INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED

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

Stock Code: 1398
USD Preference Shares Stock Code: 4603
EUR Preference Shares Stock Code: 4604
RMB Preference Shares Stock Code: 84602

2017

Capital Adequacy Ratio Report

CONTENTS

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 of the first choice of customers" while providing a comprehensive range of financial products and services to 6,271 thousand corporate customers and 567 million personal customers. The Bank has been consciously integrating the social responsibilities with its development strategy and operation and management activities, and gaining wide recognition in the aspects of promoting inclusive finance, supporting targeted poverty relief, protecting environment and resources and participating in public welfare undertakings.

The Bank always keeps in mind its underlying mission of serving the real economy with its principal business, and along with the real economy it prospers, suffers and grows. Taking a risk-based approach and never overstepping the bottom line, it regards controlling and resolving risks as its iron law. Besides, the Bank remains steadfast in understanding and following the business rules of commercial banks to strive to be a century-old bank. It also stays committed to seeking progress with innovation while maintaining stability, continuously enhances the strategy of mega retail, mega asset management, mega investment banking as well as international and comprehensive development, and actively embraces the internet. The Bank unswervingly delivers specialized services, and pioneered a specialized business model, thus making it "a craftsman in large banking".

The Bank was ranked the 1st place among the Top 1000 World Banks by *The Banker*, ranked 1st place in the Global 2000 listed by *Forbes* and topped the sub-list of commercial banks of the Global 500 in *Fortune* for the fifth consecutive year, and took the 1st place among the Top 500 Banking Brands of *Brand Finance* for the second consecutive year.

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 2017, 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.

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 Investment	12,000	100.00	Nanjing, China	Asset management
3	ICBC Leasing	11,000	100.00	Tianjin, China	Leasing
4	ICBC (Macau)	10,316	89.33	Macau, China	Commercial banking
5	ICBC Standard Bank	5,348	60.00	London, UK	Commercial banking
6	ICBC (Thai)	4,898	97.86	Bangkok, Thailand	Commercial banking
7	ICBC (Argentina)	4,521	80.00	Buenos Aires, Argentina	Commercial banking
8	ICBC International	4,066	100.00	Hong Kong, China	Investment banking
9	ICBC (Europe)	3,294	100.00	Luxembourg	Commercial banking
10	ICBC (Turkey)	2,712	92.84	Istanbul, Turkey	Commercial banking

INVESTEES 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	7,980	60.00	Shanghai, China	Insurance

Capital Deficiencies and Restrictions on Capital Transfer

As at the end of 2017, 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, in respect of risks meeting regulatory requirements, the foundation internal ratings-based (IRB) approach was adopted for corporate credit risk, the IRB approach was adopted for retail credit risk, the internal model approach (IMA) was adopted for market risk, and the standardized approach was adopted for operational risk. 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

	At 31 December 2017		At 31 December 2016	
Item	Group	Parent Company	Group	Parent Company
Calculated in accordance with the Capital Regulation:				
Net core tier 1 capital	2,030,108	1,856,054	1,874,976	1,723,839
Net tier 1 capital	2,110,060	1,935,429	1,954,770	1,803,214
Net capital base	2,406,920	2,216,707	2,127,462	1,960,840
Core tier 1 capital adequacy ratio	12.77%	12.88%	12.87%	12.90%
Tier 1 capital adequacy ratio	13.27%	13.44%	13.42%	13.49%
Capital adequacy ratio	15.14%	15.39%	14.61%	14.67%
Calculated in accordance with the Regulation Governing Capital Adequacy of Commercial Banks and related regulations:				
Core capital adequacy ratio	11.65%	11.96%	11.71%	11.96%
Capital adequacy ratio	14.56%	14.67%	14.29%	14.26%

Capital Composition

As at the end of 2017, 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 12.77%, 13.27% and 15.14%, respectively, complying with regulatory requirements.

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

In RMB millions, except for percentages

Item	At 31 December 2017	At 31 December 2016
Core tier 1 capital	**2,044,390**	**1,886,536**
Paid-in capital	356,407	356,407
Valid portion of capital reserve	151,952	151,998
Surplus reserve	232,660	205,021
General reserve	264,850	251,349
Retained profits	1,096,868	940,237
Valid portion of minority interests	2,716	3,164
Others	(61,063)	(21,640)
Core tier 1 capital deductions	**14,282**	**11,560**
Goodwill	8,478	9,001
Other intangible assets other than land use rights	1,532	1,477
Cash flow hedge reserves that relate to the hedging of items that are not fair valued on the balance sheet	(3,708)	(4,618)
Investments in core tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	7,980	5,700
Net core tier 1 capital	**2,030,108**	**1,874,976**
Additional tier 1 capital	**79,952**	**79,794**
Additional tier 1 capital instruments and related premium	79,375	79,375
Valid portion of minority interests	577	419
Net tier 1 capital	**2,110,060**	**1,954,770**
Tier 2 capital	**297,360**	**178,292**
Valid portion of tier 2 capital instruments and related premium	222,321	154,861
Surplus provision for loan impairment	71,736	19,195
Valid portion of minority interests	3,303	4,236
Tier 2 capital deductions	**500**	**5,600**
Significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	500	5,600
Net capital base	**2,406,920**	**2,127,462**
Risk-weighted assets(1)	**15,902,801**	**14,564,617**
Core tier 1 capital adequacy ratio	**12.77%**	**12.87%**
Tier 1 capital adequacy ratio	**13.27%**	**13.42%**
Capital adequacy ratio	**15.14%**	**14.61%**

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 2017	At 31 December 2016
I. Valid caps of surplus provision for loan impairment in tier 2 capital		
Parts covered by internal ratings-based approach		
Provision for loan impairment	322,539	267,008
Expected loss	255,878	253,510
Surplus provision for loan impairment	66,661	13,498
Valid cap of surplus provision for loan impairment in tier 2 capital irrespective of adjustment during the parallel period	58,735	55,828
Valid portion of surplus provisions for loan impairment in tier 2 capital higher than 150% of allowance to non-performing loans ("NPL") giving consideration to adjustment during the parallel period	3,064	–
Valid cap of surplus provisions for loan impairment in tier 2 capital giving consideration to adjustment during the parallel period	61,799	55,828
Valid portion of surplus provision for loan impairment in tier 2 capital during the parallel period	61,799	13,498
Parts uncovered by internal ratings-based approach		
Provision for loan impairment	17,943	22,504
Minimum requirement on provision for loan impairment	8,006	16,807
Surplus provision for loan impairment	9,937	5,697
Valid caps of surplus provision for loan impairment in tier 2 capital	56,662	47,926
Valid portion of surplus provision for loan impairment in tier 2 capital	9,937	5,697
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	35,059	37,049
Relevant cap	203,011	187,498
Deductible portion	–	–
Significant minority investments in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	28,353	26,859
Relevant cap	203,011	187,498
Deductible portion	–	–
Deferred tax assets arising from temporary differences	48,158	28,072
Relevant cap	203,011	187,498
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	76,511	54,931
Relevant cap	304,516	281,246
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 2017 Annual Report. For material capital investment activities of the Bank during the reporting period, please refer to "Significant Events" in the 2017 Annual Report.

Risk-Weighted Assets

In RMB millions

Item	At 31 December 2017	At 31 December 2016
Credit risk-weighted assets	14,332,051	13,144,466
Parts covered by internal ratings-based approach	9,789,156	9,304,653
Parts uncovered by internal ratings-based approach	4,542,895	3,839,813
Market risk-weighted assets	347,665	229,250
Parts covered by internal model approach	268,963	150,951
Parts uncovered by internal model approach	78,702	78,299
Operational risk-weighted assets	1,223,085	1,190,901
Total	**15,902,801**	**14,564,617**

Internal Capital Adequacy Assessment

The Bank's internal capital adequacy assessment comprises the risk identification, substantive risk assessment, capital adequacy forecast and comprehensive risk stress testing. The risk identification is to make a judgment on all the major risks the Bank is exposed to. 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 testing 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 constantly deepen the reform on economic capital management to increase capital use efficiency and return on capital. In 2017, the Bank met the objectives set in the medium and long-term capital planning and the annual management plan for capital adequacy ratios.

