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*Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).*

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INDUSTRIAL BANK CO.,LTD.

INDUSTRIAL BANK CO., LTD.

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

(Shanghai Stock Exchange Stock Code: 601166)

INDUSTRIAL BANK CO., LTD. HONG KONG BRANCH

Issue of
U.S.$600,000,000 Floating Rate Notes due 2021
€300,000,000 Floating Rate Notes due 2021
by Industrial Bank Co., Ltd. Hong Kong Branch
under the U.S.$5,000,000,000 Medium Term Note Programme

Issue Price for the USD Notes: 100 per cent.

Issue Price for the EUR Notes: 100 per cent.

The U.S.$600,000,000 Floating Rate Notes due 2021 (the "**USD Notes**"), €300,000,000 Floating Rate Notes due 2021 (the "**EUR Notes**", together with the USD Notes, the "**Notes**"), will be issued by Industrial Bank Co., Ltd. Hong Kong Branch (the "**Issuer**"). The principal terms of the USD Notes and the EUR Notes are set out in Annex I and Annex II, respectively.

This Supplement (the "**Supplement**") to the offering circular dated 2 February 2018 (the "**Principal Offering Circular**", together with this Supplement, the "**Offering Circular**") is prepared in connection with the issue of the Notes under the U.S.$5,000,000,000 Medium Term Note Programme (the "**Programme**") established by Industrial Bank Co., Ltd. (the "**Bank**"). Terms defined in the Principal Offering Circular have the same meaning when used in this Supplement. This Supplement is supplemental to, forms part of and should be read in conjunction with, the Principal Offering Circular, including the information incorporated by reference in the Principal Offering Circular as described therein. To the extent that there is any inconsistency between any statement in this Supplement and any other statement in the Principal Offering Circular, the statements in this Supplement shall prevail.

On 10 October 2018, the Bank obtained the Pre-Issuance Registration Certificate (《企業借用外債備案登記證明》) (發改辦外資備 [2018] 718號) issued by the National Development and Reform Commission ("**NDRC**") , which specified a quota of foreign debt granted to the Issuer, and such certificate remains in full force and effect.

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

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

Application has been made to the Luxembourg Stock Exchange for the EUR Notes to be admitted to trading on the Euro MTF market and listed on the Official List of the Luxembourg Stock Exchange. The Offering Circular constitutes a prospectus for purposes of Part IV of the Luxembourg Law of 10 July 2015 on prospectus for securities, as amended. The Offering Circular can only be used for the purposes for which it has been published.

Moody's Investors Service, Inc. ("**Moody's**") is expected to assign a rating of "Baa2" to the Notes.

The Notes will be issued in registered form and each Series of the Notes will be represented by a global certificate (each, a "**Global Note Certificate**") in registered form. Each such Global Note Certificate will be registered in the name of a nominee of, and deposited with a common depositary for, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**").

Investing in the Notes involves certain risks and may not be suitable for all investors. Investors should have sufficient knowledge and experience in financial and business matters to evaluate the information contained in the Offering Circular and the merits and risks of investing in the Notes in the context of their financial position and particular circumstances. Investors also should have the financial capacity to bear the risks associated with an investment in the Notes. Investors should not purchase the Notes unless they understand and are able to bear risks associated with the Notes. The principal risk factors that may affect the ability of the Issuer to fulfil its obligations in respect of the Notes are discussed under "*Risk Factors*" in this Supplement and the Principal Offering Circular.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or the securities laws of any other jurisdiction. Subject to certain exceptions, the Notes may not be offered or sold within the United States and are only being offered and sold outside the United States in offshore transactions in reliance on Regulation S. See "*Subscription and Sale*" in the Offering Circular.

Joint Global Coordinators

Industrial Bank Co., Ltd. Hong Kong Branch	**HSBC**	**Crédit Agricole CIB**	**Citigroup**
Bank of Communications	**Deutsche Bank**	**Shanghai Pudong Development Bank Hong Kong Branch**	**China Construction Bank**

Joint Bookrunners and Joint Lead Managers

Agricultural Bank of China Limited Hong Kong Branch	**BNP PARIBAS**	**China Everbright Bank Hong Kong Branch**	**China Industrial Securities International**	**China Minsheng Banking Corp., Ltd., Hong Kong Branch**
Chiyu Banking Corporation Limited	**CMB Wing Lung Bank Limited**	**ICBC**	**ICBC International**	**SinoPac Securities (Asia)**

The date of this Supplement is 13 November 2018.

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NOTICE TO INVESTORS

The Issuer and the Bank having made all reasonable enquiries confirm that to the best of their knowledge and belief (i) the Offering Circular contains all information with respect to the Issuer and the Bank and its subsidiaries taken as a whole (the "**Group**") and the Notes which is material in the context of the issue and offering of the Notes; (ii) the statements contained herein relating to the Issuer, the Bank, the Group and the Notes are in every material respect true and accurate and not misleading and there are no other facts in relation to the Issuer, the Bank, the Group or the Notes, the omission of which would, in the context of the issue and offering of the Notes, make any statement in the Offering Circular misleading in any material respect; (iii) the statements of intention, opinion and belief or expectation contained in the Offering Circular with regard to the Bank and the Group are honestly and reasonably made or held, have been reached after considering all relevant circumstances; and (iv) all reasonable enquiries have been made by the Bank to ascertain such facts and to verify the accuracy of all such information and statements.

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

Certain facts and statistics in the Offering Circular relating to the PRC (as defined in the Principal Offering Circular), its economy and its banking industry have been extracted from third party sources. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Each Series of Notes will be issued on the terms set out in the Principal Offering Circular under "*Terms and Conditions of the Notes*" as amended and/or supplemented by the relevant Pricing Supplement set out in Annex I or II (as applicable) to this Supplement.

The distribution of the Offering Circular and each Pricing Supplement and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession the Offering Circular comes are required by the Issuer and Industrial Bank Co., Ltd. Hong Kong Branch, The Hongkong and Shanghai Banking Corporation Limited, Crédit Agricole Corporate and Investment Bank, Citigroup Global Markets Limited, Bank of Communications Co., Ltd. Hong Kong Branch, Deutsche Bank AG, Hong Kong Branch, Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch, CCB International Capital Limited, China Construction Bank Corporation Singapore Branch and China Construction Bank (Asia) Corporation Limited as the joint global coordinators (the "**Joint Global Coordinators**") and Agricultural Bank of China Limited Hong Kong Branch, BNP Paribas, China Everbright Bank Co., Ltd., Hong Kong Branch, China Industrial Securities International Brokerage Limited, China Minsheng Banking Corp., Ltd., Hong Kong Branch, Chiyu Banking Corporation Limited, CMB Wing Lung Bank Limited, ICBC International Securities Limited, Industrial and Commercial Bank of China (Asia) Limited, Industrial and Commercial Bank of China (Europe) S.A. and SinoPac Securities (Asia) Limited as the joint lead managers (the "**Joint Lead Managers**", together with the Joint Global Coordinators, the "**Managers**") to inform themselves about and to observe any such restrictions. None of the Issuer, the Bank or the Managers represents that the Offering Circular or any Pricing Supplement may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Bank or the Managers which would permit a public offering of any Notes or distribution of the Offering Circular or any Pricing Supplement in any jurisdiction where action for such purposes is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and none of the Offering Circular, any Pricing Supplement or any advertisement or other offering material may be distributed or published, in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

There are restrictions on the offer and sale of the Notes and the circulation of documents relating thereto, in certain jurisdictions including, but not limited to, the United States of America, the European Economic Area (the "**EEA**"), the United Kingdom, Hong Kong, Singapore, the PRC and Japan and to persons connected therewith.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and a Manager or any affiliate of it is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by it or such affiliate on behalf of the Issuer in such jurisdiction.

