted the implementation of the latest international and domestic regulatory requirements, improved the basic policies for enterprise risk management and better managed related work of G-SIB. In addition, the Bank strengthened consolidated risk management in the Group, intensified the management of risk limits for non-banking subsidiaries, and organized risk assessment of the subsidiaries. It advanced country risk management by strengthened monitoring analysis, reporting and limit management, and enhanced sovereign risk control capability. The Bank reinforced the management of the Group's market risk, strengthened the market risk management of overseas institutions and continued perfecting its product control. It further implemented the advanced capital management approaches, and continued to refine the measurement system concerning credit risk, market risk and operational risk and strengthen the monitoring, improvement, validation and management application of the risk measurement system.

Credit Risk

The Bank is primarily exposed to credit risk. Credit risk is the risk that loss is caused to banking business when the borrower or counterparty fails to meet its contractual obligations. The Bank's credit risks mainly originate from loans, treasury operations (including due from banks, placements with banks, reverse repurchase agreements, corporate bonds and financial bonds investment), receivables and off-balance sheet credit business (including guarantees, commitments and financial derivatives trading).

Credit Risk Management

The Bank strictly adheres to the guidance from CBRC regarding credit risk management and other regulatory requirements, diligently fulfills established strategies and objectives under the leadership of the Board of Directors and the Senior Management, and implements an independent, centralized and vertical credit risk management mode. The Board of Directors assumes the ultimate responsibility for the effectiveness of the implementation and monitoring of credit risk management. The Senior Management is responsible for executing the strategies, overall policy and system regarding credit risk management approved by the Board of Directors. The Credit Risk Management Committee of the Senior Management is the reviewing and decision-making organ of the Bank in respect of credit risk management, is responsible for reviewing material and important affairs of credit risk management, and performs its duty in accordance with the Working Regulations for the Credit Risk Management Committee. The credit risk management departments at different levels undertake the responsibility of coordinating credit risk management at respective levels, and the business departments play their roles in implementing credit risk management policies and standards in respective business areas.

The Bank's credit risk management has the following characteristics: (1) standardized credit management processes are implemented throughout the Bank; (2) the principles and processes of risk management focus on the entire process of credit business, covering customer investigation, credit rating, loan evaluation, loan review and approval, loan payment and post-lending monitoring; (3) special organization is set up to supervise the entire process of credit business; (4) the qualification of the employees who are responsible for credit review and approval is strictly reviewed; and (5) a series of information management systems are designed to reinforce monitoring on the risks.

According to the regulatory requirement on loan risk classification, the Bank implemented five-category classification management in relation to loan quality and classified loans into five categories: pass, special mention, substandard, doubtful and loss, based on the possibility of collecting the principal and interest of loans. In order to implement sophisticated management of credit asset quality and improve risk management, the Bank implemented the twelve-category internal classification system for corporate loans. The Bank applied five-category classification management to personal credit assets and ascertained the category of the loans based on the number of months for which the lender is in default, anticipated loss rate, credit rating, collaterals and other quantitative and qualitative factors.

Credit Risk Management of Corporate Loans

The Bank continued to strengthen the formation of the credit rule framework and improve credit system. The Bank intensified the implementation of uniform credit extension and standardized cross-regional credit business management. It further standardized collateral management rules, reinforced guarantee and collateral management and elevated the access requirements for eligible guarantee. It also clarified the key areas of review, strengthened the capability of substantial risk mitigation of collateral, and put more efforts on preventing credit risk in guarantee services.

The Bank focused on serving the real economy and the supply-side structural reform, constantly adjusted and improved industrial credit policy in accordance with the macroeconomic policy, the prevailing trends of industrial policy and the characteristics of the operation of the industry as well as the important strategic initiatives of the country. Conforming to the industrial policy system of "18 segments + key sub-industries", the Bank strengthened the industrial investment layout, highlighted strategies of key areas and quality customers. While supporting leading industrial enterprises and their transformation and upgrading demands, it continuously improved and adjusted industrial credit structure, further stressed the strategic functions of credit policy, and promoted the guidance, practicality and operability of industrial credit policy.

According to the national regional development strategic plan and the Bank's credit strategy orientation, the Bank supported the three "supporting belts" development strategy — the Beijing-Tianjin-Hebei integration initiative, the Yangtze Economic Belt initiative, and the "Belt and Road" initiative, and backed the development strategies for such regions as the Pearl River Delta and the Northeastern China. It improved differentiating regional credit policies for business authorization, product policy and access standards, intensified differentiating instructions for regional credit markets and prioritized the support to key municipal branches to accelerate the expansion of urban functions and improve the field-leading credit markets.

The Bank strengthened risk management of the real estate industry. It adjusted and refined the city-specific management of real estate loans, and prudently granted new housing development loans to tier-3 and tier-4 cities with long de-stocking period and high risks, strictly controlled loans to commercial housing development, and steadily advanced loan granting for shantytown renovation as a part of the government's service procurement.

The Bank strengthened risk management in relation to trade finance. It refined the trade finance product management rules, adjusted the structure of trade finance credit products and promoted the integration of trade finance and working capital loans. It also strengthened risk screening over key products and key regions and fortified the risk management of off line supply chain finance.

The Bank strengthened credit risk management of small enterprises. It continued to improve the development model of financial business for small and micro enterprises, increased the number of small and micro enterprise banking centers and enabled the small and micro enterprise banking to be more intensive and professional. It also established independent rating and credit systems regarding small enterprises, strengthened associated credit line approval and access management of new small enterprises. Moreover, the Bank reinforced the tracking of risk trend, enhanced risk screening on existing loans and drew up risk mitigation and disposal plan for customers with potential risk. On the basis of effective risk control, the Bank actively used the existing policy to solve the credit need of small and micro enterprise customers with normal operation, and increased support to small and micro enterprises in real economy.

Credit Risk Management of Personal Loans

The Bank improved its credit risk management system for personal loans, optimized review and approval process of personal loan, strengthened specialized management of partner institutions which granted personal loans, and strictly prevent the spreading of risk. It also strengthened the differentiated management of percentage area concerning personal residential mortgages with an eye to changes in the real estate market. A differentiated interest rate pricing mechanism for regions, projects and customers of personal residential mortgages was implemented and risk pricing capability of personal residential mortgage business was enhanced. The Bank strengthened the access management of real estate enterprises, mortgage projects, partner institutions and borrowers and stringently reviewed the authenticity of the down payment to prevent all forms of false mortgage, zero down payment and false trading fraud risk. Moreover, the Bank strictly selected cooperative projects of personal commercial housing loans, raised the down payment ratio of such loans, and strengthened phased guarantee management.

Credit Risk Management of Credit Card Business

The Bank improved credit-extension system for credit card. It utilized the way of thinking and data of the Internet into building a multi-dimensional customer evaluation system, with special attention paid to precise credit extension of credit card customers, and strictly implemented the differentiating dynamic management of credit-extension. The Bank conducted active screening and investigation of potential risk customers, and reinforced the application of internal rating and scoring approach in potential risk identification. It continuously improved centralized approval control functions of the personal credit approval system, upgraded the functions of post-lending management system and improved the collection system. Efforts were made to strengthen the asset quality monitoring and notification of credit card loans, so as to timely identify potential risks, and take differentiated control measures. Besides, the Bank actively carried out securitization of non-performance assets relating to credit card, and further expanded disposal channels of non-performing assets.

Credit Risk Management of Treasury Operations

The Bank's treasury operations are exposed to credit risk mainly as a result of bonds investment and trading, interbank offering, bills with reverse repurchase agreements and RMB bonds borrowing. Credit risk management measures adopted by the Bank in relation to treasury operations mainly comprised defining customers' entry criteria, controlling credit limit, controlling investment limit (scale), strict margin management, rating management and controlling authorization limit for single transactions. The Bank has set financing limits for each interbank offering and adopted the principle of management for both credit and authorization.

In 2016, the Bank continued to strengthen credit risk management of treasury operations. It further improved credit risk monitoring and analysis mechanism for treasury operations, proactively upgraded the structure of bond investment portfolio in line with current trends on domestic and international financial markets, continued to maintain investment in government bonds and high-quality unsecured bonds, shorten the term of unsecured bonds and other investment as appropriate, increase the R&D and investment in innovative products, and strive to mitigate the credit risk of bond investment portfolio.

Credit Risk Exposure

In RMB millions

Item	At 31 December 2016	
	Parts covered by internal ratings-based approach	Parts uncovered by internal ratings-based approach
Corporate	8,217,600	1,562,436
Sovereign	–	4,349,299
Financial institution	–	2,907,938
Retail	4,113,878	312,205
Equity	–	34,426
Asset securitization	–	10,202
Others	–	5,753,237
Total risk exposure	12,331,478	14,929,743

Internal Ratings-based Approach

Governance Structure of Internal Rating System

The Board of Directors assumes the ultimate responsibility for the internal rating system of the Bank, supervises and ensures formulation and implementation by the Senior Management of necessary internal rating policies and procedures, and approves major policies, rules and implementation plans regarding the internal rating based scheme management. The Senior Management is responsible for implementation of internal rating based management across the Bank. The Risk Management Department of the Head Office is responsible for design, development, implementation, monitoring and promotion of the internal rating based management. The Credit Approval Department of the Head Office is responsible for management of corporate customer rating of the Bank. Relevant departments of the Head Office including the Credit and Investment Management Department, the Personal Banking Department, the Bank Card Department, the Asset & Liability Management Department and the Finance & Accounting Department are responsible for application of the internal rating results. The Internal Audit Bureau of the Head Office is responsible for internal audit of the internal rating system. Risk management departments of the branches are responsible for monitoring, application, analysis and reporting of the internal rating system. Credit assets business management departments of the branches are responsible for investigation, implementation and rating application regarding the internal rating system.

Non-retail Business

The Bank adopts the foundation IRB approach to measure non-retail credit risk according to regulatory requirements with rating models established based on quantitative technologies as well as judgmental experience. The models assess debt-paying ability and willingness of customers based on financial indicators, competitiveness, management quality and operation status of the customers from quantitative and qualitative aspects. Customer's probability of default (PD), mapped via the master scale uniformly set, is determined by rating score.

The Bank measures risk parameters of the internal rating models in strict accordance with relevant regulatory requirements. Under the non-retail credit risk foundation IRB, obligor PD is determined by referring to past 10 years or more defaults of corporate customers of the Bank as well as the long-term default tendency of different asset portfolios. The internal rating parameters, maintained according to the rules regarding management of internal rating parameters of the Bank, are monitored and validated on a regular basis.