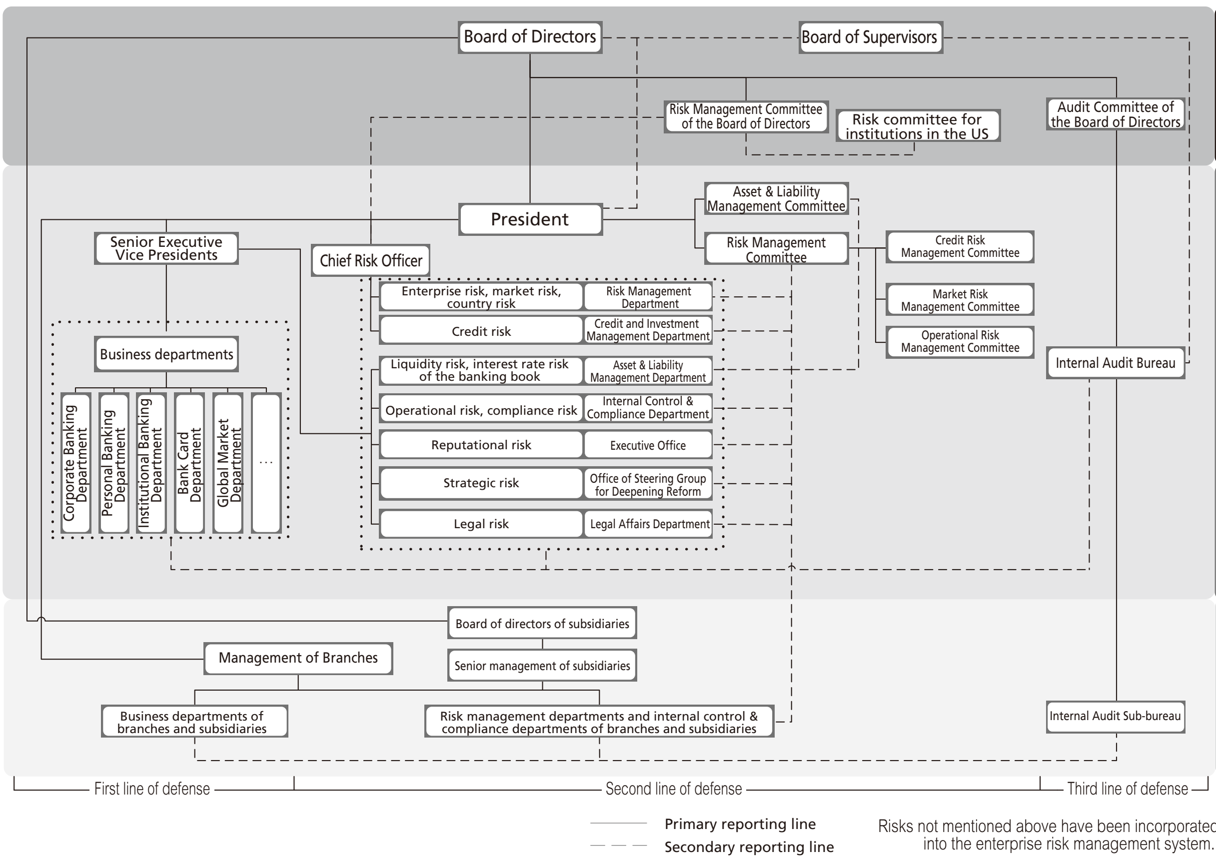
The Capital Regulation specifies that Chinese commercial banks shall ensure that their capital adequacy ratio will comply with new regulatory requirements by the end of 2018 and encourages qualified commercial banks to achieve the compliance ahead of the schedule. In accordance with relevant regulatory 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. According to its capital planning and capital replenishment plan, the Bank issued two tranches of tier 2 capital bonds worth RMB44.0 billion each in China's national interbank bond market in November 2017, with the total size of issuance standing at RMB88.0 billion. All funds raised are used to replenish the tier 2 capital of the Bank as per applicable laws and the approval of the regulator. 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 to effectively identify, assess, measure, monitor, control or mitigate and report risks in order to ensure the realization of the Group's operating and strategic objectives by setting up effective and balanced risk governance structure, fostering robust and prudent risk culture, formulating unified risk management strategies and risk appetite, and implementing the risk limit and risk management policies. The principles of enterprise risk management of the Bank include full coverage, matching, independence, perspectiveness and effectiveness, etc.

The Bank's organizational structure of risk management comprises the Board of Directors and its special committees, the Board of Supervisors, the Senior Management and its special committees, the risk management departments, the internal audit departments, etc. The risk management organizational structure is illustrated below:



In 2017, the Bank continued to push for development of the enterprise risk management system, upgraded risk management technologies and methods and enhanced the capacity of risk pre-judgment and dynamic adjustment capabilities, so as to make enterprise risk management more forward-looking and effective. The Bank improved the enterprise risk management system, strengthened development of the three lines of defense for risk management, intensified the management of risk appetite and risk limits and researched and monitored cross-financial risks in accordance with the latest regulatory requirements. The Group's consolidated risk management was properly carried out to boost the risk management capability of non-banking subsidiaries and advance unified management of tier-two subsidiaries. The credit risk measurement system was improved continuously for higher accuracy and stability, with internal ratings applied more broadly. The Group's market risk management was boosted to a higher level, with focus on strengthening market risk management of overseas institutions, fully implementing product control requirements, deepening risk management of the wealth management business and intensifying investment management of wealth management and market risk limit management. Country risk management was continuously deepened to strengthen country risk monitoring and analysis and limit management, enhance the capability of sovereign risk management and provide strong supports for implementing the Bank's internationalization strategy.

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 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 and investment management departments at different levels undertake the responsibility of coordinating credit risk management at respective levels, and the business departments implement credit risk management policies and standards for their respective business areas in accordance with their functions.

The Bank’s credit risk management has the following characteristics: (1) Unified risk appetite. Unified credit risk appetite is implemented for the Bank’s credit risk exposures. (2) Entire-process management. The credit risk management covers the entire process including customer investigation, credit rating, loan evaluation, loan review and approval, loan payment and post-lending monitoring; (3) System management. It continues to enhance the building of credit information system, and improve the tools to manage and control credit risk; (4) Strict management over credits. Strict qualifications management is enforced on the business institutions and the credit practitioners; and (5) The special institution is set up to conduct unified risk monitoring over credit risk businesses.

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 borrower 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 system. Global unified credit line management was continuously improved to strictly control the total risk in customer financing. The rules and measures for credit products were revised according to market changes and new risk characteristics. The Bank further strengthened the risk control over merger and acquisition investment and financing, loans to projects in operating period and fixed asset-backed financing. Guarantee and collateral management was strengthened by further refining the collateral management system, optimizing the operating procedures for collaterallization and pledge, and enhancing the ability to mitigate essential collateral risks.

Closely aligned with the implementation of major national strategic plans, the system of credit policies was continuously improved in line with macro-economic policies, industry policy orientations and characteristics of industry operation. Guided by the philosophy of green credit, the Bank strengthened the guiding role of credit policy in credit layout and credit restructuring. The Bank actively supported credit extension to key fields, key cities and high-quality customers and effectively controlled financing risk in major areas of cutting overcapacities. Overseas institutions were guided to seize opportunities in implementing the Belt and Road Initiative and the “Going Global” strategy, thereby fully exerting their strengths and characteristics, optimizing the allocation of credit resources and promoting the transformation and upgrading of overseas credit business.