The Notes may be offered or sold outside the United States solely in offshore transactions in reliance on Regulation S. For a description of certain restrictions on offers, sales and transfers of Notes and on the distribution of the Offering Circular, see "*Subscription and Sale*" and the Pricing Supplements set out in Annex I and Annex II hereto.

The Offering Circular must be read in conjunction with all documents which are deemed to be incorporated by reference (see "*Documents Incorporated by Reference*" in the Principal Offering Circular). The Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of the Offering Circular. Hyperlinks included in the Offering Circular, or included in any documents incorporated by reference into the Offering Circular, and the websites and their content are not incorporated into, and do not form part of, the Offering Circular.

Listing of the USD Notes on the Hong Kong Stock Exchange or the EUR Notes on the Luxembourg Stock Exchange is not to be taken as an indication of the merits of the Issuer, the Bank, the Group or the Notes. In making an investment decision, investors must rely on their own examination of the Issuer, the Bank, the Group and the terms of the Notes, including the merits and risks involved. See "*Risk Factors*" in this Supplement and the Principal Offering Circular for a discussion of certain factors to be considered in connection with an investment in the Notes.

The Offering Circular does not describe all of the risks and investment considerations (including those relating to each investor's particular circumstances) of an investment in Notes. Each potential purchaser of the Notes should refer to and consider carefully the relevant Pricing Supplement, which may describe additional risks and investment considerations associated with such Notes. The risks and investment considerations identified in the Offering Circular are provided as general information only. Investors should consult their own financial and legal advisers as to the risks and investment considerations arising from an investment in the Notes and should possess the appropriate resources to analyse such investment and the suitability of such investment in their particular circumstances.

No person has been authorised by the Issuer, the Bank or the Managers to give any information or to make any representation not contained in or not consistent with the Offering Circular or any other document entered into in relation to the Programme and the sale of Notes and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, the Bank or any Manager.

MiFID II product governance / Professional investors and ECPs only target market – For the purposes of Directive 2014/65/EU (as amended, "**MiFID II**"), the target market in respect of the Notes is expected to be eligible counterparties and professional clients only, each as defined in MiFID II. Any person offering, selling or recommending the Notes (a "**distributor**") should take into consideration such target market; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes and determining appropriate distribution channels.

PRIIPS Regulation – Prohibition of Sales to EEA Retail Investors

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

*Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time including by any subsidiary legislation as may be applicable at the relevant time (together, the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).*

Neither the delivery of the Offering Circular or any Pricing Supplement nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in the Offering Circular is true subsequent to the date hereof or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading position of the Issuer and the Bank since the date hereof or that any other information supplied in connection with the Programme or the Notes is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Neither the Offering Circular nor any Pricing Supplement constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Bank, the Managers, the Agents or any director, officer, employee, adviser, representative, agent or affiliate of any such person or any of them that any recipient of the Offering Circular or any Pricing Supplement should subscribe for or purchase any Notes. Each recipient of the Offering Circular or any Pricing Supplement shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer, the Bank and the Group. Each potential purchaser of Notes should determine for itself the relevance of the information contained in the Offering Circular and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Managers or the Agents (each as defined below) or any director, officer, employee, adviser, representative, agent or affiliate of any such person undertakes to review the financial condition or affairs of the Issuer, the Bank or the Group during the life of the Notes nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Managers, the Agents or any of them.

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

None of the Managers or any Agents has separately verified the information contained in the Offering Circular. To the fullest extent permitted by law, none of the Managers or any Agent or any of their respective directors, officers, employees, advisers, representatives, agents or affiliates of any such person makes any representation, warranty or undertaking, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in the Offering Circular. To the fullest extent permitted by law, none of Managers or any Agent or any of their respective directors, officers, employees, advisers, representatives, agents or affiliates of any such person accepts any responsibility for the contents of the Offering Circular or for any other statement made or purported to be made by the Managers, any Agent, or any of their respective directors, officers, employees, advisers, representatives, agents or affiliates of any such person or on its behalf in connection with the Issuer, the Bank, the Notes or the issue and offering of the Notes. The Managers and each Agent accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of the Offering Circular or any such statement. References herein to the "Agents" are to the Registrar, the Paying Agent, the Transfer Agent and the Fiscal Agent and any reference to an "Agent" is to any one of them.

PRESENTATION OF FINANCIAL INFORMATION

The financial information of the Bank as at and for the years ended 31 December 2015, 2016 and 2017 in the Offering Circular has been derived from the audited consolidated financial statements of the Bank as at and for the years ended 31 December 2016 and 2017 (the "**Audited Financial Statements**"). The Audited Financial Statements have been prepared and presented in accordance with the Accounting Standards for Business Enterprises in China ("**PRC GAAP**") and have been audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP ("**Deloitte**") in accordance with Auditing Standards for Certified Public Accountants in China.

The financial information of the Bank as at and for the six months ended 30 June 2017 and 2018 in the Offering Circular has been derived from the unaudited consolidated interim financial statements of the Bank as at and for the six months ended 30 June 2018 (the "**Reviewed Interim Financial Statements**"). The Reviewed Interim Financial Statements have been prepared and presented in accordance with PRC GAAP and reviewed by Deloitte. The Reviewed Interim Financial Statements have not been audited and should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit. Investors must exercise caution when using such data to evaluate the Bank's financial condition, results of operations. The Bank's unaudited but reviewed consolidated interim financial information as at and for the six months ended 30 June 2018 should not be taken as an indication of the expected financial condition or results of operations of the Bank for the full financial year ending 31 December 2018.

OVERVIEW OF THE OFFERING OF THE NOTES

*The following is an overview of certain information relating to the offering of the Notes, including the principal provisions of the terms and conditions thereof. This overview is indicative only, does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in the Offering Circular. See, in particular, "Terms and Conditions of the Notes" in the Principal Offering Circular and the Pricing Supplements in respect of the Notes included in Annex I and Annex II to this Supplement. Terms used in this section and not otherwise defined shall have the meanings given to them in the Terms and Conditions of the Notes ("**Conditions**").*

Issuer	Industrial Bank Co., Ltd. Hong Kong Branch (legal entity identifier number is 3003007Y03W5HH1MXR96)
Issue	U.S.$600,000,000 Floating Rate Notes due 2021 (the "**USD Notes**")
	€300,000,000 Floating Rate Notes due 2021 (the "**EUR Notes**")
Issue Price	100 per cent. of the aggregate nominal amount of the USD Notes
	100 per cent. of the aggregate nominal amount of the EUR Notes
Interest and Interest Payment Dates	USD Notes: 3-month LIBOR plus a margin of 0.85 per cent. per annum, payable quarterly in arrear on 20 February, 20 May, 20 August and 20 November in each year, commencing on 20 February 2019 and ending on the Maturity Date (each such date being subject to adjustment in accordance with the Modified Following Business Day Convention)
	EUR Notes: 3-month EURIBOR plus a margin of 0.85 per cent. per annum, payable quarterly in arrear on 20 February, 20 May, 20 August and 20 November in each year, commencing on 20 February 2019 and ending on the Maturity Date (each such date being subject to adjustment in accordance with the Modified Following Business Day Convention)
Issue Date	20 November 2018
Maturity Dates	USD Notes: The Interest Payment Date falling on or nearest to 20 November 2021
	EUR Notes: The Interest Payment Date falling on or nearest to 20 November 2021
Use of Proceeds	The net proceeds of the issue of the Notes will be used by the Issuer for financing or refinancing Eligible Green Assets.
Status	Senior Notes. The Notes will be direct, general, unsecured, unconditional and unsubordinated obligations of the Issuer which will at all times rank *pari passu* without any preference among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application and subject to Condition 4(a).
Certain Covenants	The Issuer will agree to certain covenants as set forth in Condition 4.
Redemption for Taxation Reasons	See Condition 6(c).
Other Call/Put Options	None.
Taxation; Payment of Additional Amounts	See Condition 8.