MEASUREMENT RESULTS OF NON-RETAIL CREDIT RISK UNDER FOUNDATION IRB APPROACH

In RMB millions, except for percentages

At 31 December 2016					
PD level	Exposure at default	Weighted average PD	Weighted average LGD	Risk-weighted assets	Average risk weight
Level 1	956,422	0.10%	44.82%	296,621	31.01%
Level 2	915,998	0.22%	43.50%	437,743	47.79%
Level 3	1,342,184	0.67%	43.72%	1,004,430	74.84%
Level 4	2,113,391	1.66%	42.97%	2,069,288	97.91%
Level 5	1,402,512	2.60%	42.47%	1,486,771	106.01%
Level 6	665,871	3.72%	41.93%	778,395	116.90%
Level 7	219,925	5.28%	40.90%	276,362	125.66%
Level 8	87,693	7.20%	42.23%	130,593	148.92%
Level 9	109,232	9.60%	42.69%	187,110	171.30%
Level 10	63,515	18.00%	42.48%	114,344	180.03%
Level 11	113,397	56.00%	42.74%	210,896	185.98%
Level 12	227,460	100.00%	43.60%	719,587	316.36%
Total	8,217,600	—	—	7,712,140	93.85%

At 31 December 2015					
	Exposure at default	Weighted average PD	Weighted average LGD	Risk-weighted assets	Average risk weight
Level 1	996,557	0.10%	44.83%	311,555	31.26%
Level 2	996,964	0.22%	43.64%	467,325	46.87%
Level 3	1,471,063	0.67%	43.27%	1,107,657	75.30%
Level 4	2,162,706	1.63%	42.70%	2,099,956	97.10%
Level 5	1,206,955	2.62%	41.20%	1,234,017	102.24%
Level 6	743,222	3.72%	41.41%	856,067	115.18%
Level 7	168,677	5.28%	40.01%	204,194	121.06%
Level 8	34,759	7.20%	40.69%	49,568	142.60%
Level 9	54,405	9.60%	42.12%	92,499	170.02%
Level 10	13,497	18.00%	42.83%	28,556	211.56%
Level 11	35,421	56.00%	41.90%	63,441	179.11%
Level 12	190,425	100.00%	43.38%	647,834	340.20%
Total	8,074,651	—	—	7,162,669	88.71%

Retail Business

The Bank adopts IRB to measure retail credit risk pursuant to regulatory requirements, establishes the internal grading models covering entire life cycle of all types of retail products and asset pool classification and risk parameter measurement models covering all risk exposures of retail credit assets with the help of modeling methods and expert management experience, and realizes quantitative management of retail credit risk models.

The Bank conducts comprehensive analysis of loan repayment ability and willingness of customers by using modern mathematical statistics technologies to mine, analyze and extract data of customers, assets, debts and transactions, and develops the credit grading model system including application grading, behavior grading and collection grading models and realizing the coverage of entire life cycle of retail business.

According to relevant IRB requirements, the Bank has put in place asset pool classification procedures and technologies, developed the asset pool classification system applied to measurement of all risks and accordingly realized measurement of risk parameters for retail credit assets like probability of default (PD), loss given default (LGD) and exposure at default, etc.

MEASUREMENT RESULTS OF RETAIL CREDIT RISK UNDER IRB

In RMB millions, except for percentages

Type of risk exposure	At 31 December 2016				
	Exposure at default	Weighted average PD	Weighted average LGD	Risk-weighted assets	Average risk weight
Personal residential mortgages	3,198,278	1.71%	25.77%	694,530	21.72%
Eligible revolving retail loans	450,703	5.02%	51.12%	121,307	26.92%
Other retail loans	464,897	11.18%	41.52%	249,997	53.77%
Total	4,113,878	—	—	1,065,834	25.91%

Type of risk exposure	At 31 December 2015				
	Exposure at default	Weighted average PD	Weighted average LGD	Risk-weighted assets	Average risk weight
Personal residential mortgages	2,484,108	1.93%	23.68%	621,278	25.01%
Eligible revolving retail loans	442,892	4.26%	61.03%	122,896	27.75%
Other retail loans	572,277	7.97%	37.50%	222,429	38.87%
Total	3,499,277	—	—	966,603	27.62%

Application of Internal Rating Results

The internal rating results of the Bank are widely used throughout the whole credit risk management process including customer access, credit approval, loan pricing, post-lending management, capital measurement, allowance management and performance assessment. While complying with the regulatory requirements, the Bank also takes into account the internal rating results as an important base during decision-making over credit risk management and credit structural adjustment.

Weighted Approach

The Bank adopts weighted approach to measure credit risk exposures uncovered by the internal ratings-based approach (IRB).

RISK EXPOSURE UNCOVERED BY IRB BY WEIGHT

In RMB millions

Risk weight	At 31 December 2016	
	Risk exposure	Unmitigated risk exposure
0%	6,061,646	6,061,646
20%	2,431,807	2,195,846
25%	2,674,823	1,314,476
50%	69,940	66,312
75%	344,535	334,483
100%	3,282,074	2,582,104
150%	345	9
250%	56,059	55,985
400%	1,825	1,825
1250%	6,689	6,689
Total	14,929,743	12,619,375

Note: The weights adopted in the weighted approach-based measurement of credit risk by the Bank are subject to relevant provisions of the Capital Regulation.

RISK EXPOSURE OF CAPITAL INSTRUMENTS ISSUED BY OTHER COMMERCIAL BANKS HELD BY THE BANK, EQUITY INVESTMENT IN COMMERCIAL ENTITIES AND REAL ESTATE FOR NON-SELF USE

In RMB millions

Item	At 31 December 2016	At 31 December 2015
Ordinary shares issued by other commercial banks	26,391	21,567
Long-term subordinated bonds issued by other commercial banks	8,047	8,522
Equity investment in commercial entities	4,141	4,076
Total	38,579	34,165

Credit Risk Mitigation

The Bank generally transfers or lowers credit risk through collaterals and guarantees. The credit risk mitigation instruments effectively cover credit risk exposure of borrowers. The Bank reviews its risk mitigation instruments in the credit business to ensure their credit risk mitigation capability.

The Bank monitors the market value of collaterals and pledges and the solvency of a guarantor regularly or irregularly if special circumstances warrant. Collaterals mainly include the right of construction land use, buildings and other attached objects, and pledges mainly include certificates of deposit, bank's promissory notes and bank's acceptance bills, etc. Collaterals and pledges valuation procedures are divided into basic procedures and direct identification procedures. Basic procedures include investigation and measurement, examination (checking), review and approval; direct identification procedures include investigation and measurement, review and approval. Revaluation cycle of collaterals and pledges is determined according to regulatory requirements, changes of market and other risk factors, and revaluation shall be completed before the revaluation cycle expires. The Bank shall reassess the collateral value irregularly upon discovering conditions which may possibly result in an impairment of the collateral or obvious adverse changes happening to the customer.

The Bank analyzes concentration risk mitigation regularly or according to changes in internal and external environment, and takes appropriate countermeasures. Through the Bank's efforts in adjusting credit structure, the Bank continues to improve the structure of collaterals and pledges and reduces concentration risk by credit structure adjustment.

COVERAGE OF ELIGIBLE RISK MITIGATION INSTRUMENTS COVERED BY INTERNAL RATINGS-BASED APPROACH

In RMB millions

Type of risk exposure	At 31 December 2016				At 31 December 2015			
	Eligible financial pledge	Other eligible collateral	Guarantee	Total	Eligible financial pledge	Other eligible collateral	Guarantee	Total
Non-retail business								
Corporate loans	93,183	1,112,777	499,096	1,705,056	126,774	1,222,791	462,239	1,811,804
Subtotal	93,183	1,112,777	499,096	1,705,056	126,774	1,222,791	462,239	1,811,804
Retail business								
Personal residential mortgages	–	3,198,278	–	3,198,278	–	2,484,108	–	2,484,108
Other retail loans	29,211	413,110	8,839	451,160	63,467	489,214	13,029	565,710
Subtotal	29,211	3,611,388	8,839	3,649,438	63,467	2,973,322	13,029	3,049,818
Total	122,394	4,724,165	507,935	5,354,494	190,241	4,196,113	475,268	4,861,622

COVERAGE OF ELIGIBLE RISK MITIGATION INSTRUMENTS UNCOVERED BY INTERNAL RATINGS-BASED APPROACH

In RMB millions

Type of risk exposure	At 31 December 2016				At 31 December 2015			
	Netting settlement	Mortgage & pledge and guarantee	Others	Total	Netting settlement	Mortgage & pledge and guarantee	Others	Total
On-balance sheet credit risk	–	814,023	–	814,023	–	928,407	–	928,407
Off-balance sheet credit risk	–	67,416	–	67,416	–	33,693	–	33,693
Counterparty credit risk	20,011	–	1,408,918	1,428,929	19,175	–	1,246,885	1,266,060
Total	20,011	881,439	1,408,918	2,310,368	19,175	962,100	1,246,885	2,228,160

Loan Quality and Allowance for Impairment Losses on Loans

DISTRIBUTION OF LOANS BY FIVE-CATEGORY CLASSIFICATION

In RMB millions, except for percentages

Item	At 31 December 2016		At 31 December 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Pass	12,261,034	93.91	11,233,456	94.14
Special mention	584,011	4.47	520,492	4.36
NPLs	211,801	1.62	179,518	1.50
Substandard	109,434	0.84	104,805	0.87
Doubtful	82,505	0.63	60,512	0.51
Loss	19,862	0.15	14,201	0.12
Total	13,056,846	100.00	11,933,466	100.00

OVERDUE LOANS

In RMB millions, except for percentages

Overdue periods	At 31 December 2016		At 31 December 2015	
	Amount	% of total loans	Amount	% of total loans
Less than 3 months	151,115	1.16	169,902	1.42
3 months to 1 year	75,550	0.58	84,808	0.71
1 to 3 years	101,916	0.78	62,783	0.53
Over 3 years	17,546	0.13	15,205	0.13
Total	346,127	2.65	332,698	2.79

Note: Loans and advances to customers are deemed overdue when either the principal or interest is overdue. For loans and advances to customers repayable by installments, the total amount of loans is deemed overdue if part of the installments is overdue.

CHANGES IN ALLOWANCE FOR IMPAIRMENT LOSSES ON LOANS

In RMB millions

	Individually assessed	Collectively assessed	Total
Balance at the beginning of the year	51,499	229,155	280,654
Charge for the year	83,966	2,172	86,138
Including: Impairment allowances charged	110,992	151,577	262,569
Impairment allowances transferred	865	(865)	–
Reversal of impairment allowances	(27,891)	(148,540)	(176,431)
Accrued interest on impaired loans	(5,135)	–	(5,135)
Write-offs	(65,999)	(8,145)	(74,144)
Recoveries of loans and advances previously written off	1,226	773	1,999
Balance at the end of the year	65,557	223,955	289,512

For provisioning method of allowance for impairment losses on loans, please refer to the Significant Accounting Policies and Estimates in the Notes to the Financial Statements of the 2016 Annual Report.

Counterparty Credit Risk

Counterparty credit risk is the risk that economic loss is caused when the counterparty fails to perform its contractual obligations. The Bank is exposed to counterparty credit risk mainly as a result of over-the-counter (OTC) derivatives trading and securities financing trading.

The counterparty shall meet relevant requirements on customer access standards before conducting derivatives trading with the Bank. The Bank assesses credit status, risk management level and capital strength of the counterparty, approved and regularly reviewed special credit extension for derivatives trading. Before trading, the Bank will first enquire whether the credit limit of the counterparty is adequate.

For certain OTC derivatives financial trading, the Bank concludes the Credit Support Appendix (CSA) under the ISDA master agreement with the counterparty, where collateral exchange rules are set out to reduce credit risk. The valuer as stipulated in the agreement regularly reevaluates the trading and relevant collateral position, and the results after confirmation by both sides set the basis for delivery price of collaterals. The CSA sets out provisions on threshold amounts according to different credit ratings of the same counterparty and binds both sides to provide full-amount collaterals for the total risk exposure of existing transactions under the ISDA master agreement in excess of threshold amounts. Downgrading the credit rating of the counterparty will trigger the threshold amount provisions, requiring additional collaterals.