The Bank strengthened risk management of the real estate industry. It implemented real estate loan reallocation management, optimized city-specific management requirements of real estate loans, actively supported the financing demands in key regions, large high-quality customers, shantytown renovation with government-purchased services, prudently controlled the financing for new housing developments in third-tier and fourth-tier cities with a relatively long de-stocking period, strictly controlled the financing for commercial property development, and further improved the real estate loan portfolio structurally.

The Bank strengthened credit risk management of small enterprises. It advanced specialization and strengthened operating management of the small and micro finance center. The Bank established and improved the system of small and micro credit products, supported and promoted regional product innovation and boosted dynamic management of the implementation and risk profile of innovative products. Risk loan management was enhanced by analyzing geographic distribution, customer group characteristics and risk characteristics of risky loans to small businesses, developing risk control measures specific to geographic areas, conducting onsite examination of key branches, supervising risk prevention and control and improving the bank-wide awareness and capability of risk management. Credit risk of loans to small and micro customers was periodically monitored and analyzed to detect and verify risk factors and take targeted management measures timely.

Credit Risk Management of Personal Loans

The Bank improved the system of rules and regulations on credit risk management system for personal loans, streamlined the basic framework for post-lending management of personal loans, developed administrative measures for post-lending management of personal credit business and further regulated lifecycle management of personal loans. The personal credit business was inspected bank-wide, focused on risks in partner management, loan due diligence and collateral management. The Bank further broadened and deepened the cooperation with large high-quality real estate enterprises while effectively preventing and controlling risks to achieve coordinated development of personal housing loans in terms of quality, quantity and price. The Bank enhanced management and control of the quality of personal loans by accelerating recovery and disposal of personal NPLs at key branches, and promoting securitization of personal NPLs, thus mitigating credit risk in personal loans through market-based measures.

Credit Risk Management of Credit Card Business

The Bank optimized the personal credit extension policy, created a customer grouping-based credit extension system, optimized the allocation of credit limit resources, granted credit limit in a differentiated and targeted manner based on multi-dimensional customer information and effectively improved the precision of credit management. The big data technology was used to strengthen early monitoring and warning of high-risk customer groups, take targeted risk control measures and strictly control the credit risk exposure. The application of internal ratings was strengthened and the rigid control criteria for internal ratings was improved based on quantitative risk indicators, so as to control essential risks more meticulously and automatically. Effective ongoing efforts were made on non-performing assets ("NPAs") recovery and disposal, including stronger recovery of overdue credit card loans and mitigation of NPAs through various channels.

Credit Risk Management of Treasury Operations

The Bank continued to strictly implement bank-wide, unified credit risk management policy requirements, strengthened pre-investment analysis of bonds and collected information through various channels to analyze changes in credit risk of bond issuers. A regular risk screening mechanism was created for the existing unsecured bond portfolios to strengthen risk management of outstanding bond investments. The access management mechanism for money market transaction was strictly implemented to strengthen sophisticated management of counterparties and strictly control risks from the root.

Credit Risk Exposure

In RMB millions

Item	At 31 December 2017		At 31 December 2016	
	Parts covered by internal ratings-based approach	Parts uncovered by internal ratings-based approach	Parts covered by internal ratings-based approach	Parts uncovered by internal ratings-based approach
Corporate	9,056,035	1,584,005	8,217,600	1,562,436
Sovereign	–	4,881,015	–	4,349,299
Financial institution	–	2,954,157	–	2,907,938
Retail	4,800,855	396,636	4,113,878	312,205
Equity	–	50,614	–	34,426
Asset securitization	–	18,669	–	10,202
Others	–	5,826,641	–	5,753,237
Total risk exposure	**13,856,890**	**15,711,737**	**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 system. 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. Relevant customer 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 satisfying 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 approach, obligor PD is determined by referring to past 10 years or more defaults by 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 2017				
PD level	Exposure at default	Weighted average PD	Weighted average LGD	Risk-weighted assets	Average risk weight
Level 1	1,082,413	0.10%	44.83%	323,409	29.88%
Level 2	1,131,860	0.22%	43.47%	545,264	48.17%
Level 3	1,584,233	0.66%	43.15%	1,169,187	73.80%
Level 4	2,400,421	1.64%	42.77%	2,300,607	95.84%
Level 5	1,416,786	2.59%	42.04%	1,468,810	103.67%
Level 6	594,603	3.72%	42.19%	686,814	115.51%
Level 7	235,013	5.28%	41.61%	292,979	124.66%
Level 8	74,325	7.20%	41.80%	106,656	143.50%
Level 9	97,639	9.60%	42.07%	163,955	167.92%
Level 10	69,107	18.00%	41.96%	131,773	190.68%
Level 11	146,487	56.00%	42.87%	274,188	187.18%
Level 12	223,148	100.00%	43.76%	454,736	203.78%
Total	**9,056,035**	**—**	**—**	**7,918,378**	**87.44%**

	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%**

Retail Business

The Bank adopts IRB approach to measure retail credit risks satisfying 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 using historical data collected over long periods of time, 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 score model system including application score, behavior score and collection score models and realizing the coverage of entire life cycle of retail business.

According to relevant IRB approach requirements, the Bank has put in place asset pool classification procedures and technologies suited for the actual retail business, 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 APPROACH

In RMB millions, except for percentages

	At 31 December 2017				
Type of risk exposure	**Exposure at default**	**Weighted average PD**	**Weighted average LGD**	**Risk-weighted assets**	**Average risk weight**
Residential mortgages	3,884,415	1.49%	26.46%	848,821	21.85%
Qualifying revolving retail exposure	491,901	4.03%	50.78%	126,576	25.73%
Other retail exposures	424,539	9.68%	44.35%	245,677	57.87%
Total	**4,800,855**	**—**	**—**	**1,221,074**	**25.43%**

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

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 (IRB) approach.

RISK EXPOSURE UNCOVERED BY IRB APPROACH BY WEIGHT

In RMB millions

Risk weight	At 31 December 2017 Risk exposure	At 31 December 2017 Unmitigated risk exposure
0%	5,996,987	5,996,987
2%	25,768	25,768
20%	3,583,364	2,873,845
25%	1,809,348	1,110,675
50%	90,620	86,846
75%	428,500	417,747
100%	3,673,749	2,848,347
150%	1,300	1
250%	83,332	83,263
400%	5,844	5,844
1250%	12,925	12,925
Total	**15,711,737**	**13,462,248**

Note: The weights adopted in the weighted approach-based measurement of credit risk by the Bank were in strict compliance with the 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 2017	At 31 December 2016
Ordinary shares issued by other commercial banks	29,982	26,391
Long-term subordinated bonds issued by other commercial banks	5,859	8,047
Equity investment in commercial entities	9,098	4,141
Total	**44,939**	**38,579**

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 of 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 IRB APPROACH

In RMB millions

Type of risk exposure	At 31 December 2017 Eligible financial pledge	At 31 December 2017 Other eligible collateral	At 31 December 2017 Guarantee	At 31 December 2017 Total	At 31 December 2016 Eligible financial pledge	At 31 December 2016 Other eligible collateral	At 31 December 2016 Guarantee	At 31 December 2016 Total
Non-retail business								
Corporate loans	168,426	1,065,678	619,965	1,854,069	93,183	1,112,777	499,096	1,705,056
Subtotal	**168,426**	**1,065,678**	**619,965**	**1,854,069**	**93,183**	**1,112,777**	**499,096**	**1,705,056**
Retail business								
Residential mortgages	–	3,884,415	–	3,884,415	–	3,198,278	–	3,198,278
Other retail exposures	26,325	341,707	6,401	374,433	29,211	413,110	8,839	451,160
Subtotal	**26,325**	**4,226,122**	**6,401**	**4,258,848**	**29,211**	**3,611,388**	**8,839**	**3,649,438**
Total	**194,751**	**5,291,800**	**626,366**	**6,112,917**	**122,394**	**4,724,165**	**507,935**	**5,354,494**