Events of Default	The Notes will be subject to certain events of default, including (among others) non-payment, breach of other obligations, cross-acceleration and certain bankruptcy and insolvency events as set forth in Condition 10.
Form and Transfer	Each Series of Notes will be represented by beneficial interests in the Global Note Certificate in registered form which will be delivered to a common depositary for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg. Except in limited circumstances, Individual Note Certificates for Notes will not be issued in exchange for beneficial interests in any Global Note Certificate. Interests in the Global Note Certificates will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. See "*Summary of Provisions Relating to the Notes while represented by Global Notes Evidenced by Global Certificates*" in the Principal Offering Circular.
Denominations	The USD Notes will be issued in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. The EUR Notes will be issued in denominations of €100,000 and integral multiples of €1,000 in excess thereof.
Governing Law	The Notes and any non-contractual obligations arising out of, or in connection with, any of them will be, governed by and construed in accordance with English law.
Listing	Application will be made to SEHK for the listing of the USD Notes on the Hong Kong Stock Exchange by way of debt issues to Professional Investors only. Application has been made to the Luxembourg Stock Exchange for the EUR Notes to be admitted to trading on the Euro MTF market and listed on the Official List of the Luxembourg Stock Exchange.
Selling Restrictions	The Notes have not been nor will be registered under the Securities Act or any State securities laws and may not be offered or sold within the United States. The offer and sale of Notes is also subject to restrictions in the United States of America, the EEA, the United Kingdom, Hong Kong, Singapore, the PRC and Japan. See "*Subscription and Sale*" in the Principal Offering Circular and the Pricing Supplements set out in Annex I and II hereto.
Risk Factors	For a discussion of certain risk factors relating to the Bank, the Issuer and the Notes that prospective investors should carefully consider prior to making an investment in the Notes, see "*Risk Factors*" in this Supplement and the Principal Offering Circular.
Expected Ratings of the Notes	Baa2 by Moody's
Fiscal Agent	Citicorp International Limited
Paying Agent, Transfer Agent and Registrar	Citibank, N.A., London Branch

Securities Codes

	ISIN	Common Code
USD Notes	XS1898122301	189812230
EUR Notes	XS1898123374	189812337

SUMMARY OF THE BANK

The section "Summary of the Bank" in the Principal Offering Circular shall be deleted in its entirety and replaced with the following:

OVERVIEW

The Bank is an established nationwide joint stock commercial bank with strong competitiveness founded in August 1988 with its headquarters in Fujian Province, China. It is among the first batch of commercial banks the establishment of which was approved by the State Council and PBOC at the state level. Through its nationwide and diversified distribution channels, the Bank provides a wide range of wholesale and retail banking and other financial services to its corporate and retail customers. In 2018, the Bank was ranked 26th in terms of Tier 1 Capital and 28th in terms of total asset by the British magazine "*The Banker*". The Bank was listed on the Shanghai Stock Exchange under stock code "601166" in February 2007.

Over the past few decades, the Bank has developed into a universal banking platform with comprehensive financial licenses that allow it to provide traditional banking, trust, futures, financial leasing, fund management, financing research and consultation services to its customers. The Bank believes that its strong full-service capability to offer comprehensive services to customers nationwide have transformed the Bank from a regional bank into a national commercial bank with a significant asset scale in China. As at 31 December 2015, 2016, 2017 and 30 June 2018, the Bank had total assets of RMB5,298,880 million, RMB6,085,895 million, RMB6,416,842 million and RMB6,563,221 million, respectively, and its gross loans and advances to customers totalled RMB1,779,408 million, RMB2,079,814 million, RMB2,430,695 million and RMB2,674,609 million, respectively. According to the annual financial information as at and for the six months ended 30 June 2018 published by the National Joint Stock Commercial Banks that are publicly listed in the PRC or Hong Kong, the Bank was ranked first among all nine publicly listed National Joint Stock Commercial Banks in terms of total assets as at 30 June 2018.

The Bank serves its customers through its comprehensive and diversified distribution channels, comprising physical branches and outlets and electronics platforms. As at 30 June 2018, the Bank had 143 branches, including the Hong Kong Branch, and it had 2,075 outlets and 6,884 ATMs in the PRC. In addition to its domestic presence, the Bank had more than 1,500 correspondence banks across approximately 100 countries and regions, and has established an e-Banking network comprising internet and telephone banking by leveraging on its advanced information technologies, thus providing an all-time access to the Bank's services around the globe.

The Bank prioritises and values innovation and it is dedicated to developing innovative financial services and products to adapt to the evolving market environment and to meet the changing needs of its customers. The Bank has introduced a number of "first-of-its-kind" financial products that have received positive responses from its corporate and retail customers. In addition to traditional banking products and services, the Bank develops and provides green financing for its customers in the environmental industries of renewable energy, carbon emission reduction, water resource utilisation and protection and waste water treatment. The Bank has been awarded the "Prize of Best Green Finance for Social Responsibility" (年度最佳綠色金融獎) by *CBIRC* for seven consecutive years from 2011 to 2017. In 2017, the Bank was awarded as the "Best Innovative Green Finance Bank" (最佳綠色金融創新銀行) and the "Best Corporate Social Responsibility Bank" (最佳公司社會責任銀行) by *Asia Money*. Furthermore, the Bank places significant emphasis on corporate social responsibility and was awarded "Annual Best Financial Institution with Social Responsibility" (年度最具社會責任金融機構獎) by the China Banking Association for seven consecutive years from 2011 to 2017. It is the first PRC bank to adopt the Equator Principles, which is a risk management framework for determining, assessing and managing environmental and social risk in project finance adopted by 94 financial institutions in 37 countries.

The Bank is dedicated to establishing and improving its risk management structure, procedures, tools and technologies to monitor, assess and manage credit, market, liquidity and operational risks. The Bank has set up a three-level risk management structure, consisting of its business departments, functional departments, risk management department and internal audit office. In addition, the Bank has established independent credit assessment, approval and monitoring procedures to identify and limit its exposure to high credit risk areas to improve the quality of its loan portfolio. As at 30 June 2018, the Bank's impaired loan ratio was 1.59 per cent., which was lower than the industry average of 1.86 per cent. reported by CBIRC.

With its international expansion strategy, the Bank set up the Hong Kong Branch in January 2014, which has been positioned as the Bank's primary offshore investment and financing platform to offer comprehensive financial services to the Bank's overseas customers. The Hong Kong Branch currently provides financial services to overseas and Hong Kong local customers, including settlement of cross-border transactions, offshore merger and acquisition financing and syndicate loans. In addition, the Bank plans to establish an international financial holding company in Hong Kong to capitalise the internationalisation of the RMB and China's "One Belt, One Road" strategy.

The Bank's financial performance and strengths have steadily developed over the past decades. For the years ended 31 December 2015, 2016, 2017 and for the six months ended 30 June 2017 and 2018, the Bank's net profit for the period was RMB50,650 million, RMB54,327 million, RMB57,735 million, RMB31,839 million and RMB33,838 million, respectively. The Bank's total assets and net profit attributable to equity holders have more than doubled during the period from 2011 to 2017.

The tables below set forth certain key financial indicators of the Bank as at and for the periods ended at the indicated dates:

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	(RMB in million, except for percentage)				
Net Profit	50,650	54,327	57,735	31,839	33,838
Return on average total assets (per cent.) (1)	1.04	0.95	0.92	0.51	0.52
Return on average equity (per cent.) (2)	18.89	17.28	15.35	8.61	7.95
Non-interest income to operating income (per cent.) (3)	22.4	28.5	36.8	35.6	37.9
Cost to income ratio (per cent.) (4)	21.59	23.39	27.63	24.21	24.09

(1) Return on average total assets = net profit for the period/average total assets. Average total assets = (total assets at the beginning of the period + total assets at the end of the period)/2.
(2) Return on average equity = net profit attributable to ordinary shareholders of the Bank for the period / average equity attributable to ordinary shareholders of the Bank.
(3) Non-interest income to operating income = non-interest income/operating income.
(4) Cost to income ratio = (total operating expenses – business tax and levies – impairment loss)/operating income.