COUNTERPARTY RISK EXPOSURE OF OTC DERIVATIVES TRADING

In RMB millions

Item	At 31 December 2016	At 31 December 2015
Risk exposure of non-netting settlement		
Interest rate contracts	7,547	5,579
Currency contracts	63,672	40,599
Equity contracts	101	29
Commodity contracts	12,011	8,214
Credit derivatives	30	86
Total risk exposure of non-netting settlement	83,361	54,507
Including: Gross positive fair value of derivative contracts	45,986	26,090
Risk exposure of netting settlement	43,353	34,225
Total of credit risk exposure measured under the current exposure approach	126,714	88,732
Risk mitigation impact of collaterals and risk hedging credit derivatives	–	–
Net credit risk exposure of derivatives	126,714	88,732

NOMINAL PRINCIPAL OF CREDIT DERIVATIVES

In RMB millions

Item	At 31 December 2016		At 31 December 2015	
	Credit derivatives bought	Credit derivatives sold	Credit derivatives bought	Credit derivatives sold
Nominal principal of credit derivatives as credit portfolios of the Bank	575	2,674	331	1,974
Credit default swap	141	1,584	331	1,851
Total return swap	434	1,090	–	123
Nominal principal of credit derivatives where the Bank acts as intermediary	11,554	11,554	11,948	11,948
Credit default swap	11,554	11,554	11,948	11,948

Asset Securitization

Asset securitization refers to structured financing activities where the originator trusts credit assets to the trustee, and the trustee issues beneficiary securities in the form of asset-backed securities to institutional investors, the cash flow from the credit assets is used to pay income of asset-backed securities. All securitization originated by the Bank is traditional securitization.

Asset Securitization Business

The Bank participates in the asset securitization business mainly by acting as originator of asset securitization business, lending services provider and institutional investor.

♦ *As originator and lending services provider*

To further adjust the credit structure, diversify the asset and capital management means, broaden the NPL disposal channels and ease the pressure on capital, the Bank originated four securitization projects accumulating to RMB15,763 million in 2016.

As at the end of 2016, some underlying assets of the asset securitization projects originated by the Bank were still retained. The projects ran smoothly, and the cash flow generated by the underlying assets pool was promptly paid to investors in full. As originator, the Bank held part of subordinated asset-backed securities in the asset securitization business, thereby continuing involvement of transferred credit assets. As at the end of 2016, assets continued to be recognized by the Bank amounted to RMB2,073 million.

As at the end of 2016, some underlying assets of the asset securitization projects originated by ICBC Leasing, one of the Bank's subsidiaries, were still retained. ICBC Leasing held part of subordinated asset-backed securities in the asset securitization business. At the end of 2016, assets continued to be recognized by ICBC Leasing amounted to RMB34 million.

ASSET SECURITIZATION BUSINESS ORIGINATED BY THE BANK AND NOT SETTLED AT THE END OF THE REPORTING PERIOD

In RMB millions

Asset securitization product	Originating year	Originator	External credit rating institution	Underlying assets				
				Type of underlying assets	Exposure at origination	Exposure at the end of 2016	Non-performing at the end of 2016	Overdue at the end of 2016
2014 Gongyuan Phase I credit asset securitization trust project	2014	The Bank	CCXI, China Ratings	Corporate loans	5,572	44	–	–
2015 Gongyuan Phase I credit asset securitization trust project	2015	The Bank	CCXI, China Ratings	Corporate loans	11,353	9,568	–	–
2015 Gongyuan Phase II credit asset securitization trust project	2015	The Bank	LH Ratings, China Ratings	Corporate loans	6,966	2,028	–	–
2015 Gongyinhaitian Phase I leasing asset securitization trust project	2015	ICBC Leasing	CCXI, China Ratings	Usufruct of rent receivable from financial leasing	1,032	51	–	–
2016 Gongyuan Phase I non-performing asset-backed security	2016	The Bank	CCXI, China Ratings	Corporate loans	1,077	1,077	1,077	1,077
2016 Gongyuan Phase II non-performing asset-backed security	2016	The Bank	LH Ratings, China Ratings	Personal loans	351	351	351	351
2016 Gongyuan Phase III non-performing asset-backed security	2016	The Bank	CCXI, China Ratings	Personal loans	4,080	4,080	4,080	4,080
2016 Gongyuan Phase IV personal residential mortgage asset-backed security	2016	The Bank	CCXI, China Ratings	Personal loans	10,255	10,255	–	–
Total					40,686	27,454	5,508	5,508

Notes: (1) At the end of 2016, the asset securitization projects originated by ICBC (Argentina) were settled in full amount.

(2) At the end of 2016, the Bank did not originate any asset securitization products with revolving underlying assets and early amortization feature.

♦ *As institutional investor*

The Bank invests in asset securitization products to diversify portfolios, improve liquidity and increase investment income, while undertaking credit risk and market risk of the asset securitization products invested.

For accounting policies regarding asset securitization, please refer to the Significant Accounting Policies and Estimates in the Notes to the Financial Statements of the 2016 Annual Report.

Asset Securitization Risk Exposure and Capital Requirement

The Bank measures asset securitization risk exposure and capital requirement according to the Capital Regulation. At the end of 2016, risk-weighted assets for asset securitization stood at RMB14,105 million and capital requirement RMB1,128 million.

ASSET SECURITIZATION RISK EXPOSURE

In RMB millions

Type of risk exposure	At 31 December 2016	At 31 December 2015
As originator		
Asset-backed securities	2,125	1,459
As investor		
Asset-backed securities	8,077	5,266
Total	10,202	6,725

Market Risk

Market risk is defined as the risk of loss to the Bank's on- and off-balance sheet activities caused by adverse movements in market rates (including interest rates, exchange rates, and stock price and commodity prices). The Bank is primarily exposed to interest rate risk and currency risk (including gold).

Market Risk Management

Market risk management is the process of identifying, measuring, monitoring, controlling and reporting market risk for the purposes of setting up and enhancing the market risk management system, specifying responsibilities and process, determining and standardizing the measurement approaches, limit management indicators and market risk reports, controlling and mitigating market risk and improving the level of market risk management. The objective of market risk management is to control market risk exposures within a tolerable level and maximize risk-adjusted return according to the Bank's risk appetite.

The Bank strictly complies with the Guidelines on Market Risk Management of Commercial Banks issued by CBRC and other related regulatory requirements, implemented an independent, centralized and coordinated market risk management model, and formed a management organizational structure featuring the segregation of the front office, the middle office and the back office in the financial market business. The Board of Directors assumes the ultimate responsibility for the implementation and monitoring of market risk management. The Senior Management is responsible for executing the strategies, overall policy and system regarding market risk management approved by the Board of Directors. The Market Risk Management Committee of the Senior Management is the reviewing and decision-making organ of the Bank in respect of market risk management, and is responsible for reviewing important matters of market risk management, and performs its duty in accordance with the Working Regulations for the Market Risk Management Committee. The market risk management departments at different levels are responsible for coordinating the market risk management at respective levels, and the business departments play their roles in implementing market risk management policies and standards in respective business areas.

In 2016, the Bank continued to strengthen consolidated management of market risk and persistently enhanced the management and measurement of market risk at the Group's level. It further improved the Group's market risk management rules and regulations, and implemented institution classified management and delicacy management of institutions. It strengthened management of the Group's market risk limit, optimized limit management plan and strengthened limit monitoring and analysis. It pushed forward the overseas expansion of the Global Market Risk Management (GMRM) system and pressed ahead with the core application of the system in risk measurement, limit monitoring and stress testing.

Market Risk Measurement

CAPITAL REQUIREMENT FOR MARKET RISK

In RMB millions

Risk type	At 31 December 2016	At 31 December 2015
Parts covered by internal model approach	12,076	11,187
Parts uncovered by internal model approach	6,264	4,778
Interest rate risk	3,271	2,691
Commodity risk	2,934	2,016
Stock risk	5	0
Option risk	54	71
Total	18,340	15,965

Note: According to the implementation scope of the advanced capital management approaches approved by CBRC, parts covered by the market risk internal model approach of the Bank include currency risk of the Group, general interest rate risk of the parent company and ICBC (Canada) and commodity risk of the parent company. Parts uncovered by the internal model approach are measured by the standardized approach.

Market Risk

The Bank applied the Historical Simulation Method (adopting a confidence interval of 99%, holding period of ten days and historical data of 250 days) to measure the VaR, which is then used for capital measurement under the internal model approach.

VALUE AT RISK (VaR)

In RMB millions

Item	2016			
	Period end	Average	Maximum	Minimum
VaR	1,585	1,284	1,843	1,001
Interest rate risk	365	177	424	109
Currency risk	1,538	1,260	1,811	1,038
Commodity risk	95	99	386	14
Stressed VaR	2,762	2,297	3,405	1,574
Interest rate risk	421	343	494	235
Currency risk	2,948	2,307	3,324	1,564
Commodity risk	102	144	621	19

Item	2015			
	Period end	Average	Maximum	Minimum
VaR	1,580	1,269	1,747	757
Interest rate risk	203	244	389	98
Currency risk	1,564	1,273	1,715	817
Commodity risk	28	69	216	8
Stressed VaR	1,821	1,835	2,216	1,367
Interest rate risk	265	200	345	103
Currency risk	1,776	1,795	2,261	1,354
Commodity risk	80	100	262	11

The Bank carries out daily back-testing to verify the accuracy of VaR models. During the past 250 trading days before the end of the reporting period, the Group exceeded the number of back-testing and it lied in the green zone demarcated by CBRC. The market risk measurement models of the Bank captured the financial market fluctuations timely and produced objective pictures of market risk faced by the Bank.

In 2016, the Bank revised the management measures for stress testing of market risk, improved the Group's market risk stress testing plan, conducted stress tests under different stress scenarios based on the Global Market Risk Management System (GMRM), deepened the application of stress testing results of market risk and continued to ameliorate the Group's market risk stress testing level.

Operational Risk

Operational risk is defined as the risk of loss resulting from insufficient or problematic internal processes, employees and IT systems or from external events, including legal risk, but excluding strategic and reputational risk. There are seven major types of operational risks faced by the Bank, including internal fraud, external fraud, employment system and workplace safety, customers, products and business activities, damage to physical assets, IT system, execution and delivery and process management. Among these, external fraud, execution and delivery and process management constitute major sources of operational risk losses of the Bank.

Operational Risk Management

The Bank strictly followed the requirements of the Guidance to the Operational Risk Management of Commercial Banks issued by CBRC. The Bank adopted the operational risk control mode of “integrated management, classified control”. The Board of Directors assumes relevant responsibility for the effectiveness of the operational risk management according to the Articles of Association, and the Senior Management is responsible for implementing the strategy, overall policy and system for operational risk management approved by the Board of Directors. The Operational Risk Management Committee under the Senior Management, as the organizer and coordinator of operational risk management of the Bank, is responsible for reviewing and approving significant matters related to operational risk management according to the Working Regulations for the Operational Risk Management Committee. Marketing and product departments at all levels form the first line of defense of operational risk management, which assume direct responsibility for operational risk management in each business line. Internal control and compliance departments at various levels are comprehensive management departments for operational risk in institutions at various levels and assume the duty of operating the second line of defense of operational risk management, which are responsible for the overall management of operational risks of institutions at various levels and for the arrangement and organization for the establishment and implementation of operational risk management system at each level; discipline enforcement, security, human resources, IT, finance and accounting, legal affairs, operation management, credit management and risk management departments at all levels are classification control departments for operational risk in institutions at various levels, which are responsible for management and control on specific types of operational risk. These departments, together with comprehensive management departments, form the second line of defense of operational risk management. The internal audit departments at all levels are responsible for auditing and evaluating the operation of the operational risk management system, and form the third line of defense.