COVERAGE OF ELIGIBLE RISK MITIGATION INSTRUMENTS UNCOVERED BY IRB APPROACH

In RMB millions

Type of risk exposure	At 31 December 2017 Netting settlement	At 31 December 2017 Mortgage & pledge and guarantee	At 31 December 2017 Others	At 31 December 2017 Total	At 31 December 2016 Netting settlement	At 31 December 2016 Mortgage & pledge and guarantee	At 31 December 2016 Others	At 31 December 2016 Total
On-balance sheet credit risk	–	943,397	–	943,397	–	814,023	–	814,023
Off-balance sheet credit risk	–	71,280	–	71,280	–	67,416	–	67,416
Counterparty credit risk	12,285	–	1,222,527	1,234,812	20,011	–	1,408,918	1,428,929
Total	**12,285**	**1,014,677**	**1,222,527**	**2,249,489**	**20,011**	**881,439**	**1,408,918**	**2,310,368**

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 2017 Amount	At 31 December 2017 Percentage (%)	At 31 December 2016 Amount	At 31 December 2016 Percentage (%)
Pass	13,450,486	94.50	12,261,034	93.91
Special mention	561,974	3.95	584,011	4.47
NPLs	220,988	1.55	211,801	1.62
Substandard	81,209	0.57	109,434	0.84
Doubtful	108,854	0.76	82,505	0.63
Loss	30,925	0.22	19,862	0.15
Total	**14,233,448**	**100.00**	**13,056,846**	**100.00**

OVERDUE LOANS

In RMB millions, except for percentages

	At 31 December 2017		At 31 December 2016	
Overdue periods	Amount	% of total loans	Amount	% of total loans
Less than 3 months	107,218	0.75	151,115	1.16
3 months to 1 year	68,209	0.48	75,550	0.58
1 to 3 years	80,919	0.57	101,916	0.78
Over 3 years	29,729	0.21	17,546	0.13
Total	**286,075**	**2.01**	**346,127**	**2.65**

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	**65,557**	**223,955**	**289,512**
Charge for the year	108,983	15,113	124,096
Including: Impairment allowances charged	158,352	135,679	294,031
Impairment allowances transferred	1,399	(1,399)	–
Reversal of impairment allowances	(50,768)	(119,167)	(169,935)
Accrued interest on impaired loans	(3,189)	–	(3,189)
Recoveries of loans and advances previously written off	1,426	838	2,264
Write-offs and others	(57,031)	(15,170)	(72,201)
Balance at the end of the year	**115,746**	**224,736**	**340,482**

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 2017 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, approves and regularly reviews 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 in accordance with the requirements of both sides' regulatory authorities, where collateral exchange rules are set out to reduce credit risk. The two sides value the exposure of existing transactions in line with the compliance requirements of regulatory authorities on a regular basis, and the valuation results after confirmation by both sides set the basis for delivery price of collateral. The downgrading of counterparty's credit rating will not necessarily affect the collateral swap, and it shall be subject to the provisions of the agreement. In case that there is no relevant provision in the agreement, such downgrading will not affect both sides' collateral swap; and if there is relevant provision in the agreement, the quantity of collateral will be adjusted as per the agreement.

COUNTERPARTY RISK EXPOSURE OF OTC DERIVATIVES TRADING

In RMB millions

Item	At 31 December 2017	At 31 December 2016
Risk exposure of non-netting settlement		
Interest rate contracts	3,567	7,547
Currency contracts	32,061	63,672
Equity contracts	3,155	101
Commodity contracts	15,124	12,011
Credit derivatives	112	30
Total risk exposure of non-netting settlement	54,019	83,361
Including: Gross positive fair value of derivative contracts	21,887	45,986
Risk exposure of netting settlement	57,494	43,353
Total of credit risk exposure measured under the current exposure approach	**111,513**	**126,714**
Risk mitigation impact of collaterals and risk hedging credit derivatives	**–**	**–**
Net credit risk exposure of derivatives	**111,513**	**126,714**

NOMINAL PRINCIPAL OF CREDIT DERIVATIVES

In RMB millions

Item	At 31 December 2017		At 31 December 2016	
	Credit derivatives bought	Credit derivatives sold	Credit derivatives bought	Credit derivatives sold
Nominal principal of credit derivatives as credit portfolios of the Bank	**1,970**	**2,459**	**575**	**2,674**
Credit default swap	180	400	141	1,584
Total return swap	1,790	2,059	434	1,090
Nominal principal of credit derivatives where the Bank acts as intermediary	**8,222**	**8,222**	**11,554**	**11,554**
Credit default swap	8,222	8,222	11,554	11,554

Asset Securitization

Credit 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, lead underwriter and institutional investor.

◆ *As originator and lending services provider*

The Bank appropriately increased the issue of asset-backed securities, broadened the non-performing assets disposal channels, and further optimized the credit structure in light of the actual business development. As at the end of 2017, some underlying assets of the asset securitization projects originated by the Bank were still retained, and the project operation remained steady. As the originator, the Bank held part of asset-backed securities which the Bank issued in line with the regulatory authority's risk self-retention requirement, and took corresponding credit risk for the part the risk of which was self-retained. At the end of 2017, assets continued to be recognized by the Group amounted to RMB5,466 million.

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

In RMB millions

				Underlying assets				
Asset securitization product	Originating year	Originator	External credit rating institution	Type of underlying assets	Exposure at origination	Exposure at the end of 2017	Non-performing at the end of 2017	Overdue at the end of 2017
2015 Gongyuan Phase I credit asset-backed securities	2015	The Bank	CCXI, China Ratings	Corporate loans	11,353	497	–	–
2015 Gongyuan Phase II credit asset-backed securities	2015	The Bank	LH Ratings, China Ratings	Corporate loans	6,966	930	–	–
2015 Gongyinhaitian Phase I leasing asset-backed securities	2015	ICBC Leasing	CCXI, China Ratings	Usufruct of rent receivable from financial leasing	1,032	12	–	–
2016 Gongyuan Phase I non-performing asset-backed securities	2016	The Bank	CCXI, China Ratings	Corporate loans	1,077	569	569	569
2016 Gongyuan Phase III non-performing asset-backed securities	2016	The Bank	CCXI, China Ratings	Personal loans	4,080	2,667	2,667	2,667
2016 Gongyuan Phase IV personal residential mortgage asset-backed securities	2016	The Bank	CCXI, China Ratings	Personal loans	10,255	7,110	–	–
2017 Gongyuan Phase I non-performing asset-backed securities	2017	The Bank	LH Ratings, China Ratings	Personal loans	406	120	120	120
2017 Gongyuan Phase II non-performing asset-backed securities	2017	The Bank	CCXI, China Ratings	Personal loans	3,600	3,600	3,600	3,600
2017 Gongyuan Phase III personal residential mortgage asset-backed securities	2017	The Bank	CCXI, China Ratings	Personal loans	13,922	13,922	–	–
2017 Gongyuan Phase IV personal residential mortgage asset-backed securities	2017	The Bank	CCXI, China Ratings	Personal loans	12,726	12,726	–	–
2017 Gongyuan Phase V personal residential mortgage asset-backed securities	2017	The Bank	LH Ratings, China Ratings	Personal loans	13,052	13,052	–	–
2017 Gongyuan Phase VI non-performing asset-backed securities	2017	The Bank	LH Ratings, China Ratings	Personal loans	510	510	510	510
2017 Gongyuan Phase VII non-performing asset-backed securities	2017	The Bank	CCXI, China Ratings	Personal loans	2,350	2,350	2,350	2,350
Total					**81,329**	**58,065**	**9,816**	**9,816**

Note: At the end of 2017, the Bank did not originate any asset securitization products with underlying assets with revolving and early amortization features.

◆ *As lead underwriter*

The Bank performs obligations that are set forth in relevant requirements and agreements, works diligently, and carries out the sales and distribution of asset-backed securities in strict compliance with laws and regulations, as well as codes of conducts and professional ethics.