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	(RMB in million, except for percentage)			
Total assets	5,298,880	6,085,895	6,416,842	6,563,221
Total liabilities	4,981,503	5,731,485	5,994,090	6,122,174
Loans and advances to customers	1,724,822	2,007,366	2,348,831	2,585,301
Tier 1 Capital Adequacy Ratio (per cent.)	9.19	9.23	9.67	9.50
Core Tier 1 Capital Adequacy Ratio (per cent.)	8.43	8.55	9.07	8.94
Non-performing loan ratio	1.46	1.65	1.59	1.59
Provision coverage ratio	210.08	210.51	211.78	209.55

COMPETITIVE STRENGTHS

The Bank believes that the following represents its competitive strengths:

- An established national commercial bank with strong competitiveness and innovation capabilities;
- A universal banking platform providing comprehensive modern financial services and synergy to grow its business and improve its profitability;
- A leader in providing services to financial institutions;
- Strong cost control capability;
- Prudent and comprehensive risk management and solid asset quality;

- Significant business growth and solid capital base with strong support from its largest shareholder; and
- An experienced management team.

THE BANK'S STRATEGIES

The Bank aims to transform itself into a modern financial services institution with its comprehensive financial licenses. The Bank aims to strengthen its risk management and focus on business innovation to realise sustainable development to realise increased profitability and solid asset quality. The Bank intends to achieve these through the following strategies:

- Enhancing intra-bank synergy to satisfy customers' increasingly diversified needs for integrated financial services;
- Sticking to the Bank's Internationalisation Strategy;
- Continuing to improve business and operating model to achieve sustainable growth;
- Proactively addressing the customers' need by continuing its focus on product and business model innovation;
- Continuing to strengthen the risk management system in order to maintain solid asset quality; and
- Continuing to invest in information technology infrastructure and to utilise advanced technology to support the Bank's growing business.

RECENT DEVELOPMENTS

On 27 October 2018, the Bank published its unaudited and unreviewed quarterly financial information for the nine months ended 30 September 2018. For the nine months ended 30 September 2018, the Bank's operating income increased compared to the same period in 2017, which was largely attributable to an increase in its net interest income as a result of the increased net interest spread and the growth of interest-earning assets. For the nine months ended 30 September 2018, the Bank's operating profit and net profit increased compared to the same period in 2017, mainly due to an increase in operating income from intermediary businesses and an increase in investment income. As at 30 September 2018, the Bank's non-performing loan ratio demonstrated a slight increase compared to the nonperforming loan ratio as at 30 September 2017, which was mainly due to the deterioration of the Bank's clients' economic conditions resulting from a slowdown of the PRC economy. The Bank will continue to adhere to its stringent and prudent risk management policies to maintain its financial health and to achieve stable business and financial growth. The Bank will also continue to explore low-cost financial resources through diversified channels, including but not limited to the equity and debt capital markets, to strengthen its capital base.

The Bank's quarterly financial information for the nine months ended 30 September 2018 may differ from future audited or reviewed information and is not included in and does not form part of the Offering Circular and is not incorporated, directly or indirectly, in any form or manner, into the Offering Circular. Investors should therefore not rely on the Bank's quarterly financial information for the nine months ended 30 September 2018 in making their investment decision (see "*Risk Factors – Risks relating to the Bank's Business – Pursuant to applicable PRC regulatory rules, the Bank publishes periodic financial information in the PRC which may differ from future audited or reviewed financial information.*").

SUMMARY FINANCIAL INFORMATION OF THE BANK

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

The Bank's consolidated financial information as at and for the years ended 31 December 2015, 2016 and 2017 was derived from the Audited Financial Statements which have been prepared and presented in accordance with PRC GAAP and which have been audited by Deloitte in accordance with Auditing Standards for Certified Public Accountants in China. The Bank's summary consolidated audited financial information as at and for the years ended 31 December 2015, 2016 and 2017 should be read in conjunction with the Audited Financial Statements and the notes thereto included elsewhere in the Offering Circular. PRC GAAP differs in certain material respects from IFRS. See "Summary of Certain Significant Differences Between PRC GAAP and IFRS".

The Bank's consolidated financial information as at and for the six months ended 30 June 2017 and 2018 was derived from the Reviewed Interim Financial Statements which have been prepared and presented in accordance with PRC GAAP and reviewed by Deloitte. The Bank's summary consolidated unaudited but reviewed financial information as at and for the six months ended 30 June 2017 and 2018 should be read in conjunction with the Reviewed Interim Financial Statements and the notes thereto included elsewhere in the Offering Circular. The Bank's Reviewed Interim Financial Statements have not been audited by Deloitte and should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit. Investors must exercise caution when using such data to evaluate the Bank's financial condition and results of operations. The Bank's unaudited but reviewed consolidated interim financial information as at and for the six months ended 30 June 2018 should not be taken as an indication of the expected financial condition or results of operations of the Bank for the full financial year ending 31 December 2018.

Summary Consolidated Statements of Comprehensive Income

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	(RMB in million)				
	(audited)	*(audited)*	*(audited)*	*(reviewed)*	*(reviewed)*
Interest income	255,972	236,279	252,644	121,872	135,283
Interest expense	(136,138)	(123,960)	(164,193)	(77,869)	(89,684)
Net interest income	**119,834**	**112,319**	**88,451**	**44,003**	**45,599**
Fee and commission income	33,592	38,682	42,027	19,731	22,011
Fee and commission expense	(1,402)	(2,130)	(3,288)	(1,421)	(1,894)
Net fee and commission income	**32,190**	**36,552**	**38,739**	**18,310**	**20,117**
Investment (losses) income	3,482	11,836	4,514	3,190	7,307
Gains (losses) from changes in fair values	1,378	(3,756)	(622)	(979)	4,417
Foreign exchange gains (losses)	(2,850)	(105)	7,386	3,252	(4,578)
Gains on disposal of assets	—	27 (1)	69	29 (1)	6
Other gains	—	—	257	221 (1)	248
Other operating income	314	214	1,181	331	269
Operating income	**154,348**	**157,087** (1)	**139,975**	**68,357** (1)	**73,385**
Operating expenses	(91,538)	(93,678)	(75,162)	(31,366)	(35,284)
Operating profit	**62,810**	**63,409** (1)	**64,813**	**36,991** (1)	**38,101**
Non-operating income	561	631 (1)	373	113 (1)	140
Non-operating expenses	(127)	(115) (1)	(433)	(24) (1)	(100)
Profit before tax	**63,244**	**63,925**	**64,753**	**37,080**	**38,141**
Income tax expenses	(12,594)	(9,598)	7,018	(5,241)	(4,303)
Net profit	50,650	54,327	57,735	31,839	33,838
Attributable to:					
— Equity holders of the Bank	50,207	53,850	57,200	31,601	33,657
— Minority interests	443	477	535	238	181

(1) This line item for the year ended 31 December 2016 in the Bank's consolidated financial information as at and for the year ended 31 December 2017 has been restated. The restatement was made based on newly promulgated and amended accounting rules, including Accounting Standards for Business Enterprises No. 42 – "Non-current Assets Held for Sale, Disposal Groups and Discontinued Operation" (Cai Kuai [2017] No. 13) and "Notice on the Revision of the Format for Issuing General Enterprise Financial Statements" (Cai Kuai [2017] No. 30), which added new statement items including "gains on disposal of assets", "net profit from continuing operation" and "net profit from discontinued operation", and adjusted the calculation scope of non-operating income and non-operating expenses.