Operational risk management objectives of the Bank are: to enhance the confidence of shareholders and the public by establishing a sound operational risk governance structure and improving operational risk management and control; to enhance customer satisfaction and employees’ sense of belonging as well as overall services by identifying high-risk areas and resolving potential operational risks; to enhance operational efficiency of the Bank by improving process control and operational risk management resources allocation while weighing benefits against costs; to reduce operational risk losses of the Bank and improve the control ability and level by taking effective risk control and mitigation measures; to minimize the legal risk by conducting review and supervision and satisfying the external regulatory requirements.

The Bank adopts a differential operational risk management strategy: avoiding operational risks characterized with high severity and high frequency, transferring those characterized with high severity and low frequency, mitigating those characterized with low severity and high frequency, and taking those characterized with low severity and low frequency.

The Bank’s operational risk management procedures include operational risk identification, assessment, control/mitigation, monitoring, measurement and reporting.

- Risk identification: The Bank identifies operational risk of new products and new businesses, operational risk event, operational risk loss event, etc.
- Risk assessment: The Bank formulates and implements management measures for operational risk and control self-assessment and scenario analysis, and makes comprehensive, timely, objective and forward-looking estimation of inherent risk, control effectiveness and residual risk of all business line and all branches on a regular basis.

Operational Risk

- Risk control/mitigation: The Bank formulates and implements operational risk control basic standards and measures, establishes and implements operational risk mitigation related management measures, builds operational risk control system of the Bank, and promptly prevents and mitigates potential operational risk. The Bank's operational risk mitigation measures include but are not limited to outsourcing, insurance, business continuity plan and capital allocation.
- Risk monitoring: The Bank formulates and implements management measures for operational risk monitoring, establishes an overall, professional and regional operational risk indicators monitoring system, and monitors, analyzes and warns key risk exposures of respective business line and institution on a regular basis.
- Risk measurement: The Bank formulates and implements management measures for operational risk capital measurement; relevant departments research and improve calculation methods and models for economic capital and regulatory capital, make capital allocation and adjustment, monitor operational risk capital management according to their responsibilities.
- Risk reporting: The Bank formulates and implements operational risk management measures for risk reporting, truly and fully reflects the operational risk profile of all business lines and institutions, reveals potential critical risks and proposes effective measures and suggestions for improvement.

In 2016, in accordance with latest regulatory requirements for banks concerning operational risk and the trends of operational risk, the Bank effectively conducted the refined and scientific management of operational risk, and further enhanced the operational risk management of the Group. The Bank rolled out the special risk governance campaign regarding ten key areas and links orderly starting from institution, process, system, mechanism, and employee management. It strengthened the IT risk control and external fraud risk management, launched the Group's anti-fraud platform to have full-process control covering *ex-ante* warning, in-process intervention and post-event monitoring, and enhanced the capability to withstand external risk. The Bank also took the initiative to focus on and effectively reveal business risk, strengthening risk control in credit, bills, interbank business and other areas. Annual case-based risk investigation was carried out to improve the case prevention mechanism. The Bank improved the regulations on managing the use of labor and abnormal employee behaviors, and optimized the management procedure for business outsourcing. It upgraded the operational risk loss event management system, and continued to enhance the application of operational risk management instruments and control over data quality. It applied the operational risk limit management, monitored key operational risk indicators, and completed the self-assessment of operational risk and control. In addition, the Bank strengthened the management and control over operational risk of overseas institutions and subsidiaries, and pushed forward the function extension and application of the operational risk measurement system. During the reporting period, the operational risk management system of the Bank operated smoothly and the operational risk was controllable on the whole.

Legal Risk

Legal risk is the risk of incurring legal sanctions, regulatory penalties, financial losses, reputational losses or other negative consequences that arise out of or in connection with the failure of the Bank to comply with relevant laws, regulations, administrative rules, regulatory provisions and requirements of other relevant rules during the Bank's operation; the unfavorable legal defects that exist in products, services or information provided to clients, transactions engaged in, and contracts, agreements or other documents executed by the Bank; legal disputes (litigation or arbitration proceedings) between the Bank and its clients, counterparties and stakeholders; important changes in relevant laws and regulations, administrative rules, regulatory provisions and other relevant rules; and other relevant legal events that occur internally and externally.

Based on the objective to ensure legal and compliant operation, the Bank always attaches great importance to establishing a sound legal risk management system, forming a full-process legal risk prevention and control mechanism to support and secure business innovation and market competition, and to prevent and eliminate various potential or practical legal risks. The Board of Directors is responsible for reviewing and determining the strategy and policy relating to legal risk management, and assumes the ultimate responsibility of legal risk management. The Senior Management is responsible for executing the strategy and policy relating to legal risk management, examining and approving relevant important affairs. The Legal Affairs Department of the Head Office is in charge of legal risk management across the Group, with relevant business departments providing related support and assistance on legal risk prevention and control. The affiliates, domestic and overseas branches undertakes the responsibility of legal risk management of their respective institutions.

In 2016, the Bank continued to strengthen legal risk management, by improving the risk prevention and control capacity in legal risk management, ensuring the legal and compliant operation, healthy business development and overall business stability of the Group. The Bank improved both the vertical linkage and horizontal coordination mechanism between the Head Office and branches. By embedding legal risk prevention and control into business negotiations, product design, contract signing and other links, the Bank prevented legal risk in advance and made the legal risk prevention and control more prospective, initiative and targeted. The Bank further improved the cross-border coordination and management for legal work and strengthened the legal risk management of overseas institutions, actively responding to cross-border legal issues emerging in the development of international operations. It applied multiple legal means to improve debt efficiency. Moreover, the Bank pragmatically strengthened the risk management and control of lawsuit-related risks, thereby preventing and mitigating lawsuit-related risks and losses. It assisted with the online judicial inquiry and enforcement, which highly improved the efficiency of inquiries and enforcements. The Bank further standardized contract text management and reinforced authorization management, related party management, trademark management and intellectual property protection.

Anti-Money Laundering

In strict compliance with applicable laws and regulations concerning anti-money laundering, the Bank sincerely implemented the “risk-based” regulatory requirements in respect of anti-money laundering, steadily fulfilled the legal obligations and social duties concerning anti-money laundering, and kept enhancing the Group’s management level regarding anti-money laundering and anti-terrorist financing.

Adhering to the anti-money laundering management model of “centralized, specialized and systematic management”, the Bank constantly pushed forward anti-money laundering processing to be more intensive and professional. It deepened the construction of an Anti-money Laundering Center at the Head Office level, adjusted the anti-money laundering management organization structure and enhanced the allocation of anti-money laundering resources. Special attention was given to strengthening the anti-money laundering management of overseas institutions, optimizing their anti-money laundering information system, and simultaneously enriching the reserves of anti-money laundering personnel in overseas institutions, hence comprehensively enhancing the IT application, specialization and delicacy management of the Group’s anti-money laundering work. The Bank focused on conducting customer identification and due diligence, and continued to improve the quality and efficiency of suspicious transaction reporting. It stepped up efforts in assessing money-laundering risk of products and customers, strengthened money laundering risk prevention and control concerning key business areas. Taking the opportunity of the tenth anniversary of the implementation of the Anti-Money Laundering Law of the People’s Republic of China, the Bank launched extensive anti-money laundering publicity, strengthened the cultivation and qualification certification of anti-money laundering talents, and improved the compliance awareness, professional competence and performance capability of anti-money laundering personnel. The Bank was ranked top in the 2016 comprehensive evaluation of anti-money laundering conducted by PBC.

Operational Risk Measurement

The Bank adopts the standardized approach to measure capital requirement for operational risk. As at the end of 2016, the capital requirement for operational risk was RMB95,272 million.

Liquidity Risk

Liquidity risk is the risk that the Bank is unable to raise funds on a timely basis or at a reasonable cost to settle liabilities as they fall due, perform other payment obligations and satisfy other funding demands of normal business development. Liquidity risk may arise from the following events or factors: withdrawal of customers' deposits, drawing of loans by customers, overdue payment of debtors, mismatch between assets and liabilities, difficulties in assets realization, operating losses, derivatives trading risk and risk associated with its affiliates.

Liquidity Risk Management

In 2016, the Bank constantly improved its liquidity risk management system following changes in the macroeconomic environment and financial regulatory requirements, and upgraded liquidity risk management mechanism, thus effectively enhancing the liquidity risk management quality of the Group. The Bank continued to implement steady and prudent liquidity management, kept a close eye on impact arising from internal and external factors on the Bank's liquidity, and better and timely arranged the Group's consolidated management strategy in line with liquidity risk characteristics of items on and off balance sheet, in both domestic and overseas institutions, and in local and foreign currencies. The Bank furthered the overall management of the Group's assets and liabilities, highlighting market liberalization, and optimized the limit management plan of overseas institutions. It strengthened the management of overseas debt capital market instruments and improved financing capacity. The Bank actively implemented relevant regulatory requirements concerning the degree of dependence on the Group's debts and strengthened the management of fund transactions within the Group.

Liquidity Risk Management System and Governance Structure

The Bank's liquidity risk management system conforms to the overall development strategy and the entire risk management system of the Bank, and is commensurate with the business scale, business nature, complexity and other aspects of the Bank. The system includes the following fundamental elements: effective governance structure for liquidity risk management; sound strategy, policy and procedures for liquidity risk management; effective identification, measurement, monitoring and control procedures for liquidity risk and a complete management information system.

In respect of liquidity risk management, the Bank's governance structure embodies the decision-making system comprising the Board of Directors and its special committees as well as the Asset and Liability Management Committee and the Risk Management Committee of the Head Office; the supervision system comprising the Board of Supervisors, the Internal Audit Bureau and the Internal Control and Compliance Department; and the execution system comprising the Asset and Liability Management Department, leading management departments of on and off-balance sheet businesses, the Information Technology Department, operation management departments of the Head Office and relevant departments of branches. Each of these systems performs corresponding decision making, supervision and execution functions according to division of responsibilities.

Objective, Strategy and Important Policy of Liquidity Risk Management

Objective of liquidity risk management: By establishing and improving the liquidity risk management system, the Bank aims at realizing complete identification, accurate measurement, continuous monitoring and effective control of the liquidity risk at the Group level, the Bank, the branches and the business lines, and ensuring the liquidity demand is satisfied at a reasonable cost in time under the normal business scenario and the stress scenario.

Formulated taking into account the liquidity risk appetite, the liquidity risk management strategy, policy and procedure cover all businesses on and off the balance sheet, all domestic and overseas business departments and branches that are likely to deliver a material impact on the liquidity risk, and contain the liquidity risk management under normal and stress scenarios. The liquidity risk management strategy specifies the overall objective and management mode of liquidity risk management and lists major policies and procedures for liquidity risk management. Important policies for liquidity risk management are formulated in accordance with external and macro operating environments and business development of the Bank, with a view to striking an effective balance among security, liquidity and profitability.

Liquidity Risk Management Mode

The mode of liquidity risk management of the Bank is consolidated liquidity risk management based on management of liquidity risk at the bank level. The Head Office manages the liquidity risk of the Bank in a unified and centralized manner and ensures liquidity security of the Bank through dynamic adjustment of the aggregate and structure of assets and liabilities, whereas the affiliates assume primary responsibilities concerning liquidity risk management of respective institution, and undertake corresponding responsibilities as required by the leading liquidity risk management departments of the Head Office.