◆ *As institutional investor*

The Bank invests in the asset-backed securities which the Bank issues and retains, and the asset-backed securities which the other institutions issued, most of which are senior AAA-rated. The Bank undertakes 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 2017 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 2017, risk-weighted assets for asset securitization stood at RMB29,437 million and capital requirement RMB2,355 million.

ASSET SECURITIZATION RISK EXPOSURE

In RMB millions

Type of risk exposure	At 31 December 2017	At 31 December 2016
As originator		
Asset-backed securities	3,689	2,125
As investor		
Asset-backed securities	14,980	8,077
Total	**18,669**	**10,202**

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, the middle and the back offices 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 2017, 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. The Group's market risk management system was further improved, with the administrative measures for market risk stress testing, among others, revised to deepen classified management and sophisticated management of institutions. Market risk limit management of the Group was strengthened through improved measures for determining limits for new products and services as well as limit monitoring and analysis. The Bank pushed forward the overseas expansion of the Global Market Risk Management (GMRM) system and strengthened the core application of the system among overseas institutions.

Market Risk Measurement

CAPITAL REQUIREMENT FOR MARKET RISK

In RMB millions

Risk type	At 31 December 2017	At 31 December 2016
Parts covered by internal model approach	**21,517**	**12,076**
Parts uncovered by internal model approach	**6,296**	**6,264**
Interest rate risk	3,012	3,271
Commodity risk	3,201	2,934
Stock risk	39	5
Option risk	44	54
Total	**27,813**	**18,340**

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.

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	2017			
	Period end	Average	Maximum	Minimum
VaR	**3,384**	**2,097**	**3,648**	**1,135**
Interest rate risk	79	257	535	64
Currency risk	3,313	2,068	3,568	1,158
Commodity risk	31	82	153	14
Stressed VaR	**3,384**	**2,480**	**3,648**	**1,863**
Interest rate risk	229	254	460	73
Currency risk	3,313	2,477	3,568	1,840
Commodity risk	45	96	172	22

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

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 number of back-testing exceptions 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 2017, 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 improve 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 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 lines and all branches on a regular basis.

- 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 2017, the Bank strengthened operational risk management and continued to push the Group's operational risk management to a higher level in line with the requirements of the National Financial Work Conference, regulatory focus areas and operational risk trends. A comprehensive crackdown campaign was launched to improve risk governance in ten key fields and links and improve or update policies, procedures, systems and mechanisms. IT risk control and external fraud risk management were strengthened and the credit risk database of ICBC e-Security was continuously expanded to provide strong support for business risk warnings, effectively protect the safety of customers' funds and enhance the ability to prevent and control external risks. Risk control was reinforced in asset management, notes, interbank and credit businesses to enhance risk warning and alert. Operational risk limit management was strengthened to ensure adequate monitoring and reporting of limit indicators. The Bank also optimized the operational risk measurement system, intensified large-value operational risk event control, improved the system of key operational risk indicators and continuously strengthened the application of operational risk management tools and management of data quality. 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 arises out of or in connection with the failure of the Bank to comply with relevant laws, regulations, administrative rules, regulatory provisions or 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 undertake the responsibility of legal risk management of their respective institutions.

In 2017, 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, proactive 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 collection 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, and improved the efficiency of providing enforcement assistance. The Bank further standardized contract 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 ("AML"), the Bank sincerely implemented the "risk-based" regulatory requirements in respect of AML, steadily fulfilled the legal obligations and social responsibilities concerning AML, and kept enhancing the Group's management level regarding AML and counter-terrorist financing ("CTF").

Adhering to the AML management model of "centralized, specialized and systematic management", the Bank pushed forward the development of AML mechanisms, policies, systems and teams and strengthened money laundering risk management in key businesses, core fields and critical links to boost the Group's AML management capability. The Bank set up an Anti-money Laundering Center at the Head Office level, optimized the anti-money laundering management organization structure and further stepped up the Group headquarters' supports and risk management of AML work of domestic and overseas institutions. Money laundering risk assessment of products and customers was strengthened, with stronger efforts made to prevent and control money laundering risks in major business fields. Targeted AML publicity and training events were carried out to accelerate the enhancement in the competence of AML teams. Domestic institutions continued to deepen the centralized AML processing reform to fortify the foundation for AML work, strengthened suspicious activity reporting, analysis and judgment and quality spot-check and cooperated with regulators and competent authorities in AML investigation. Overseas institutions completed the centralized compliance review mechanism reform for suspicious and sensitive businesses to boost the quality of centralized money laundering identification and handling. AML supervision, inspection and assessment of overseas institutions were strengthened to enhance the Group's ability to manage AML compliance risk.

Operational Risk Measurement

The Bank adopts the standardized approach to measure capital requirement for operational risk. As at the end of 2017, the capital requirement for operational risk was RMB97,847 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, or perform other payment obligations and satisfy other funding demands arising from the normal course of business. 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 2017, the Bank constantly improved its liquidity risk management system following changes in the macroeconomic environment and financial regulatory policies, and upgraded liquidity risk management mechanism, thus effectively enhancing the liquidity risk management quality. The Bank continued to implement the steady and prudent liquidity management strategy, carried out Group-wide consolidated liquidity risk management and strengthened liquidity risk monitoring and management of items on- and off-balance sheet, in both domestic and overseas institutions, and in local and foreign currencies. The liquidity risk management system underwent continuous improvements in the capability of liquidity risk prevention and control.

Liquidity Risk Management System and Governance Structure

The Bank's liquidity risk management system conforms to the overall development strategy and the overall 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 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 the corresponding functions of 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 affiliates, 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.

The Bank's liquidity risk management strategy and policy are formulated in accordance with the liquidity risk appetite, and they cover all businesses on- and off-balance sheet, all domestic and overseas business departments and branches that are likely to have a material impact on the liquidity risk, and contain the liquidity risk management under normal and stressed scenarios. The liquidity risk management strategy specifies the overall objective and 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 Testing

Following the prudence principle, the Bank employs the scenario analysis and the sensitivity analysis to perform stress testing 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 testing on a quarterly basis. Where necessary, the Bank may carry out temporary and special stress testing at a particular time in light of changes in the external operating environment and regulatory requirements.

Liquidity Risk Analysis

In 2017, the Bank kept a close eye on factors affecting liquidity risk management, took proper measures to manage funds and liquidity risk and endeavored to increase the flexibility and perspectiveness of liquidity risk management. According to the Bank's asset and liability business development and funds management characteristics in different periods, the Bank managed the total size and structure of fund sources and utilizations through bank-wide planning and coordination, continued to strengthen liability stability management, improved the maturity structure of liabilities and took various steps to ensure liquidity stability and safety across the Group.

The deposit and loan businesses of the Bank maintained coordinating development, and liquidity risk management ability was continuously strengthened. As at the end of 2017, RMB liquidity ratio and foreign currency liquidity ratio of the Bank were 41.7% and 86.2%, respectively, meeting the regulatory requirements. Loan-to-deposit ratio was 71.1%.

The daily average liquidity coverage ratio for the fourth quarter of 2017 was 129.02%, 4.56 percentage points higher than the previous quarter, mainly due to the increase in high-quality liquid assets (HQLA). 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 2017, the liquidity exposure for the less than 1 month category turned from positive to negative, which was mainly due to the increase of due to and placements from banks and other financial institutions with corresponding term. The negative liquidity exposure for the 3 months to 1 year category increased, mainly due to the increase of repurchase agreements and the decrease in loans and advances to customers as well as the investments in bonds with corresponding term. The positive liquidity exposure for the category of over 5 years expanded, which was mainly due to increase in loans and advances to customers with corresponding term. Deposits maintained steady growth with a high deposition rate, and at the same time the Bank made major investment in highly liquid bond 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 months	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	Total
At 31 December 2017	(10,793,525)	(200,327)	(595,509)	(829,587)	3,452,159	7,619,544	3,488,301	2,141,056
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

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 maturity 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.