Summary Consolidated Statements of Financial Position

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	(RMB in million)			
	(audited)	*(audited)*	*(audited)*	*(reviewed)*
Assets:				
Cash and balances with central bank	417,911	457,654	466,403	462,202
Due from banks and other financial institutions	42,347	56,206	77,559	119,414
Precious metals	42,010	17,431	30,053	21,837
Placements with banks and other financial institutions	56,336	16,851	31,178	54,553
Financial assets at fair value through profit or loss	128,685	354,595	362,072	355,000
Derivative financial assets	13,933	16,137	28,396	38,963
Financial assets held under resale agreements	225,924	27,937	93,119	56,422
Interest receivable	21,743	23,899	30,406	34,453
Loans and advances to customers	1,724,822	2,007,366	2,348,831	2,585,301
Available-for-sale financial assets	426,634	584,850	504,221	557,058
Held-to-maturity investments	206,802	249,828	337,483	359,625
Debt securities classified as receivables	1,834,906	2,102,801	1,913,382	1,712,975
Finance lease receivables	74,146	89,839	103,495	116,632
Long-term equity investments	1,918	2,418	3,008	3,198
Fixed assets	11,368	15,581	14,874	14,883
Construction in progress	6,461	6,390	7,124	7,502
Intangible assets	519	556	551	541
Goodwill	532	532	532	532
Deferred tax assets	14,532	23,456	27,297	27,783
Other assets	47,351	31,568	36,858	34,347
Total assets	**5,298,880**	**6,085,895**	**6,416,842**	**6,563,221**
Liabilities:				
Due to Central Bank	67,700	198,000	245,000	253,500
Due to banks and other financial institutions	1,765,713	1,721,008	1,446,059	1,554,390
Placements from banks and other financial institutions	103,672	130,004	187,929	249,345
Financial liabilities at fair value through profit or loss	1	494	6,563	4,454
Derivative financial liabilities	10,563	16,479	29,514	33,787
Financial assets sold under repurchase agreements	48,016	167,477	229,794	166,631
Due to customers	2,483,923	2,694,751	3,086,893	3,103,429
Employee benefits payable	11,262	13,916	14,037	11,962
Tax payable	10,802	11,488	8,128	5,129
Interest payable	36,443	35,900	41,293	44,003
Debt securities issued	414,834	713,966	662,958	658,251
Other liabilities	28,574	28,002	35,922	37,293
Total liabilities	**4,981,503**	**5,731,485**	**5,994,090**	**6,122,174**
Shareholders' equity:				
Share capital	19,052	19,052	20,774	20,774
Other equity instruments	25,905	25,905	25,905	25,905
Including: preferred stock	25,905	25,905	25,905	25,905
Capital reserve	50,861	50,861	75,011	75,011
Other comprehensive income	5,685	1,085	(1,067)	(1,441)
Surplus reserve	9,824	9,824	10,684	10,684
General risk reserve	60,665	69,878	70,611	71,095
Retained earnings	141,656	173,524	214,977	233,165
Equity attributable to equity holders of the Bank	313,648	350,129	416,895	435,193
Minority interests	3,729	4,281	5,857	5,854
Total shareholders' equity	**317,377**	**354,410**	**422,752**	**441,047**
Total liabilities and shareholders' equity	**5,298,880**	**6,085,895**	**6,416,842**	**6,563,221**

Capital Ratio Data of the Bank

	As at 31 December			As at 30 June
	2015	2016	2017	2018
Capital Adequacy Indicators				
Calculated in accordance with the Capital Regulations: (1)				
Capital Adequacy Ratio (per cent.)	11.19	12.02	12.19	11.86
Tier 1 Capital Adequacy Ratio (per cent.)	9.19	9.23	9.67	9.50
Core Tier 1 Capital Adequacy Ratio (per cent.)	8.43	8.55	9.07	8.94

(1) Ratios as at 31 December 2015, 2016, 2017 and 30 June 2018 are calculated in accordance with the Capital Rules for Commercial Banks (Provisional) and other relevant regulations. See "*Banking Regulation and Supervision in the PRC*".

Other Financial Indicators (1)

	Regulatory standard	As at 31 December			As at 30 June
		2015	2016	2017	2018
Loan-to-deposit ratio (converted to RMB) (2)	≤75	67.80	72.50	74.80	82.08
Liquidity ratio (converted to RMB)	≥25	56.80	59.35	60.83	60.75
Percentage of loans to the largest single customer (3)	≤10	2.11	1.82	2.84	1.70
Percentage of loans to the top ten customers (4)	≤50	12.62	11.38	14.66	11.77
Migration ratio of pass loans	—	3.69	3.62	2.17	1.11
Migration ratio of special mention loans	—	52.96	63.69	26.65	24.33
Migration ratio of substandard loans	—	87.33	86.99	74.46	26.47
Migration ratio of doubtful loans	—	35.92	16.61	41.98	11.50

(1) Data in this table are those before consolidation, and data of Industrial Bank Financial Leasing Co., Ltd., China Industrial International Trust Limited, CIB Fund Management Co., Ltd. and Industrial Consumer Finance Co., Ltd. are not included in this table. Data in this table are calculated based on data reported to regulatory authorities. Pursuant to Document YJF [2010] no. 112 issued by CBIRC, starting from 2011, the regulatory minimum daily average loan-to-deposit ratio per month was increased. The Company's daily average loan-to-deposit ratio per month during the relevant periods has met the regulatory requirements.
(2) Calculated by dividing total loans and advances to customers measured by due to customers.
(3) Calculated by dividing loans and advances to the 10 largest customer measured by net capital base.
(4) Calculated by dividing loans to top ten customers by net capital base.

RISK FACTORS

The principal risk factors that may affect the ability of the Issuer to fulfil its obligations in respect of the Notes are discussed under "Risk Factors" in the Principal Offering Circular. In addition, the sub-section "Risk Factors — Risks Relating to the Structure of a Particular Issue of Notes" in the Principal Offering Circular shall be supplemented with the following:

The Notes may not be a suitable investment for all investors seeking exposure to green assets.

In connection with the issue of the Notes, the Issuer has requested the Hong Kong Quality Assurance Agency (the "**HKQAA**") to issue an independent certification (a "**HKQAA Pre-issuance Stage Certificate**") confirming that the Notes are in compliance with the requirements of the Green Finance Certification Scheme operated by the HKQAA (the "**HKQAA Green Finance Certification Scheme**"). The HKQAA Green Finance Certification Scheme is a set of voluntary guidelines that aim to facilitate the development of green finance and the green industry. On 30 October 2018, the HKQAA issued the HKQAA Pre-issuance Stage Certificate to the Issuer. See "*The HKQAA Green Finance Certification Scheme*" for more details.

There is currently no market consensus on what precise attributes are required for a particular project to be defined as "green" and therefore, no assurance can be provided to potential investors that the relevant Eligible Green Assets (as defined in "*Green Bond Framework*" below) will continue to meet the relevant eligibility criteria. Although applicable green projects are expected to be selected in accordance with the categories recognised by the HKQAA Green Finance Certification Scheme and are expected to develop in accordance with applicable legislation and standards, there can be no guarantee that adverse environmental and/or social impacts will not occur during the design, construction, commissioning and/or operation of any such green projects. Where any negative impacts are insufficiently mitigated, green projects may become controversial and/or may be criticised by activist groups or other stakeholders.

Potential investors should be aware that the HKQAA Pre-issuance Stage Certificate will not be incorporated into, and will not form part of, the Principal Offering Circular, this Supplement or the Pricing Supplements relating to the Notes. The HKQAA Pre-issuance Stage Certificate may not reflect the potential impact of all risks related to the Notes, their marketability, trading price or liquidity or any other factors that may affect the price or value of the Notes. The HKQAA Pre-issuance Stage Certificate is not a recommendation to buy, sell or hold securities and is only valid as of its date of issue. Further, although the Issuer will use the net proceeds as described in "*Use of Proceeds*" below, it would not be an event of default under the Terms and Conditions of the Notes if (i) the Issuer were to fail to comply with such obligations or were to fail to use the proceeds in the manner specified in the relevant Pricing Supplement and/or (ii) the HKQAA Pre-issuance Stage Certificate were to be withdrawn. Any failure to use the net proceeds of the Notes in connection with green projects, and/or any failure to meet, or to continue to meet, the investment requirements of certain environmentally focused investors with respect to the Notes may affect the value and/or trading price of the Notes, and/or may have consequences for certain investors with portfolio mandates to invest in green assets.