Stress Test

Following the prudence principle, the Bank employs the scenario analysis and the sensitivity analysis to perform stress test on liquidity risk. The Bank has taken full consideration of various macroscopic and microscopic factors that may influence the Bank's liquidity status to set stress scenarios against those products, businesses and institutions with concentrated liquidity risk in line with the characteristics and complexity of the Bank's businesses. The Bank performs stress tests on a quarterly basis. Where necessary, the Bank may carry out temporary and special stress tests at a particular time in light of changes in the external operating environment and regulatory requirements.

Liquidity Risk Analysis

In 2016, the Bank paid close attention to changes in the macroeconomic and monetary policy, dynamically adjusted its RMB fund operation strategy in accordance with the Bank's assets and liabilities development and fund management characteristics in different periods, and took various measures to ensure a safe and stable liquidity level. The Bank further consolidated the deposit business, optimized deposit structure, and promoted the steady and balanced growth of each type of deposits, which effectively enhanced the stability of liabilities. It also intensified the efforts in treasury business term structure management, taking funds liquidity, security and profitability into consideration. In addition, the Bank strengthened the development of its liquidity risk management mechanism and managed liquidity on and off balance sheet and of domestic and overseas institutions in a coordinated way, which further raised funds operation and liquidity risk prevention and control capability of the Group.

In respect of foreign currencies, the Bank closely observed the changes in external markets and funds, adjusted foreign currency liquidity management strategy and internal and external fund prices in a flexible manner and maintained the coordinated development of foreign currency assets and liabilities business while ensuring a safe liquidity level.

The deposit and loan businesses of the Bank maintained coordinating development, and liquidity risk management ability was further strengthened. As at the end of 2016, RMB liquidity ratio and foreign currency liquidity ratio of the Bank were 35.7% and 82.3%, respectively, meeting the regulatory requirements. Loan-to-deposit ratio was 70.9%.

Liquidity coverage ratio at the end of each month in the fourth quarter of 2016 attained an average of 139.75%, 6.61 percentage points higher than the previous quarter. This was because high-quality liquid assets (HQLA) maintained rapid growth, medium-term and short-term asset reserves were moderately increased and fund inflow due less than one month also climbed up. HQLA cover cash, available central bank reserve under stress and primary and secondary bond assets that can be included in the liquidity coverage ratio under the regulatory requirements.

The Bank also assessed the liquidity risk status by using liquidity exposure analysis. As at the end of 2016, the positive liquidity exposure for the less than 1 month category decreased, which was mainly due to the decrease of due from and placements with banks and other financial institutions and the increase of due to and placements from banks and other financial institutions with corresponding term. The liquidity exposure for the 3 months to 1 year category turned from positive to negative, mainly due to the decrease in investments in bonds with corresponding term, and loans and advances to customers as well as the increase in customer deposits. The positive liquidity exposure for the 1 to 5 years and over 5 years categories edged, which was mainly due to increase in investments in bonds with corresponding term and loans and advances to customers. Deposits maintained steady growth with a high deposition rate, and at the same time the Bank made major investment in central bank bills, treasury bonds and other high-liquidity assets, and possessed sufficient liquidity reserves. Therefore, the overall liquidity of the Bank maintained at a safe level.

LIQUIDITY EXPOSURE ANALYSIS

In RMB millions

	Overdue/ repayable on demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	Total
At 31 December 2016	(10,391,326)	43,004	(490,413)	(378,127)	3,363,860	6,499,529	3,334,636	1,981,163
At 31 December 2015	(9,385,821)	322,595	(540,886)	26,247	3,197,027	5,136,733	3,044,624	1,800,519

Other Risks

Interest Rate Risk in the Banking Book

The Bank categorized all on- and off-balance sheet assets and liabilities into its trading book and banking book according to the nature and characteristics of different books. The trading book includes tradable financial instruments and commodity positions held by the Bank for the purposes of trading or hedging the risks of other items in the trading book, whereas all other positions are included in the banking book.

Interest rate risk is defined as the risk of loss in the overall gain and economic value of the banking book arising from adverse movements in interest rate and term structure, etc. Interest rate risks mainly include repricing risk, yield curve risk, benchmark rate risk and option risk, of which, repricing risk and benchmark rate risk are the Bank's primary interest rate risks.

The Bank's interest rate risk management is aimed at maximizing the risk-adjusted net interest income within the tolerable level of interest rate risk under its risk management and risk appetite. The Bank adheres to the prudence principle in interest rate risk management of the banking book. The department in charge of interest rate risk management of the banking book and business departments jointly monitor and forecast interest rate trends and manage the interest rate risk based on monitoring results, so as to maximize the risk-adjusted income.

In accordance with the relevant provisions of CBRC, the Bank measures the impact of changes in interest rates on net interest income and equity value on a quarterly basis. In the measurement process, the Bank sets demand deposits interest rate re-pricing date as overnight. As personal residential mortgage loans may be prepaid, the Bank analyzes historical prepayment data and access the impact of prepayment on interest rate risk measurement. In 2016, under the assumption that the overall interest rate in the market moves in parallel without taking into account the risk management actions that the Management may take to mitigate interest rate risk, the Bank's banking book interest rate sensitivity analysis by major currency is set out below:

In RMB millions

Currency	Increase by 100 basis points		Decrease by 100 basis points	
	Impact on net interest income	Impact on equity	Impact on net interest income	Impact on equity
RMB	(8,988)	(46,604)	8,988	50,242
USD	(49)	(4,450)	49	4,453
HKD	125	(8)	(125)	8
Other	491	(635)	(491)	635
Total	(8,421)	(51,697)	8,421	55,338

Equity Risk in the Banking Book

The Bank's equity investments in banking book include long term equity investments and available-for-sale investment. The Bank strictly follows the Capital Regulation to measure significant and non-significant equity investment.

EQUITY RISK IN THE BANKING BOOK

In RMB millions

Equity type	At 31 December 2016			At 31 December 2015		
	Publicly-traded equity investment risk exposure ⁽¹⁾	Non-publicly-traded equity investment risk exposure ⁽¹⁾	Unrealized potential gains (losses) ⁽²⁾	Publicly-traded equity investment risk exposure ⁽¹⁾	Non-publicly-traded equity investment risk exposure ⁽¹⁾	Unrealized potential gains (losses) ⁽²⁾
Financial institution	26,437	1,132	122	21,551	964	173
Corporate	1,365	3,997	422	2,639	3,329	1,309
Total	27,802	5,129	544	24,190	4,293	1,482

Notes: (1) Publicly-traded equity investment refers to equity investment made in listed companies, and non-publicly-traded equity investment refers to equity investment made in non-listed companies.

(2) Unrealized potential gains (losses) refer to unrealized gains or losses recognized on the balance sheet but not recognized on the income statement.

For accounting policies regarding equity investment, please refer to the Significant Accounting Policies and Estimates in the Notes to the Financial Statements of the 2016 Annual Report.

Reputational Risk

Reputational risk is defined as the risk of negative assessment or comments on a commercial bank from stakeholders as a result of its operation, management and other behaviors or external events. Reputational risk may arise in any part of the Bank's operation and management, and usually co-exists and correlates with credit risk, market risk, operational risk and liquidity risk.

Reputational risk management of the Bank refers to the process and method for ensuring the achievement of the overall objective of reputational risk management based on the objective and planning for reputational risk management, including the establishment and improvement of the reputational risk management system through the identification, assessment, monitoring and handling of reputational risk factors and reputational events. The Bank adheres to the prevention oriented principle and incorporates reputational risk management into each aspect of operational management of the Bank and every customer service process, with a view to controlling and mitigating reputational risk at its source and minimizing the possibility of occurrence of and influence from reputational events.

As the highest decision-making body of the Bank's reputational risk management, the Board of Directors is responsible for formulating strategies and policies concerning reputational risk management that are in line with the strategic objective of the Bank. The Senior Management is responsible for implementing such strategies and policies established by the Board of Directors and leading reputational risk management of the Bank. The Bank has established a special reputational risk management team to take charge of the daily management of reputational risk.

In 2016, the Bank continued to strengthen reputational risk management, proactively prevented reputational risk and enhanced the reputational risk management level and prevention ability across the Bank. According to the latest regulatory requirements, changes in external situation and the Bank's management practices, the Bank amended the measures for reputational risk management, improved the reputational risk management working mechanism, and launched the reputational risk management system. The Bank also carried out the identification, evaluation, monitoring, control, mitigation and assessment of reputational risk in an in-depth manner and strengthened the consolidated management of reputational risk. It conducted reputational risk assessment on new businesses and products, and investigated all potential reputational risk. It organized stress tests and emergency response drill on reputational risk and reinforced the prevention control and mitigation of reputational risk. It made active response to concerns from society and effectively communicated with the stakeholders and the public. During the reporting period, the Bank's reputational risk was controllable with no material reputational risk event occurred.

Country Risk

Country risk is the risk incurred to a bank arising from the inability or refusal by the borrower or debtor to repay bank debt, losses suffered by the Bank or its commercial presence in such country or region and other losses due to economic, political and social changes and events in a country or a region. Country risk may be triggered by deterioration of economic conditions, political and social turmoil, asset nationalization or expropriation, government's refusal to pay external debt, foreign exchange control or currency depreciation in a country or a region.

The Bank strictly observes the Guidelines on the Management of Country Risk by Banking Financial Institutions and other regulatory requirements of CBRC. The Board of Directors assumes the ultimate responsibility for the effectiveness of country risk management. The Senior Management is responsible for executing the country risk management policies approved by the Board of Directors. The Risk Management Committee of the Head Office is responsible for reviewing matters regarding country risk management. The Bank manages and controls country risk through a series of management tools, including country risk assessment and rating, country risk limits for the entire group and continuous statistics, analysis and monitoring of country risk exposure, as well as country risk assessment using stress tests. The Bank reviews the country risk rating and limits at least once every year.

In 2016, the Bank strictly abode by regulatory requirements and, with consideration of its business development needs, continued to strengthen country risk management. The Bank continuously improved country risk management policies, and optimized the management process, closely observed changes in country risk exposures, constantly tracked, monitored and reported country risk, and timely updated and adjusted the country risk rating and limits. It further strengthened forward-looking early warning mechanism for country risk, proactively conducted stress testing on country risk and effectively controlled country risk while pushing ahead with the internationalization strategy.

Remuneration

Remuneration Governance Framework

In line with corporate governance requirements, the Bank is committed to establishing and improving remuneration governance framework, specifying the scope of roles and responsibilities of relevant entities, improving decision-making mechanism of remuneration policies and building remuneration governance system with full participation of all stakeholders.

The Board of Directors assumes the ultimate responsibility of remuneration management. The Board of Directors proactively supervises the design and operation of the remuneration system, periodically reviews its compliance, and ensures the remuneration system achieves the intended goals. The Bank set up the Compensation Committee of the Board of Directors in accordance with the Articles of Association to assist the Board of Directors in remuneration management. The Senior Management is responsible for organizing and implementing remuneration management related resolutions of the Board of Directors as well as organizing and formulating incentive assessment and remuneration distribution measures within the scope of authorization. The Human Resource Department is responsible for implementing specific remuneration management issues. Departments including the Risk Management Department, the Internal Audit Bureau, the Internal Control and Compliance Department and the Finance and Accounting Department participate in and supervise the execution of remuneration management mechanism and provide feedback for improvement.