The Bank measures interest rate risk in the banking book on a monthly basis and reports the same on a quarterly basis in accordance with relevant requirements of CBRC. While measuring the impact of interest rate change on net interest income and equity value, the Bank sets interest rate re-pricing date of demand deposits without a maturity date as overnight. As personal residential mortgage loans may be prepaid, the Bank analyzes historical prepayment data and assesses the impact of prepayment on interest rate risk measurement.

In 2017, 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

	Increase by 100 basis points		Decrease by 100 basis points	
Currency	**Impact on net interest income**	**Impact on equity**	**Impact on net interest income**	**Impact on equity**
RMB	(2,945)	(35,901)	2,945	38,284
USD	(1,911)	(5,574)	1,911	5,578
HKD	495	–	(495)	–
Others	90	(825)	(90)	826
Total	**(4,271)**	**(42,300)**	**4,271**	**44,688**

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 2017			At 31 December 2016		
	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	33,199	1,822	207	26,437	1,132	122
Corporate	3,193	11,076	194	1,365	3,997	422
Total	**36,392**	**12,898**	**401**	**27,802**	**5,129**	**544**

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 2017 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 reputational risk management objective and planning, through the establishment and improvement of the reputational risk management system and through daily reputational risk management and proper handling of reputational events. Good reputation is central to the operation and management of a commercial bank. The Bank highly values its reputation and has incorporated reputational risk management in the corporate governance and enterprise risk management system to prevent reputational risk.

The Board of Directors is responsible for reviewing and finalizing bank-wide policies concerning reputational risk management that are in line with the strategic objective of the Bank, establishing a bank-wide system of reputational risk management, monitoring the overall status and effectiveness of reputational risk management across the Bank and assuming the ultimate responsibility for reputational risk management. The Senior Management is responsible for leading reputational risk management of the Bank, implementing the strategies and policies established by the Board of Directors, reviewing and finalizing the rules, measures and operating procedures for reputational risk management and the plans to handle extraordinarily major reputational events and ensuring the proper and effective operation of the reputational risk management system. The Bank has established a special reputational risk management team to take charge of the daily management of reputational risk.

In 2017, 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 circumstances and the Bank's management practices, the Bank amended the measures for reputational risk management, further improved the reputational risk management working mechanism, and optimized the reputational risk management system application. 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, investigated all potential reputational risk and established reputational risk management registers at all levels. It organized stress testing and emergency response drills on reputational risk and reinforced the preventative control and mitigation of reputational risk. It responded actively to public concerns 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 with a series of tools, including country risk assessment and rating, country risk limit, country risk exposure calculation and monitoring and stress testing. The Bank reviews the country risk rating and limits at least once every year.

In 2017, the Bank strictly abode by regulatory requirements and, with consideration of its business development needs, continued to strengthen country risk management. The Bank 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 early warning mechanism for country risk, proactively conducted stress testing on country risk and reasonably 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 and compensation plans for Directors, organizing the assessment on the performance of duties of Directors, putting forth proposal on remuneration distribution for Directors, 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 the results, the Compensation Committee consisted of seven directors, including: Executive Director Mr. Gu Shu; Independent Non-executive Directors Mr. Shen Si, Mr. Or Ching Fai, Mr. Anthony Francis Neoh and Mr. Yang Siu Shun; and Non-executive Directors Ms. Mei Yingchun and Mr. Dong Shi. Independent Non-executive Director Mr. Shen Si 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 of the employee and the employee. Currently, in accordance with relevant laws and regulations promulgated by the state 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 gradually established deferred payment mechanism based on business needs and 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 2017 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 2017	At 31 December 2016	Reference[1]
Core tier 1 capital:				
1	Paid-in capital	356,407	356,407	X18
2	Retained earnings	1,594,378	1,396,607	
2a	Surplus reserve	232,660	205,021	X21
2b	General reserve	264,850	251,349	X22
2c	Retained profits	1,096,868	940,237	X23
3	Accumulated other comprehensive income (and other public reserves)	90,889	130,358	
3a	Capital reserve	151,952	151,998	X19
3b	Others	(61,063)	(21,640)	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	2,716	3,164	X25
6	**Core tier 1 capital before regulatory adjustments**	**2,044,390**	**1,886,536**	
Core tier 1 capital: Regulatory adjustments				
7	Prudential valuation adjustments	–	–	
8	Goodwill (net of deferred tax liabilities)	8,478	9,001	X16
9	Other intangible assets other than land use rights (net of deferred tax liabilities)	1,532	1,477	X14–X15
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liabilities)	–	–	
11	Cash flow hedge reserves that relate to the hedging of items that are not fair valued on the balance sheet	(3,708)	(4,618)	X20
12	Shortfall of provision for loan impairment	–	–	
13	Gain on sale related to asset securitization	–	–	
14	Unrealised 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	Direct or indirect investments 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	–	–	

Note: (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 2017	At 31 December 2016	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	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liabilities)	–	–	
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 (net of related tax liabilities)	–	–	
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	Investments in core tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	7,980	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**	**14,282**	**11,560**	
29	**Core tier 1 capital**	**2,030,108**	**1,874,976**	
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	577	419	X26
35	Including: Invalid portion to additional tier 1 capital after the transition period	–	–	
36	**Additional tier 1 capital before regulatory adjustments**	**79,952**	**79,794**	
Additional tier 1 capital: Regulatory adjustments				
37	Direct or indirect investments in own additional tier 1 instruments	–	–	
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 2017	At 31 December 2016	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**	**79,952**	**79,794**	
45	**Tier 1 capital (core tier 1 capital + additional tier 1 capital)**	**2,110,060**	**1,954,770**	
Tier 2 capital:				
46	Tier 2 capital instruments and related premium	222,321	154,861	X17
47	Invalid instruments to tier 2 capital after the transition period	101,425	121,710	
48	Valid portion of minority interests	3,303	4,236	X27
49	Including: Invalid portion to tier 2 capital after the transition period	1,051	–	
50	Valid portion of surplus provision for loan impairment	71,736	19,195	X02+X04
51	**Tier 2 capital before regulatory adjustments**	**297,360**	**178,292**	
Tier 2 capital: Regulatory adjustments				
52	Direct or indirect investments in own tier 2 instruments	–	–	
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	500	5,600	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**	**500**	**5,600**	
58	**Tier 2 capital**	**296,860**	**172,692**	
59	**Total capital (tier 1 capital + tier 2 capital)**	**2,406,920**	**2,127,462**	
60	**Total risk-weighted assets**	**15,902,801**	**14,564,617**	
Requirements for capital adequacy ratio and reserve capital				
61	Core tier 1 capital adequacy ratio	12.77%	12.87%	
62	Tier 1 capital adequacy ratio	13.27%	13.42%	
63	Capital adequacy ratio	15.14%	14.61%	

CAPITAL COMPOSITION (CONTINUED)

In RMB millions, except for percentages

S/N	Item	At 31 December 2017	At 31 December 2016	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	7.77%	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	35,059	37,049	X05+X06+X08+X09+X12+X29
73	Undeducted portion of significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	28,353	26,859	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)	48,158	28,072	
Valid caps of surplus provision for loan impairment in tier 2 capital				
76	Provision for loan impairment under the weighted approach	17,943	22,504	X01
77	Valid cap of surplus provision for loan impairment in tier 2 capital under the weighted approach	9,937	5,697	X02
78	Surplus provision for loan impairment under the internal ratings-based approach	322,539	267,008	X03
79	Valid cap of surplus provision for loan impairment in tier 2 capital under the internal ratings-based approach	61,799	13,498	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	101,425	121,710	
85	Excluded from tier 2 capital for the current period due to cap	46,822	26,547	