None of the Issuer, the Joint Global Coordinators or the Joint Lead Managers make any representation as to the suitability for any purpose of the HKQAA Pre-issuance Stage Certificate or whether the Notes fulfil the relevant environmental criteria. Each potential purchaser of the Notes should determine for itself the relevance of the information contained in the Principal Offering Circular, this Supplement and the Pricing Supplements relating to the Notes regarding the use of proceeds and its purchase of the Notes should be based upon such investigation as it deems necessary.

The sub-section headed "Risk Factors — Risks relating to the Market Generally — Notes issued under the Programme have no current active trading market and may trade at a discount to their initial offering price and/or with limited liquidity" in the Principal Offering Circular shall be deleted in its entirety and replaced with the following:

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). The liquidity of the Notes is affected by various factors, such as concentration of holding of the Notes. If a limited number of investors subscribes for a significant portion of the Notes, including one or more Arrangers, Dealers and entities affiliated with any of them or the Issuer, the liquidity of the Notes in the secondary trading market may be affected.

In addition, the Notes may be traded immediately after their initial issuance at a discount, depending upon prevailing interest rates, foreign exchange rates, the market for similar securities and general economic conditions and investors may not be able to achieve the gains they expect, if at all. Although an application will be made for the Notes issued under the Programme to be admitted to listing on the SEHK, there is no assurance that such application will be accepted, that any particular Tranche of Notes will be so admitted or that an active trading market will develop. In addition, the market for investment grade and crossover grade debt has been subject to disruptions that have caused volatility in prices of securities similar to the Notes that may be issued under the Programme. Accordingly, there is no assurance as to the development or liquidity of any trading market, or that disruptions will not occur, for any particular Tranche of Notes.

When Notes issued under the Programme are especially sensitive to interest rate, currency or market risks, or are designed for specific investment objectives or strategies of limited categories of investors, these Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Lack of liquidity may have an adverse effect on the investment in the Notes.

The sub-section headed "Risk Factors — Risks relating to the Bank's Loan Portfolio" and "Risk Factors — Risks relating to the Bank's Business" in the Principal Offering Circular shall be deleted in its entirety and replaced with the following:

Risks relating to the Bank's Loan Portfolio

The Bank has a concentration of loans to certain industries, regions and customers, and if the conditions of these regions or these industries, or the financial conditions of these customers deteriorate significantly, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

As at 30 June 2018, the Bank's loans to China's (i) manufacturing, (ii) retail and wholesale and (iii) real estate industries represented approximately 22.9 per cent., 13.9 per cent. and 11.0 per cent., respectively, of its total corporate loans. Any significant downturn in these industries may lead to a significant increase in the non-performing loans of the Bank, and negatively affect the level of new lending or refinancing of existing loans to borrowers in those industries. This may in turn materially and adversely affect the Bank's asset quality, financial condition and results of operations. As China has experienced a slowdown in its manufacturing industry and economic growth in recent years, the Bank's non-performing loans in the manufacturing industry and the retail and wholesale industry have increased. The Bank's ratio of non-performing loans to the manufacturing industry increased from 2.95 per cent. as at 31 December 2015 to 4.17 per cent. as at 30 June 2018 and its ratio of non-performing loans to the retail and wholesale industries increased from 4.63 per cent. as at 31 December 2015 to 5.22 per cent. as at 30 June 2018. Continued deterioration in the performance of these two industries may further increase the Bank's non-performing loan ratio and adversely affect its overall asset quality.

In recent years, the PRC central and local governments have introduced a large number of policies and measures to control the over-development of certain industries with excess capacity, such as wind power equipment, steel, cement, coal, chemical and flat glass. Many enterprises operating in these industries have experienced increasing financial stress or difficulty due to its deteriorating financial condition and cash flow and increasing industry competition. Although the Bank closely monitors its lending to companies in the relevant industries, there is no guarantee that the Bank's overall asset quality will not be affected.

The Bank's overall asset quality is also affected by the performance of the PRC's real estate market due to its home mortgages and other loans secured by real property collateral granted to real estate developers and retail property purchasers. As at 30 June 2018, the Bank's loans to the real estate industry, which are primarily granted to real estate developers represented 11.0 per cent., of its total corporate loans and its non-performing ratio of these loans was 0.78. As at 30 June 2018, the Bank's home mortgage loans represented 64.83 per cent. of its outstanding domestic retail loans. Any measures imposed by the PRC government aimed at cooling down the PRC real estate market may adversely affect the growth and quality of the Bank's loans to the real estate industry and the Bank's home mortgage loans. On the other hand, a downturn in the PRC's real estate market may materially and adversely affect the quality of the Bank's existing loans and its ability to generate new loans, which in turn could have a material adverse effect on the Bank's asset quality, financial condition and results of operations.

As at 30 June 2018, 28.2 per cent. of the Bank's total outstanding loans originated in Western and Central China. Although the Bank believes that these regions currently benefit from favourable government policies, the economic conditions in these regions lag behind those in the coastal regions of Eastern China and Southern

China, and they experience slower economic growth compared to other regions in China. These favourable economic policies may change or be discontinued in the future and they may not be as effective as the Bank anticipates. Any significant economic downturn in any of these regions, or any inaccurate assessment or failure in the management of the credit risks relating to loans granted to borrowers located or operating in such regions, whether due to changes in government policies or otherwise, may materially and adversely affect the Bank's asset quality, particularly its non-performing loans, and thus its financial condition and results of operations.

As at 30 June 2018, the Bank's loans to its top ten customers totalled RMB60.2 billion, which represented 2.3 per cent. of its total loan portfolio and these loans were classified as performing. If any of the performing loans to the top ten customers deteriorates or become non-performing, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

Furthermore, the Bank also provides loans to small and medium-sized enterprises ("**SMEs**"). The loans to SMEs are, compared to its other loans, generally more vulnerable to the adverse impact of certain factors such as natural disasters and economic slowdown. The Bank adopted a number of measures to manage these risks, such as imposing stricter requirements on approving credit applications and charging higher interest rates, but there can be no assurance that these measures will effectively reduce or eliminate the risks relating to such customers. If the Bank's loans to SMEs deteriorate, its asset quality, financial condition and results of operations may be materially and adversely affected.

If the Bank is unable to effectively maintain the quality of its loan portfolio, its financial condition and results of operations may be materially and adversely affected.

As at 31 December 2015, 2016, 2017 and 30 June 2018, the Bank's non-performing loans amounted to RMB26.0 billion, RMB34.4 billion, RMB38.7 billion and RMB42.6 billion, respectively, and the Bank's non-performing loan ratio was 1.46 per cent., 1.65 per cent., 1.59 per cent. and 1.59 per cent., respectively. The general increase in the Bank's non-performing loans and non-performing loan ratio was due to an increase in its loans and advances to its customers and an adverse change in the macroeconomic economic conditions in the PRC which the Bank believes affected its customers' ability to repay its loans.