Compensation Committee of the Board of Directors

The Compensation Committee is mainly responsible for formulating assessment measures on the performance of duties for directors, organizing the assessment on the performance of duties of Directors, putting forth proposal on remuneration distribution for Directors, putting forth proposal on remuneration distribution for Supervisors based on the performance assessment on Supervisors carried out by the Board of Supervisors, formulating and reviewing the assessment measures and compensation plans for Senior Management members of the Bank and evaluating the performance and behaviors of Senior Management members. As at the disclosure date of this annual report, the Compensation Committee consisted of five directors, including Executive Director Mr. Gu Shu; Independent Non-executive Directors Mr. Anthony Francis Neoh, Mr. Or Ching Fai and Mr. Yang Siu Shun; and Non-executive Director Ms. Wang Xiaoya. Independent Non-executive Director Mr. Anthony Francis Neoh was the chairman of the committee. During the reporting period, the Compensation Committee held three meetings.

Remuneration Management Policies

The Bank adopts the remuneration policy that is in line with corporate governance requirements and sustainable development targets, adapted to risk management systems and talent development strategies, and matched to employees' value contribution so as to promote bank-wide steady business operation and sustainable development. The remuneration policy applies to all institutions and employees of the Bank.

Performance-based Remuneration Mechanism

The remuneration package of the Bank's employees consists of basic remuneration and performance-based remuneration. The remuneration allocation takes job value, capabilities and performance as the basic principles. The basic salary level depends on the employees' value contribution and capabilities of fulfilling duties while the level of the performance-based remuneration depends on performance assessment of the Bank as a whole, the institution or department and the employee. Currently, in accordance with relevant laws and regulations promulgated by the country and regulatory authorities, the Bank has not yet implemented share options or any other form of long or medium-term share incentives; all performance-based remuneration of the employees are paid in cash.

Focused on value creation, risk control and sustainable development, the Bank has established an integrated performance assessment system comprised of three categories of indicators: performance management, risk and internal control, operational transformation and business development, which guides the bank-wide attention to not only the indicators of current period, but also the indicators relating to long-term development, such as customers, markets and structural adjustments. The Bank also reasonably controls the balance of profits, risk and quality so as to improve the steadiness and scientism of business management.

Risk-aligned Remuneration Mechanism

The Bank's remuneration policy is in line with the risk management system and adapted to the institutional scale, and the nature and the sophistication of the business to control the employee's risk-taking and short-term actions. The remuneration structures of each institution or position are different according to the need of risk management. The Bank adjusted the risks that have not yet been reflected in the period by taking risk mitigation measures including risk-adjusted performance and deferred remuneration payment, and implemented performance assessment and incentives to promote a positive and healthy risk management culture.

A deferred payment schedule is gradually introduced according to business development needs. The Bank deferred part of the performance-related remuneration of employees who assume responsibilities for material risk and risk management and control. For persons receiving deferred payment, if significant losses of risk exposures are incurred within their responsibility during their employment, the Bank can recall part or all of performance-related remuneration paid in relevant period and stop further payments.

Independence of the Remuneration for Risk and Compliance Employees

Remuneration for risk and compliance employees are based on their value contributed, capability, and performance, not directly related to their responsible businesses. The Bank sets up a vertical internal audit system, which takes on the responsibility for the Board of Directors and reports to the Board of Directors directly. The remuneration of the internal audit employees is independent from that of other lines of business.

For basic information and annual remuneration of Senior Management members and remuneration of the Compensation Committee of the Board of Directors of the Bank, please refer to the 2016 Annual Report.

Appendixes

The following information is disclosed in accordance with the CBRC Notice on Issuing Regulatory Documents on Capital Regulation for Commercial Banks Appendix 2 Notice on Enhancing Disclosure Requirements for Composition of Capital.

CAPITAL COMPOSITION

In RMB millions, except for percentages

S/N	Item	At 31 December 2016	At 31 December 2015	Reference ⁽¹⁾
Core tier 1 capital:				
1	Paid-in capital	356,407	356,407	X18
2	Retained earnings	1,396,607	1,206,249	
2a	Surplus reserve	205,021	178,040	X21
2b	General reserve	251,349	246,356	X22
2c	Retained profits	940,237	781,853	X23
3	Accumulated other comprehensive income (and other public reserves)	130,358	146,164	
3a	Capital reserve	151,998	151,963	X19
3b	Others	(21,640)	(5,799)	X24
4	Valid portion to core tier 1 capital during the transition period (only applicable to non-joint stock companies. Fill in 0 for joint stock banks)	–	–	
5	Valid portion of minority interests	3,164	4,340	X25
6	Core tier 1 capital before regulatory adjustments	1,886,536	1,713,160	
Core tier 1 capital: Regulatory adjustments				
7	Prudential valuation adjustments	–	–	
8	Goodwill (net of deferred tax liabilities)	9,001	8,478	X16
9	Other intangible assets other than land use rights (net of deferred tax liabilities)	1,477	1,356	X14-X15
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences	–	–	
11	Cash flow hedge reserves that relate to the hedging of items that are not fair valued on the balance sheet	(4,618)	(3,869)	X20
12	Shortfall of provision for loan impairment	–	–	
13	Gain on sale related to asset securitization	–	–	
14	Unrealized gains and losses due to changes in own credit risk on fair valued liabilities	–	–	
15	Defined-benefit pension fund net assets (net of related deferred tax liabilities)	–	–	
16	Directly or indirectly holding in own ordinary shares	–	–	
17	Reciprocal cross-holdings in core tier 1 capital between banks or between banks and other financial institutions	–	–	
18	Deductible amount of non-significant minority investment in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	–	–	

(1) For mapped components of the balance sheet under regulatory scope of consolidation to capital items, please refer to “Explanations for Detailed Items”.

CAPITAL COMPOSITION (CONTINUED)

In RMB millions, except for percentages

S/N	Item	At 31 December 2016	At 31 December 2015	Reference
19	Deductible amount of significant minority investment in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	–	–	
20	Mortgage servicing rights	N/A	N/A	
21	Deductible amount in deferred tax assets arising from temporary differences	–	–	
22	Deductible amount exceeding the 15% threshold for significant minority capital investments in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation and undeducted portion of deferred tax assets arising from temporary differences	–	–	
23	Including: Deductible amount of significant minority investments in core tier 1 capital instruments issued by financial institutions	–	–	
24	Including: Deductible amount of mortgage servicing rights	N/A	N/A	
25	Including: Deductible amount in deferred tax assets arising from temporary differences	–	–	
26a	Investment in core tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	5,700	5,700	X11
26b	Shortfall in core tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	–	–	
26c	Others that should be deducted from core tier 1 capital	–	–	
27	Undeducted shortfall that should be deducted from additional tier 1 capital and tier 2 capital	–	–	
28	Total regulatory adjustments to core tier 1 capital	11,560	11,665	
29	Core tier 1 capital	1,874,976	1,701,495	
Additional tier 1 capital:				
30	Additional tier 1 capital instruments and related premium	79,375	79,375	
31	Including: Portion classified as equity	79,375	79,375	X28
32	Including: Portion classified as liabilities	–	–	
33	Invalid instruments to additional tier 1 capital after the transition period	–	–	
34	Valid portion of minority interests	419	192	X26
35	Including: Invalid portion to additional tier 1 capital after the transition period	–	–	
36	Additional tier 1 capital before regulatory adjustments	79,794	79,567	
Additional tier 1 capital: Regulatory adjustments				
37	Directly or indirectly holding additional tier 1 capital of the Bank	–	–	
38	Reciprocal cross-holdings in additional tier 1 capital between banks or between banks and other financial institutions	–	–	
39	Deductible amount of non-significant minority investment in additional tier 1 capital instruments issued by financial institutions that are not subject to consolidation	–	–	

CAPITAL COMPOSITION (CONTINUED)

In RMB millions, except for percentages

S/N	Item	At 31 December 2016	At 31 December 2015	Reference
40	Significant minority investments in additional tier 1 capital instruments issued by financial institutions that are not subject to consolidation	–	–	
41a	Investments in additional tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	–	–	
41b	Shortfall in additional tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	–	–	
41c	Others that should be deducted from additional tier 1 capital	–	–	
42	Undeducted shortfall that should be deducted from tier 2 capital	–	–	
43	Total regulatory adjustments to additional tier 1 capital	–	–	
44	Additional tier 1 capital	79,794	79,567	
45	Tier 1 capital (core tier 1 capital + additional tier 1 capital)	1,954,770	1,781,062	
Tier 2 capital:				
46	Tier 2 capital instruments and related premium	154,861	180,242	X17
47	Invalid instruments to tier 2 capital after the transition period	121,710	144,158	
48	Valid portion of minority interests	4,236	1,001	X27
49	Including: Invalid portion to tier 2 capital after the transition period	–	–	
50	Valid portion of surplus provision for loan impairment	19,195	63,398	X02+X04
51	Tier 2 capital before regulatory adjustments	178,292	244,641	
Tier 2 capital: Regulatory adjustments				
52	Directly or indirectly holding tier 2 capital of the Bank	–	–	
53	Reciprocal cross-holdings in tier 2 capital between banks or between banks and other financial institutions	–	–	
54	Deductible portion of non-significant minority investment in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	–	–	
55	Significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	5,600	13,600	X10
56a	Investments in tier 2 capital instruments issued by financial institutions that are under control but not subject to consolidation	–	–	
56b	Shortfall in tier 2 capital instruments issued by financial institutions that are under control but not subject to consolidation	–	–	
56c	Others that should be deducted from tier 2 capital	–	–	
57	Total regulatory adjustments to tier 2 capital	5,600	13,600	
58	Tier 2 capital	172,692	231,041	
59	Total capital (tier 1 capital + tier 2 capital)	2,127,462	2,012,103	
60	Total risk-weighted assets	14,564,617	13,216,687	
Requirements for capital adequacy ratio and reserve capital				
61	Core tier 1 capital adequacy ratio	12.87%	12.87%	
62	Tier 1 capital adequacy ratio	13.42%	13.48%	
63	Capital adequacy ratio	14.61%	15.22%	

CAPITAL COMPOSITION (CONTINUED)

In RMB millions, except for percentages

S/N	Item	At 31 December 2016	At 31 December 2015	Reference
64	Institution specific buffer requirement	3.5%	3.5%	
65	Including: Capital conservation buffer requirement	2.5%	2.5%	
66	Including: Countercyclical buffer requirement	–	–	
67	Including: G-SIB buffer requirement	1%	1%	
68	Percentage of core tier 1 capital meeting buffers to risk-weighted assets	7.87%	7.87%	
Domestic minima for regulatory capital				
69	Core tier 1 capital adequacy ratio	5%	5%	
70	Tier 1 capital adequacy ratio	6%	6%	
71	Capital adequacy ratio	8%	8%	
Amounts below the thresholds for deduction				
72	Undeducted portion of non-significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	37,049	48,007	X05+X06+ X08+X09+ X12
73	Undeducted portion of significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	26,859	21,669	X07+X13
74	Mortgage servicing rights (net of deferred tax liabilities)	N/A	N/A	
75	Deferred tax assets arising from temporary differences (net of deferred tax liabilities)	28,072	20,313	
Valid caps of surplus provision for loan impairment in tier 2 capital				
76	Provision for loan impairment under the weighted approach	22,504	17,829	X01
77	Valid cap of surplus provision for loan impairment in tier 2 capital under the weighted approach	5,697	5,381	X02
78	Surplus provision for loan impairment under the internal ratings-based approach	267,008	262,825	X03
79	Valid cap of surplus provision for loan impairment in tier 2 capital under the internal ratings-based approach	13,498	58,017	X04
Capital instruments subject to phase-out arrangements				
80	Valid cap to core tier 1 capital instruments for the current period due to phase-out arrangements	–	–	
81	Excluded from core tier 1 capital due to cap	–	–	
82	Valid cap to additional tier 1 capital instruments for the current period due to phase-out arrangements	–	–	
83	Excluded from additional tier 1 capital due to cap	–	–	
84	Valid cap to tier 2 capital instruments for the current period due to phase-out arrangements	121,710	144,158	
85	Excluded from tier 2 capital for the current period due to cap	26,547	15,311	