BALANCE SHEET AT THE GROUP'S LEVEL

In RMB millions

Item	At 31 December 2017		At 31 December 2016	
	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	3,613,872	3,613,872	3,350,788	3,350,788
Due from banks and other financial institutions	370,074	363,278	270,058	262,582
Precious metals	238,714	238,714	220,091	220,091
Placements with banks and other financial institutions	477,537	477,537	527,415	527,415
Financial assets at fair value through profit or loss	440,938	440,912	474,475	474,450
Derivative financial assets	89,013	89,013	94,452	94,452
Reverse repurchase agreements	986,631	981,553	755,627	755,557
Loans and advances to customers	13,892,966	13,892,372	12,767,334	12,766,888
Available-for-sale financial assets	1,496,453	1,465,021	1,742,287	1,708,102
Held-to-maturity investments	3,542,184	3,536,757	2,973,042	2,972,444
Receivables	277,129	227,216	291,370	245,221
Long term equity investments	32,441	40,421	30,077	35,777
Fixed assets	216,156	216,088	220,651	220,609
Construction in progress	29,531	29,531	22,968	22,968
Deferred income tax assets	48,392	48,392	28,398	28,398
Other assets	335,012	318,891	368,232	353,794
Total assets	**26,087,043**	**25,979,568**	**24,137,265**	**24,039,536**
Liabilities				
Due to central banks	456	456	545	545
Due to banks and other financial institutions	1,214,601	1,214,601	1,516,692	1,516,692
Placements from banks and other financial institutions	491,948	491,948	500,107	500,107
Financial liabilities at fair value through profit or loss	425,948	425,946	366,752	366,740
Derivative financial liabilities	78,556	78,556	89,960	89,960
Repurchase agreements	1,046,338	1,044,481	589,306	579,651
Certificates of deposit	260,274	260,274	218,427	218,427
Due to customers	19,226,349	19,228,358	17,825,302	17,828,084
Employee benefits payable	33,142	32,820	32,864	32,536
Taxes payable	82,550	82,502	63,557	63,500
Debt securities issued	526,940	526,940	357,937	357,937
Deferred income tax liabilities	433	233	604	327
Other liabilities	558,452	456,349	594,049	508,235
Total liabilities	**23,945,987**	**23,843,464**	**22,156,102**	**22,062,741**

BALANCE SHEET AT THE GROUP'S LEVEL (CONTINUED)

In RMB millions

Item	At 31 December 2017 Consolidated balance sheet as in published financial statements	At 31 December 2017 Balance sheet under regulatory scope of consolidation	At 31 December 2016 Consolidated balance sheet as in published financial statements	At 31 December 2016 Balance sheet under regulatory scope of consolidation
Equity				
Share capital	356,407	356,407	356,407	356,407
Other equity instruments	86,051	86,051	86,051	86,051
Capital reserve	151,952	151,952	151,998	151,998
Other comprehensive income	(62,058)	(61,063)	(21,738)	(21,640)
Surplus reserve	232,703	232,660	205,021	205,021
General reserve	264,892	264,850	251,349	251,349
Retained profits	1,097,544	1,096,868	940,663	940,237
Equity attributable to equity holders of the parent company	2,127,491	2,127,725	1,969,751	1,969,423
Minority interests	13,565	8,379	11,412	7,372
Total equity	**2,141,056**	**2,136,104**	**1,981,163**	**1,976,795**

Note: Prepared in accordance with PRC GAAP.

EXPLANATIONS FOR DETAILED ITEMS

In RMB millions

Item	At 31 December 2017 Balance sheet under regulatory scope of consolidation	Reference
Financial assets at fair value through profit or loss	**440,912**	
Including: Undeducted portion of non-significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	5,155	X29
Loans and advances to customers	**13,892,372**	
Total loans and advances to customers	14,232,854	
Less: Provision for loan impairment under the weighted approach	17,943	X01
Including: Valid cap of surplus provision for loan impairment in tier 2 capital under the weighted approach	9,937	X02
Less: Provision for loan impairment under the internal ratings-based approach	322,539	X03
Including: Valid cap of surplus provision for loan impairment in tier 2 capital under the internal ratings-based approach	61,799	X04
Available-for-sale financial assets	**1,465,021**	
Bond investment measured at fair value	1,450,248	
Including: Non-significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	5,858	X05
Other debt instrument investment measured at fair value	1,540	
Equity investment	13,233	
Including: Undeducted portion of non-significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	979	X06
Including: Undeducted portion of significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	210	X07
Held-to-maturity investments	**3,536,757**	
Including: Non-significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	–	X08
Receivables	**227,216**	
Including: Non-significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	22,793	X09
Including: Significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	500	X10
Long term equity investments	**40,421**	
Including: Investment in core tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	7,980	X11
Including: Undeducted portion of non-significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	274	X12
Including: Undeducted portion of significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	28,143	X13

EXPLANATIONS FOR DETAILED ITEMS (CONTINUED)

In RMB millions

Item	At 31 December 2017 Balance sheet under regulatory scope of consolidation	Reference
Other assets	**318,891**	
Interest receivable	125,611	
Intangible assets	19,722	X14
Including: land use rights	18,190	X15
Other receivables	146,389	
Goodwill	8,478	X16
Long term deferred expenses	3,656	
Repossessed assets	8,637	
Others	6,398	
Debt securities issued	**526,940**	
Including: Valid portion of tier 2 capital instruments and their premium	222,321	X17
Share capital	**356,407**	X18
Other equity instruments	**86,051**	
Including: Preference shares	79,375	X28
Capital reserve	**151,952**	X19
Other comprehensive income	**(61,063)**	X24
Reserve for changes in fair value of available-for-sale financial assets	(30,757)	
Reserve for cash flow hedging	(3,761)	
Including: Cash flow hedge reserves that relate to the hedging of items that are not fair valued on the balance sheet	(3,708)	X20
Changes in share of other owners' equity of associates and joint ventures	(1,284)	
Foreign currency translation reserve	(25,902)	
Others	641	
Surplus reserve	**232,660**	X21
General reserve	**264,850**	X22
Retained profits	**1,096,868**	X23
Minority interests	**8,379**	
Including: Valid portion to core tier 1 capital	2,716	X25
Including: Valid portion to additional tier 1 capital	577	X26
Including: Valid portion to tier 2 capital	3,303	X27

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2017

S/N	Main features of regulatory capital instrument	Ordinary Shares (A share)	Ordinary Shares (H share)	Preference Shares (Offshore)	Preference Shares (Offshore)	Preference Shares (Offshore)	Preference Shares (Domestic)
1	Issuer	The Bank	The Bank	The Bank	The Bank	The Bank	The Bank
2	Unique identifier	601398	1398	4603	4604	84602	360011
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	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 the People's Republic of China, Securities Law of the People's Republic of China, Guidance of the State Council on Launch of Preference Shares Pilot, Trial Administrative Measures on Preference Shares, Guidance on the Issuance of Preference Shares of Commercial Banks to Replenish Tier 1 Capital /China
	Regulatory treatment						
4	Including: Transition arrangement of Regulation Governing Capital of Commercial Banks (Provisional)	Core tier 1 capital	Core tier 1 capital	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)	Core tier 1 capital	Core tier 1 capital	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	Parent company/ Group	Parent company/ Group
7	Instrument type	Core tier 1 capital instrument	Core tier 1 capital instrument	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 reportingdate)	RMB339,126	RMB169,202	RMB equivalent 17,928	RMB equivalent 4,542	RMB11,958	RMB44,947
9	Par value of instrument (in millions)	RMB269,612	RMB86,795	USD2,940	EUR600	RMB12,000	RMB45,000

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2017 (CONTINUED)