The quality of the Bank's loan portfolio may deteriorate in the future due to various reasons, including factors beyond the Bank's control, such as reform of the PRC economy, the PRC government's initiative to control overcapacity in certain industries, a slowdown in the PRC or global economies, a relapse of the global credit crisis, adverse macroeconomic trends in China and other parts of the world and the occurrence of natural disasters, all of which could impair the ability of the Bank's borrowers to service their outstanding debt. Inflation in China may cause rising costs and negatively impact the profitability of the Bank's corporate customers, which in turn may lead to significant increases in the Bank's allowance made for impaired loans. Any actual or perceived deterioration in creditworthiness of counterparties, declines in property prices in many third- and fourth-tier cities in China and resulting reduction in collateral values, higher unemployment rates or reduced profitability of corporate borrowers may also cause the Bank's asset quality to deteriorate and in turn lead to significant increases in allowance made for impaired loans. If the Bank's non-performing loans or the allowance made for impaired loans increase in the future, the results of its operations and financial condition may be materially and adversely affected. In addition, the Bank's ability to maintain its growth also depends largely on its ability to effectively manage its credit risk and maintain or improve the quality of its loan portfolio. There is no assurance that the Bank's credit risk management policies, procedures and systems are effective or free from deficiency. Failure of the Bank's credit risk management policies, procedures and systems may result in an increase in its non-performing loans and adversely affect the quality of its loan portfolio.

The Bank's allowance for impairment losses may not be sufficient to cover the actual losses on its loan portfolio in the future.

As at 31 December 2015, 2016, 2017 and 30 June 2018, the Bank's allowance for impairment losses on loans was RMB54.6 billion, RMB72.4 billion, RMB81.9 billion and RMB89.3 billion, respectively. For the same periods, the ratio of its allowance for impairment losses to total loans was 3.1 per cent., 3.5 per cent., 3.4 per cent. and 3.3 per cent., respectively and the ratio of its allowance for impairment losses to non-performing loans was 210.1 per cent., 210.5 per cent., 211.8 per cent. and 209.6 per cent., respectively. The allowance for impairment losses is based on the Bank's current assessment of, and expectations concerning, various factors affecting the quality of its loan portfolio. These factors include, among other things, borrowers' financial condition, repayment ability and repayment intention, the realisable value of any collateral, the ability of the guarantors of the borrowers to fulfil their obligations and the implementation of the Bank's credit policies, as well as China's economy, macroeconomic policies, interest rates, exchange rates, and legal and regulatory environments. Many of these factors are beyond the Bank's control, and therefore its assessment and expectations on these factors may differ from future developments. The adequacy of the Bank's allowance for impairment losses depends on the reliable application of its risk assessment system to estimate these potential losses, as well as its ability to accurately collect, process and analyse the relevant statistical data. If the Bank's assessment of, and expectations concerning, the factors that affect the quality of its loan portfolio differ from actual developments, the Bank's allowance for impairment losses may not be adequate to cover its actual losses and the Bank may need to make additional provisions for impairment losses, which may reduce its profit and therefore materially and adversely affect its asset quality, financial conditions and results of operations.

The collateral and guarantees securing the Bank's loans may not be sufficient, and the Bank may be unable to realise the full value of the collateral and guarantees in a timely manner or at all.

A significant portion of the Bank's loans is secured by collateral or guarantees. As at 30 June 2018, 39.1 per cent. and 10.4 per cent. of its total loans were secured by mortgages and pledges, respectively, and 22.6 per cent. of its total loans were guaranteed.

The pledged collateral securing the Bank's loans includes, among other things, bond or equity securities. The mortgages securing the Bank's loans primarily comprise real properties and other assets located in China. The value of the collateral securing its loans may significantly fluctuate or decline due to factors beyond the Bank's control, including macroeconomic factors affecting the PRC economy. For example, a downturn in China's real estate market may result in a decline in the value of the real properties securing the Bank's loans to levels significantly below the outstanding principal and interest balances of such loans. Any decline in the value of such collateral may reduce the amounts the Bank can recover from such collateral and increase its impairment losses.

Some of the Bank's loans were guaranteed by the borrowers' affiliates. A significant deterioration in the financial condition of the guarantors could significantly decrease the amounts the Bank recovers under the relevant guarantees. Moreover, a court or other judicial or governmental authorities may declare a guarantee to be invalid or otherwise decline or fail to enforce such guarantees. The Bank is therefore exposed to the risk that it may not be able to recover all or any part of the amounts guaranteed in respect of its loans.

In China, the procedures for liquidating or otherwise realising the value of collateral in the form of non-monetary assets may be protracted and it may be difficult to enforce claims in respect of such collateral. For example, in accordance with the Directive on Foreclosure of Mortgage on Residential Properties issued by the PRC Supreme Court (最高人民法院關於人民法院執行設定抵押的房屋的規定), effective from 21 December 2005, the PRC courts cannot evict a borrower or his or her dependents from his or her principal residence during the six-month grace period after a court approves the Bank's petition to foreclose. In addition, under certain circumstances, the Bank's rights to the collateral securing its loans may have lower priority than certain other rights. For example, according to the PRC Bankruptcy Law (中華人民共和國企業破產法), claims for the amount that a company in bankruptcy owed to its employees prior to 27 August 2006, including salaries, medical insurance claims and basic pension benefits, will have priority over the Bank's rights to the collateral, if not adequately provided for in accordance with liquidation proceedings.

As a result, it may be difficult and time-consuming for the Bank to take control of or liquidate the collateral securing non-performing loans. If the Bank is unable to liquidate the assets of borrowers and guarantors or if guarantors fail to fully perform their guarantee obligations on a timely basis, its business, financial condition and results of operations may be materially and adversely affected.

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

The Bank classifies its loans using a five-category loan classification system in accordance with the guidelines set forth by the PRC regulators. The five categories are normal, special mention, substandard, doubtful and loss. The Bank assesses its loans for impairment, determines a level of allowance for impairment losses and recognises any related provisions made in a year using the five-category classification system. It performs such assessment, determination and recognition using the concept of impairment under International Accounting Standard 39 ("**IAS 39**"). For its corporate loans classified as substandard or lower, it makes an assessment on the impairment allowance on an individual loan basis. For the performing corporate loans and for all of the retail loans, it makes a collective assessment based on its historical loan loss experience. The Bank's loan classification and impairment provisioning policies may be different in certain respects from those of banks incorporated in certain other countries or regions. As a result, the Bank's loan classification as well as its allowance for impairment losses may differ from those reported by international banks incorporated in those countries or regions.

If the Bank does not maintain the growth of its loan portfolio, its business, prospects, financial condition and results of operations may be materially and adversely affected.

The Bank's gross loans and advances to customers have grown significantly in the past few years, increasing to RMB2,674.6 billion as at 30 June 2018. The growth in the Bank's loan portfolio during the period was primarily attributable to its efforts to expand corporate and retail banking businesses. The growth of its loan portfolio may also be affected by various factors, such as China's macroeconomic policies and capital constraints. Therefore, there can be no assurance that the Bank will be able to maintain the growth rate of its loan portfolio in the future. In addition, in response to the constraints from the amount of its regulatory capital, the Bank may adopt strategies to reduce its reliance on its loan portfolio and expand its activities in other businesses that require relatively lower capital. Any of the foregoing factors could impact the growth of its loan portfolio and thereby materially and adversely affect its business, prospects, financial condition and results of operations.

Deterioration in the debt repayment abilities of local government financing vehicles to which the Bank extended loans may materially and adversely affect the Bank's asset quality, financial condition and results of operations.

Loans extended to the financing vehicles of local governments in China have been a part of the loan portfolio for China's commercial banks. According to the CBIRC, local government financing vehicles consist primarily of government-led vehicles and vehicles whose shares are controlled by the government. These vehicles primarily engage in financing activities wholly or partially supported by the direct or indirect repayment commitments or direct or indirect guarantees from local governments, to provide support to various infrastructure development and quasi-public interest government investment projects. The Bank extends loans primarily to local government financing vehicles for infrastructure and urban development projects as well as those vehicles relating to land reserve centres, economic development zones, industry parks or state asset management companies. Within China's administrative division system, the recipients of these loans generally rank at or above the district city level. The Bank targets its loans to local government financing vehicles mainly in more economically developed areas in China, including the Yangtze River Delta, Pearl River Delta, Fujian Province and Bohai Rim regions. The majority of its loans to local government financing vehicles are backed by mortgages, pledges or guarantees and have remaining maturities of five years or less.