BALANCE SHEET AT THE GROUP'S LEVEL

In RMB millions

Item	At 31 December 2016		At 31 December 2015	
	Consolidated balance sheet as in published financial statements	Balance sheet under regulatory scope of consolidation	Consolidated balance sheet as in published financial statements	Balance sheet under regulatory scope of consolidation
Assets				
Cash and balances with central banks	3,350,788	3,350,788	3,059,633	3,059,633
Due from banks and other financial institutions	270,058	262,582	211,559	204,607
Precious metals	220,091	220,091	114,619	114,619
Placements with banks and other financial institutions	527,415	527,415	472,234	472,234
Financial assets at fair value through profit or loss	474,475	474,450	343,272	343,246
Derivative financial assets	94,452	94,452	78,870	78,870
Reverse repurchase agreements	755,627	755,557	996,333	996,333
Loans and advances to customers	12,767,334	12,766,888	11,652,812	11,652,264
Available-for-sale financial assets	1,742,287	1,708,102	1,444,195	1,421,231
Held-to-maturity investments	2,973,042	2,972,444	2,870,353	2,869,642
Receivables	291,370	245,221	352,143	326,339
Long term equity investments	30,077	35,777	24,185	29,885
Fixed assets	220,651	220,609	195,401	195,357
Construction in progress	22,968	22,968	26,101	26,101
Deferred income tax assets	28,398	28,398	21,066	21,066
Other assets	368,232	353,794	347,004	337,210
Total assets	24,137,265	24,039,536	22,209,780	22,148,637
Liabilities				
Due to central banks	545	545	210	210
Due to banks and other financial institutions	1,516,692	1,516,692	1,788,267	1,788,267
Placements from banks and other financial institutions	500,107	500,107	477,593	477,593
Financial liabilities at fair value through profit or loss	366,752	366,740	303,927	303,916
Derivative financial liabilities	89,960	89,960	76,826	76,826
Repurchase agreements	589,306	579,651	337,191	329,896
Certificates of deposit	218,427	218,427	183,352	183,352
Due to customers	17,825,302	17,828,084	16,281,939	16,283,105
Employee benefits payable	32,864	32,536	31,717	31,470
Taxes payable	63,557	63,500	75,234	75,201
Debt securities issued	357,937	357,937	306,622	306,622
Deferred income tax liabilities	604	327	995	754
Other liabilities	594,049	508,235	545,388	496,583
Total liabilities	22,156,102	22,062,741	20,409,261	20,353,795

BALANCE SHEET AT THE GROUP'S LEVEL (CONTINUED)

In RMB millions

Item	At 31 December 2016		At 31 December 2015	
	Consolidated balance sheet as in published financial statements	Balance sheet under regulatory scope of consolidation	Consolidated balance sheet as in published financial statements	Balance sheet under regulatory scope of consolidation
Shareholders' equity				
Share capital	356,407	356,407	356,407	356,407
Other equity instruments	86,051	86,051	79,375	79,375
Including: Preference shares	79,375	79,375	79,375	79,375
Perceptual bond	6,676	6,676	–	–
Capital reserve	151,998	151,998	151,963	151,963
Other comprehensive income	(21,738)	(21,640)	(4,655)	(5,799)
Surplus reserve	205,021	205,021	178,040	178,040
General reserve	251,349	251,349	246,356	246,356
Retained profits	940,663	940,237	781,988	781,853
Equity attributable to equity holders of the parent company	1,969,751	1,969,423	1,789,474	1,788,195
Minority interests	11,412	7,372	11,045	6,647
Total equity	1,981,163	1,976,795	1,800,519	1,794,842

Note: Prepared in accordance with PRC GAAP.

EXPLANATIONS FOR DETAILED ITEMS

In RMB millions

Item	At 31 December 2016 Balance sheet under regulatory scope of consolidation	Reference
Loans and advances to customers	12,766,888	
Total loans and advances to customers	13,056,400	
Less: Provision for loan impairment under the weighted approach	22,504	X01
Including: Valid cap of surplus provision for loan impairment in tier 2 capital under the weighted approach	5,697	X02
Less: Provision for loan impairment under the internal ratings-based approach	267,008	X03
Including: Valid cap of surplus provision for loan impairment in tier 2 capital under the internal ratings-based approach	13,498	X04
Available-for-sale financial assets	1,708,102	
Bond investment measured at fair value	1,612,679	
Including: Non-significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	5,947	X05
Other debt instrument investment measured at fair value	91,337	
Equity investment	4,086	
Including: Undeducted portion of non-significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	610	X06
Including: Undeducted portion of significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	90	X07
Held-to-maturity investments	2,972,444	
Including: Non-significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	2,100	X08
Receivables	245,221	
Including: Non-significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	28,292	X09
Including: Significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	5,600	X10
Long term equity investments	35,777	
Including: Investment in core tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	5,700	X11
Including: Undeducted portion of non-significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	100	X12
Including: Undeducted portion of significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	26,769	X13

EXPLANATIONS FOR DETAILED ITEMS (CONTINUED)

In RMB millions

Item	At 31 December 2016 Balance sheet under regulatory scope of consolidation	Reference
Other assets	353,794	
Interest receivable	111,301	
Intangible assets	20,742	X14
Including: Land use rights	19,265	X15
Other receivables	190,083	
Goodwill	9,001	X16
Long-term deferred and prepaid expenses	4,370	
Reposessed assets	8,274	
Others	10,023	
Debt securities issued	357,937	
Including: Valid portion of tier 2 capital instruments and their premium	154,861	X17
Share capital	356,407	X18
Other equity instruments	86,051	
Including: Preference shares	79,375	X28
Capital reserve	151,998	X19
Other comprehensive income	(21,640)	X24
Reserve for changes in fair value of available-for-sale financial assets	1,152	
Reserve for cash flow hedging	(4,645)	
Including: Cash flow hedge reserves that relate to the hedging of items that are not fair valued on the balance sheet	(4,618)	X20
Changes in share of other owners' equity of associates and joint ventures	(322)	
Foreign currency translation reserve	(17,825)	
Surplus reserve	205,021	X21
General reserve	251,349	X22
Retained profits	940,237	X23
Minority interests	7,372	
Including: Valid portion to core tier 1 capital	3,164	X25
Including: Valid portion to additional tier 1 capital	419	X26
Including: Valid portion to tier 2 capital	4,236	X27

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2016

S/N	Main features of regulatory capital instrument	Ordinary shares (A share)	Ordinary shares (H share)
1	Issuer	ICBC	ICBC
2	Unique identifier	601398	1398
3	Governing law(s) of the instrument	Securities Law of the People's Republic of China/China	Securities and Futures Ordinance of Hong Kong/Hong Kong, China
Regulatory treatment			
4	Including: Transition arrangement of Regulation Governing Capital of Commercial Banks (Provisional)	Core tier 1 capital	Core tier 1 capital
5	Including: Post-transition arrangement of Regulation Governing Capital of Commercial Banks (Provisional)	Core tier 1 capital	Core tier 1 capital
6	Including: Eligible to the parent company/group level	Parent company/Group	Parent company/Group
7	Instrument type	Core tier 1 capital instrument	Core tier 1 capital instrument
8	Amount recognized in regulatory capital (in millions, as at the latest reporting date)	RMB339,126	RMB169,202
9	Par value of instrument (in millions)	RMB269,612	RMB86,795
10	Accounting treatment	Share capital, Capital reserve	Share capital, Capital reserve
11	Original date of issuance	19 October 2006	19 October 2006
12	Perpetual or dated	Perpetual	Perpetual
13	Including: Original maturity date	No maturity date	No maturity date
14	Issuer call (subject to prior supervisory approval)	No	No
15	Including: Optional call date, contingent call dates and redemption amount	N/A	N/A
16	Including: Subsequent call dates, if applicable	N/A	N/A
Coupons/dividends			
17	Including: Fixed or floating dividend/coupon	Floating	Floating
18	Including: Coupon rate and any related index	N/A	N/A
19	Including: Existence of a dividend stopper	N/A	N/A
20	Including: Fully discretionary, partially discretionary or mandatory cancellation of coupons/dividends	Fully discretionary	Fully discretionary
21	Including: Redemption incentive mechanism	No	No
22	Including: Non-cumulative or cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	No	No
24	Including: If convertible, conversion trigger(s)	N/A	N/A
25	Including: If convertible, fully or partially	N/A	N/A

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2016 (CONTINUED)

S/N	Main features of regulatory capital instrument	Ordinary shares (A share)	Ordinary shares (H share)
26	Including: If convertible, conversion rate	N/A	N/A
27	Including: If convertible, mandatory or optional conversion	N/A	N/A
28	Including: If convertible, specify instrument type convertible into	N/A	N/A
29	Including: If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down feature	No	No
31	Including: If write-down, write-down trigger(s)	N/A	N/A
32	Including: If write-down, full or partial	N/A	N/A
33	Including: If write-down, permanent or temporary	N/A	N/A
34	Including: If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	After depositor, general creditor, creditor of the subordinated debts and preference shareholders	After depositor, general creditor, creditor of the subordinated debts and preference shareholders
36	Non-compliant transitioned features	No	No
	Including: If yes, specify non-compliant features	N/A	N/A

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2016 (CONTINUED)

S/N	Main features of regulatory capital instrument	Preference Shares (Offshore)	Preference Shares (Offshore)	Preference Shares (Offshore)	Preference Shares (Domestic)
1	Issuer	ICBC	ICBC	ICBC	ICBC
2	Unique identifier	4603	4604	84602	360011
3	Governing law(s) of the instrument	The creation and issue of the Offshore Preference Shares and the rights and obligations (including non-contractual rights and obligations) attached to them are governed by, and shall be construed in accordance with, PRC law	The creation and issue of the Offshore Preference Shares and the rights and obligations (including non-contractual rights and obligations) attached to them are governed by, and shall be construed in accordance with, PRC law	The creation and issue of the Offshore Preference Shares and the rights and obligations (including non-contractual rights and obligations) attached to them are governed by, and shall be construed in accordance with, PRC law	Company Law of PRC, Securities Law of PRC, Guidance of the State Council on Launch of Preference Share Pilot, Trial Administrative Measures on Preference Shares, Guidance on the Issuance of Preference Shares by Commercial Banks to Replenish Tier 1 Capital/China
Regulatory treatment					
4	Including: Transition arrangement of Regulation Governing Capital of Commercial Banks (Provisional)	Additional tier 1 capital	Additional tier 1 capital	Additional tier 1 capital	Additional tier 1 capital
5	Including: Post-transition arrangement of Regulation Governing Capital of Commercial Banks (Provisional)	Additional tier 1 capital	Additional tier 1 capital	Additional tier 1 capital	Additional tier 1 capital
6	Including: Eligible to the parent company/group level	Parent company/Group	Parent company/Group	Parent company/Group	Parent company/Group
7	Instrument type	Additional tier 1 capital instrument	Additional tier 1 capital instrument	Additional tier 1 capital instrument	Additional tier 1 capital instrument
8	Amount recognized in regulatory capital (in millions, as at the latest reporting date)	RMB equivalent 17,928	RMB equivalent 4,542	RMB11,958	RMB44,947
9	Par value of instrument (in millions)	USD2,940	EUR600	RMB12,000	RMB45,000
10	Accounting treatment	Other equity	Other equity	Other equity	Other equity
11	Original date of issuance	10 December 2014	10 December 2014	10 December 2014	18 November 2015
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual
13	Including: Original maturity date	No maturity date	No maturity date	No maturity date	No maturity date
14	Issuer call (subject to prior supervisory approval)	Yes	Yes	Yes	Yes