S/N	Main features of regulatory capital instrument	Ordinary Shares (A share)	Ordinary Shares (H share)	Preference Shares (Offshore)	Preference Shares (Offshore)	Preference Shares (Offshore)	Preference Shares (Domestic)
10	Accounting treatment	Share capital, Capital reserve	Share capital, Capital reserve	Other equity	Other equity	Other equity	Other equity
11	Original date of issuance	19 October 2006	19 October 2006	10 December 2014	10 December 2014	10 December 2014	18 November 2015
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual
13	Including: Original maturity date	No maturity date	No maturity date	No maturity date	No maturity date	No maturity date	No maturity date
14	Issuer call (subject to prior supervisory approval)	No	No	Yes	Yes	Yes	Yes
15	Including: Optional call date, contingent call dates and redemption amount	N/A	N/A	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	N/A	N/A	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	Floating	Floating	Fixed to floating	Fixed to floating	Fixed to floating	Fixed to floating
18	Including: Coupon rate and any related index	N/A	N/A	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	N/A	N/A	Yes	Yes	Yes	Yes
20	Including: Fully discretionary, partially discretionary or mandatory cancellation ofcoupons/dividends	Fully discretionary	Fully discretionary	Partially discretionary	Partially discretionary	Partially discretionary	Partially discretionary
21	Including: Redemption incentive mechanism	No	No	No	No	No	No
22	Including: Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2017 (CONTINUED)

S/N	Main features of regulatory capital instrument	Ordinary Shares (A share)	Ordinary Shares (H share)	Preference Shares (Offshore)	Preference Shares (Offshore)	Preference Shares (Offshore)	Preference Shares (Domestic)
23	Convertible or non-convertible	No	No	Yes	Yes	Yes	Yes
24	Including: If convertible, conversion trigger(s)	N/A	N/A	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	N/A	N/A	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
26	Including: If convertible, conversion rate	N/A	N/A	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	N/A	N/A	Mandatory	Mandatory	Mandatory	Mandatory
28	Including: If convertible, specify instrument type convertible into	N/A	N/A	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	N/A	N/A	The Bank	The Bank	The Bank	The Bank
30	Write-down feature	No	No	No	No	No	No
31	Including: If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A	N/A	N/A
32	Including: If write-down, full or partial	N/A	N/A	N/A	N/A	N/A	N/A

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2017 (CONTINUED)

S/N	Main features of regulatory capital instrument	Ordinary Shares (A share)	Ordinary Shares (H share)	Preference Shares (Offshore)	Preference Shares (Offshore)	Preference Shares (Offshore)	Preference Shares (Domestic)
33	Including: If write-down, permanent or temporary	N/A	N/A	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	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to depositor, general creditor, creditor of the subordinated debts and preference shareholders	Subordinated to depositor, general creditor, creditor of the subordinated debts and preference shareholders	Subordinated to all liabilities of the Bank and instruments issued or guaranteed by the Bank ranking senior to the Offshore Preference Shares, pari passu with the holders of Parity Obligations	Subordinated to all liabilities of the Bank and instruments issued or guaranteed by the Bank ranking senior to the Offshore Preference Shares, pari passu with the holders of Parity Obligations	Subordinated to all liabilities of the Bank and instruments issued or guaranteed by the Bank ranking senior to the Offshore Preference Shares, pari passu with the holders of Parity Obligations	Subordinated to all liabilities of the Bank and instruments issued or guaranteed by the Bank ranking senior to the Domestic Preference Shares, pari passu with the holders of Parity Obligations
36	Non-compliant transitioned features	No	No	No	No	No	No
	Including: If yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A	N/A

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2017 (CONTINUED)

S/N	Main features of regulatory capital instrument	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds
1	Issuer	ICBC (Asia)	The Bank	The Bank	The Bank	The Bank
2	Unique identifier	ISIN:XS0976879279 BBGID:BBG005CMF4N6	1428009	Rule 144A ISIN: US455881AD47 Regulation S ISIN: USY39656AC06	1728021	1728022
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	Governed by the Commercial Banking Law of the People's Republic of China, the Regulation Governing Capital of Commercial Banks (Provisional) and the Measures for Administration of Financial Bond Issuance in China's Inter-bank Bond Market, as well as other applicable laws, regulations and normative documents	Governed by the Commercial Banking Law of the People's Republic of China, the Regulation Governing Capital of Commercial Banks (Provisional) and the Measures for Administration of Financial Bond Issuance in China's Inter-bank Bond Market, as well as other applicable laws, regulations and normative documents
	Regulatory treatment					
4	Including: Transition arrangement of Regulation Governing Capital of Commercial Banks (Provisional)	Tier 2 capital	Tier 2 capital	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	Tier 2 capital	Tier 2 capital
6	Including: Eligible to the parent company/group level	Group	Parent company/Group	Parent company/Group	Parent company/Group	Parent company/Group
7	Instrument type	Tier 2 capital instrument	Tier 2 capital instrument	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 1,384	RMB19,995	RMB equivalent 12,901	RMB44,000	RMB44,000
9	Par value of instrument (in millions)	USD500	RMB20,000	USD2,000	RMB44,000	RMB44,000
10	Accounting treatment	Debt securities issued	Debt securities issued	Debt securities issued	Debt securities issued	Debt securities issued
11	Original date of issuance	10 October 2013	4 August 2014	21 September 2015	6 November 2017	20 November 2017
12	Perpetual or dated	Dated	Dated	Dated	Dated	Dated
13	Including: Original maturity date	10 October 2023	5 August 2024	21 September 2025	8 November 2027	22 November 2027

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2017 (CONTINUED)

S/N	Main features of regulatory capital instrument	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds
14	Issuer call (subject to prior supervisory approval)	Yes	Yes	No	Yes	Yes
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	8 November 2022, in full amount	22 November 2022, in full amount
16	Including: Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A
	Coupons/dividends					
17	Including: Fixed or floating dividend/coupon	Fixed	Fixed	Fixed	Fixed	Fixed
18	Including: Coupon rate and any related index	4.50%	5.80%	4.875%	4.45%	4.45%
19	Including: Existence of a dividend stopper	No	No	No	No	No
20	Including: Fully discretionary, partially discretionary or mandatory cancellation of coupons/ dividends	Mandatory	Fully discretionary	Mandatory	Mandatory	Mandatory
21	Including: Redemption incentive mechanism	No	No	No	No	No
22	Including: Non-cumulative or cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	No	No	No	No	No
24	Including: If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A	N/A
25	Including: If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A
26	Including: If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A
27	Including: If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A
28	Including: If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2017 (CONTINUED)

S/N	Main features of regulatory capital instrument	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds
29	Including: If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A
30	Write-down feature	Yes	Yes	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 non-viable; 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	Whichever occurs earlier: (i) CBRC having decided that a write-down is necessary, without which the Issuer would become non-viable; 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	Whichever occurs earlier: (i) CBRC having decided that a write-down is necessary, without which the Issuer would become non-viable; 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	Full write-down	Full write-down
33	Including: If write-down, permanent or temporary	Permanent write-down	Permanent write-down	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	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to depositor and general creditor, pari passu with other subordinated debts	Subordinated to depositor and general creditor, pari passu with other subordinated debts	Subordinated to depositor and general creditor, pari passu with other subordinated debts	Subordinated to depositor and general creditor, but senior to equity capital, other tier 1 capital instruments and hybrid capital bonds; pari passu with other subordinated debts that have been issued by the Issuer and are pari passu with the present bonds; and pari passu with other tier 2 capital instruments that will possibly be issued in the future and are pari passu with the present bonds	Subordinated to depositor and general creditor, but senior to equity capital, other tier 1 capital instruments and hybrid capital bonds; pari passu with other subordinated debts that have been issued by the Issuer and are pari passu with the present bonds; and pari passu with other tier 2 capital instruments that will possibly be issued in the future and are pari passu with the present bonds
36	Non-compliant transitioned features	No	No	No	No	No
	Including: If yes, specify non-compliant features	N/A	N/A	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 Cheng Xin International Credit Rating Co., Ltd.
China Ratings	China Bond Rating Co., Ltd.
Global Systemically Important Banks	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 (Canada)	Industrial and Commercial Bank of China (Canada)
ICBC (Europe)	Industrial and Commercial Bank of China (Europe) S.A.
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 Investment	ICBC Financial Asset Investment Co., 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	The 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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