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2016 (CONTINUED)

S/N	Main features of regulatory capital instrument	Preference Shares (Offshore)	Preference Shares (Offshore)	Preference Shares (Offshore)	Preference Shares (Domestic)
15	Including: Optional call date, contingent call dates and redemption amount	The First Redemption Date is 10 December 2019, in full or partial amount	The First Redemption Date is 10 December 2021, in full or partial amount	The First Redemption Date is 10 December 2019, in full or partial amount	The First Redemption Date is 18 November 2020, in full or partial amount
16	Including: Subsequent call dates, if applicable	10 December in each year after the First Redemption Date	10 December in each year after the First Redemption Date	10 December in each year after the First Redemption Date	Commences on the First Redemption Date (18 November 2020) and ends on the completion date of redemption or conversion of all the Domestic Preference Shares
Coupons/dividends					
17	Including: Fixed or floating dividend/coupon	Fixed to floating	Fixed to floating	Fixed to floating	Fixed to floating
18	Including: Coupon rate and any related index	6% (dividend rate) before 10 December 2019	6% (dividend rate) before 10 December 2021	6% (dividend rate) before 10 December 2019	4.5% (dividend rate) before 18 November 2020
19	Including: Existence of a dividend stopper	Yes	Yes	Yes	Yes
20	Including: Fully discretionary, partially discretionary or mandatory cancellation of coupons/dividends	Partially discretionary	Partially discretionary	Partially discretionary	Partially discretionary
21	Including: Redemption incentive mechanism	No	No	No	No
22	Including: Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Yes	Yes	Yes	Yes
24	Including: If convertible, conversion trigger(s)	Additional Tier 1 Capital Trigger Event or Tier 2 Capital Trigger Event	Additional Tier 1 Capital Trigger Event or Tier 2 Capital Trigger Event	Additional Tier 1 Capital Trigger Event or Tier 2 Capital Trigger Event	Additional Tier 1 Capital Trigger Event or Tier 2 Capital Trigger Event
25	Including: If convertible, fully or partially	Fully or partially convertible when an Additional Tier 1 Capital Trigger Event occurs; fully convertible when a Tier 2 Capital Trigger Event occurs	Fully or partially convertible when an Additional Tier 1 Capital Trigger Event occurs; fully convertible when a Tier 2 Capital Trigger Event occurs	Fully or partially convertible when an Additional Tier 1 Capital Trigger Event occurs; fully convertible when a Tier 2 Capital Trigger Event occurs	Fully or partially convertible when an Additional Tier 1 Capital Trigger Event occurs; fully convertible when a Tier 2 Capital Trigger Event occurs

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2016 (CONTINUED)

S/N	Main features of regulatory capital instrument	Preference Shares (Offshore)	Preference Shares (Offshore)	Preference Shares (Offshore)	Preference Shares (Domestic)
26	Including: If convertible, conversion rate	The initial conversion price is equal to the average trading price of the H shares of the Bank for the 20 trading days preceding 25 July 2014, the date of publication of the Board resolution in respect of the issuance plan	The initial conversion price is equal to the average trading price of the H shares of the Bank for the 20 trading days preceding 25 July 2014, the date of publication of the Board resolution in respect of the issuance plan	The initial conversion price is equal to the average trading price of the H shares of the Bank for the 20 trading days preceding 25 July 2014, the date of publication of the Board resolution in respect of the issuance plan	The initial conversion price is equal to the average trading price of the A shares of the Bank for the 20 trading days preceding 25 July 2014, the date of publication of the Board resolution in respect of the issuance plan
27	Including: If convertible, mandatory or optional conversion	Mandatory	Mandatory	Mandatory	Mandatory
28	Including: If convertible, specify instrument type convertible into	Core tier 1 capital	Core tier 1 capital	Core tier 1 capital	Core tier 1 capital
29	Including: If convertible, specify issuer of instrument it converts into	ICBC	ICBC	ICBC	ICBC
30	Write-down feature	No	No	No	No
31	Including: If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A
32	Including: If write-down, full or partial	N/A	N/A	N/A	N/A
33	Including: If write-down, permanent or temporary	N/A	N/A	N/A	N/A
34	Including: If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	After all liabilities of the Bank and instruments issued or guaranteed by the Bank ranking senior to the Offshore Preference Shares, in the same liquidation order with the holders of Parity Obligations	After all liabilities of the Bank and instruments issued or guaranteed by the Bank ranking senior to the Offshore Preference Shares, in the same liquidation order with the holders of Parity Obligations	After all liabilities of the Bank and instruments issued or guaranteed by the Bank ranking senior to the Offshore Preference Shares, in the same liquidation order with the holders of Parity Obligations	After all liabilities of the Bank and instruments issued or guaranteed by the Bank ranking senior to the Domestic Preference Shares, in the same liquidation order with the holders of Parity Obligations
36	Non-compliant transitioned features	No	No	No	No
	Including: If yes, specify non-compliant features	N/A	N/A	N/A	N/A

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2016 (CONTINUED)

S/N	Main features of regulatory capital instrument	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds
1	Issuer	ICBC (Asia)	ICBC	ICBC
2	Unique identifier	ISIN: XS0976879279 BBGID: BBG005CMF4N6	1428009	Rule 144A ISIN: US455881AD47 Regulation S ISIN: USY39656AC06
3	Governing law(s) of the instrument	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with English law, except that the provision of the Notes relating to Subordination shall be governed by, and construed in accordance with, the laws of Hong Kong	Securities Law of the People's Republic of China/China	The Notes and the Fiscal Agency Agreement shall be governed by, and shall be construed in accordance with, New York law, except that the provisions of the Notes relating to subordination shall be governed by, and construed in accordance with, PRC law
Regulatory treatment				
4	Including: Transition arrangement of Regulation Governing Capital of Commercial Banks (Provisional)	Tier 2 capital	Tier 2 capital	Tier 2 capital
5	Including: Post-transition arrangement of Regulation Governing Capital of Commercial Banks (Provisional)	Tier 2 capital	Tier 2 capital	Tier 2 capital
6	Including: Eligible to the parent company/group level	Group	Parent company/Group	Parent company/Group
7	Instrument type	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument
8	Amount recognized in regulatory capital (in millions, as at the latest reporting date)	RMB equivalent 1,834	RMB20,005	RMB equivalent 13,753
9	Par value of instrument (in millions)	USD500	RMB20,000	USD2,000
10	Accounting treatment	Debt securities issued	Debt securities issued	Debt securities issued
11	Original date of issuance	10 October 2013	4 August 2014	21 September 2015
12	Perpetual or dated	Dated	Dated	Dated
13	Including: Original maturity date	10 October 2023	5 August 2024	21 September 2025
14	Issuer call (subject to prior supervisory approval)	Yes	Yes	No
15	Including: Optional call date, contingent call dates and redemption amount	10 October 2018, in full amount	5 August 2019, in full amount	N/A
16	Including: Subsequent call dates, if applicable	N/A	N/A	N/A

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2016 (CONTINUED)

S/N	Main features of regulatory capital instrument	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds
	Coupons/dividends			
17	Including: Fixed or floating dividend/coupon	Fixed	Fixed	Fixed
18	Including: Coupon rate and any related index	4.50%	5.80%	4.875%
19	Including: Existence of a dividend stopper	No	No	No
20	Including: Fully discretionary, partially discretionary or mandatory cancellation of coupons/dividends	Mandatory	Fully discretionary	Mandatory
21	Including: Redemption incentive mechanism	No	No	No
22	Including: Non-cumulative or cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	No	No	No
24	Including: If convertible, conversion trigger(s)	N/A	N/A	N/A
25	Including: If convertible, fully or partially	N/A	N/A	N/A
26	Including: If convertible, conversion rate	N/A	N/A	N/A
27	Including: If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	Including: If convertible, specify instrument type convertible into	N/A	N/A	N/A
29	Including: If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
30	Write-down feature	Yes	Yes	Yes
31	Including: If write-down, write-down trigger(s)	Non-viability of ICBC (Asia) or the Bank	Non-viability of the Bank	Whichever occurs earlier: (i) CBRC having decided that a write-down is necessary, without which the Issuer would become nonviable; or (ii) any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable
32	Including: If write-down, full or partial	Full write-down	Full write-down	Full write-down
33	Including: If write-down, permanent or temporary	Permanent write-down	Permanent write-down	Permanent write-down
34	Including: If temporary write-down, description of write-up mechanism	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	After depositor and general creditor, in the same liquidation order with other subordinated debts	After depositor and general creditor, in the same liquidation order with other subordinated debts	After depositor and general creditor, in the same liquidation order with other subordinated debts
36	Non-compliant transitioned features	No	No	No
	Including: If yes, specify non-compliant features	N/A	N/A	N/A

Definitions

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

Articles of Association	The Articles of Association of Industrial and Commercial Bank of China Limited
Capital Regulation	Regulation Governing Capital of Commercial Banks (Provisional) promulgated by CBRC in June 2012
CBRC	China Banking Regulatory Commission
CCXI	China Chengxin International Credit Rating Co., Ltd.
China Ratings	China Bond Rating Co., Ltd.
Global Systemically Important Banks (GSIB)	Banks undertaking key functions with global features in the financial markets as released by the Financial Stability Board
ICBC (Argentina)	Industrial and Commercial Bank of China (Argentina) S.A.
ICBC (Asia)	Industrial and Commercial Bank of China (Asia) Limited
ICBC (Europe)	Industrial and Commercial Bank of China (Europe) S.A.
ICBC (Indonesia)	PT. Bank ICBC Indonesia
ICBC (Macau)	Industrial and Commercial Bank of China (Macau) Limited
ICBC (Thai)	Industrial and Commercial Bank of China (Thai) Public Company Limited
ICBC (Turkey)	ICBC Turkey Bank Anonim Şirketi
ICBC International	ICBC International Holdings Limited
ICBC Leasing	ICBC Financial Leasing Co., Ltd.
ICBC Standard Bank	ICBC Standard Bank PLC
ICBC-AXA	ICBC-AXA Assurance Co., Ltd.
LH Ratings	China Lianhe Credit Rating Co., Ltd.
PBC	People's Bank of China
Securities and Futures Ordinance of Hong Kong	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
SEHK	The Stock Exchange of Hong Kong Limited
SSE	Shanghai Stock Exchange
the Bank/the Group	Industrial and Commercial Bank of China Limited; or Industrial and Commercial Bank of China Limited and its subsidiaries



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