Recently, with the aim of reinforcing the risk management of loans to local government financing vehicles, the State Council, the CBIRC and the PBOC, along with several other PRC regulatory authorities promulgated a series of notices, guidelines and other regulatory documents to direct PRC banks and other financial institutions to optimise and strengthen their risk management measures regarding their loans to local government financing vehicles. While the Bank has taken various measures to reduce the risks of default such as setting clear thresholds for its loans to local government financing vehicles and enhancing the mortgages and guarantees on such loans, unfavourable developments in macroeconomic conditions, adverse changes to state policies, adverse changes to the financial condition of local governments or other factors may adversely affect the debt repayments of these local government financing vehicles, which may in turn materially and adversely affect the Bank's asset quality, financial condition and results of operations.

The Revised CAS22 may require the Bank to change its provisioning practice.

The Bank currently assesses its loans and investment assets for impairment under China Accounting Standard 22 (the "**CAS 22**"). The Ministry of Finance of the People's Republic of China (the "**MOF**"), which is responsible for developing and revising accounting standards under PRC GAAP, issued the revised CAS 22 classification and measurement of Financial Instruments in March 2017 (the "**Revised CAS 22**") that, among other things, introduces an expected loss impairment model. The new standard, which will become effective on 1 January 2019 for A-share listed company, requires an entity to change the accounting for financial liabilities if it elects to measure under the fair value option. With that change, gains and losses resulting from an entity's own credit risk will be recognised outside of profit or loss. The new standard also requires an entity to recognise expected credit losses at all times and to update the amount of expected credit losses recognised at each reporting date to reflect changes in the credit risk of financial instruments. It is not practicable to provide a reasonable estimate of the effect or quantify the impact on the Bank's operating results and financial position until it makes a detailed assessment as the new standard requires changes to systems and processes to collect necessary data. As an A-share listed company, the application of the Revised CAS 22 to the Bank's reporting periods will begin on 1 January 2019. The Revised CAS 22 will require the Bank's current provisioning practice to change and may, as a result, adversely affect the Bank's business, financial condition and results of operations.

Risks relating to the Bank's Business

The Bank faces certain risks relating to its recently implemented operational reform initiatives.

The Bank continues to develop and implement a number of operational reform initiatives in an effort to become more competitive and customer-oriented, including those relating to re-engineering its business process and organisational structure. For example, (i) the Bank has revamped its corporate banking products and services, targeting growth in value-added products and services such as asset management, cash management and investment banking business; (ii) it has prioritised the development of retail banking business, through implementing operational reform of branch outlets, streamlining business procedures and increasing investments in the distribution channels and IT system; and (iii) it has focused on product innovations in order to achieve greater customer satisfaction. There can be no assurance that the Bank will be able to achieve the results it expects in the future due to a number of factors, including:

- it may not have sufficient experience or expertise to successfully manage and continue implementing these operational reform initiatives;
- it may not have sufficient and effective management systems and information technology systems to support the implementation of these operational reform initiatives according to its contemplated schedule or at all; and
- changes in government policies or banking regulations may adversely affect the schedule for implementing, or the Bank's ability to implement, these operational reform initiatives.

There is no assurance that the Bank is able to successfully implement these reform initiatives or, if implemented, these initiatives will achieve the benefits or within its schedule as expected, if at all. If the Bank is unable to control these risks associated with its reform initiatives, the Bank's business, prospects, financial condition and results of operations could be materially and adversely affected.

If the Bank is not effective in implementing enhanced risk management and internal control policies and procedures and introducing certain information technology systems to assist with its risk management and internal control, its business and prospects may be materially and adversely affected.

The Bank has in the past suffered from credit-quality problems, lapses in credit approval and control processes, internal control deficiencies and operational problems as a result of weaknesses in its risk management controls. The Bank has significantly enhanced its risk management and internal control policies and procedures in recent years in an effort to improve its risk management capabilities and enhance its internal control. However, there can be no assurance that the Bank's risk management and internal control policies and procedures will adequately control, or protect it against, all credit and other risks. Some of these risks are yet to be identified by the Bank, and may be unforeseeable or higher than what it originally expected or the historical level. In addition, given the short history of certain aspects of its risk management and internal control policies and procedures, the Bank will require additional time to implement these policies and procedures and fully measure the impact of, and evaluate the compliance with, these policies and procedures. Moreover, the Bank's staff will require time to adjust to these policies and procedures and there is no assurance that its employees will be able to consistently comply with or correctly apply these policies and procedures.

The Bank's risk management capabilities are limited by the information, tools or technologies available to it. For example, it may not be able to effectively monitor credit risk due to limited information resources or tools. In recent years, the Bank has introduced or refined certain risk management tools and systems to assist it in better managing risks, including the internal credit rating system, the assets and liabilities management system, the internal funds transfer pricing system, the treasury trading and risk management system and the Bank's credit management system. However, its ability to operate such systems and to monitor and analyse the effectiveness of such systems is still subject to continuous testing. The Bank is also still in the process of further developing information systems to manage certain aspects of risk management, such as automated systems for the collection of certain information relating to connected party transactions and group lending.

If the Bank is not effective in improving its risk management and internal control policies, procedures and systems, or if the intended results of such policies, procedures or systems are not achieved in a timely manner or to the full extent, its asset quality, business, financial condition and results of operations may be materially and adversely affected.

The Bank's expanding range of products, services and business activities exposes it to new risks.

The Bank has been increasing its product development efforts and expanding the range of its products and services to meet the needs of its customers and to enhance its competitiveness.

Expansion of its business activities exposes the Bank to a number of risks and challenges, including:

- insufficient experience or expertise in certain new products and services, which may prevent it from effectively competing in these areas;
- imitation or replication of its new products and services by its competitors;
- failure of its new products and services to be accepted by its customers or meet the expected targets;
- inability to hire additional qualified personnel or to hire personnel on commercially reasonable terms;
- insufficient financial, operational, management and other human resources to support its expanded range of products and services;
- inability to obtain regulatory approvals for its new products or services; and
- unsuccessful attempts to enhance its risk management and internal control capabilities and information technology systems to support a broader range of products and services.

If the Bank is not able to successfully expand into or grow new products, services and related business areas due to these risks or to achieve the intended results with respect to the new products and services, its business, financial condition and results of operations may be materially and adversely affected.

The Bank may face difficulties in meeting regulatory requirements relating to capital adequacy.

The Bank is required by the PRC Commercial Banking Law and the rules promulgated by the CBIRC to maintain a minimum core capital adequacy ratio of 4 per cent. and a minimum Capital Adequacy Ratio of 8 per cent., and under the *Capital Rules for Commercial Banks (Provisional)* (商業銀行資本管理辦法(試行)), the Bank's minimum common equity Core Tier 1 Capital Adequacy Ratio and Tier 1 Capital Adequacy Ratio are 5 per cent. and 6 per cent., respectively. In accordance with the *Capital Rules for Commercial Banks (Provisional)* (商業銀行資本管理辦法 (試行)), the Bank's Core Tier 1 Capital Adequacy Ratio, Tier 1 Capital Adequacy Ratio and Capital Adequacy Ratio were 8.94 per cent., 9.50 per cent. and 11.86 per cent., respectively, as at 30 June 2018.

In recent years, the CBIRC has issued several regulations and guidelines governing capital adequacy requirements applicable to commercial banks in the PRC. Currently, the CBIRC is actively pushing forward the implementation of Basel III, the revised Based Capital Accord promulgated in December 2010. In April 2011, the CBIRC promulgated the *Guideline Concerning the Implementation of New Regulatory Standards for the PRC Banking Industry* (關於中國銀行業實施新監管標準的指導意見) to clarify the direction for future regulations and the requirement for prudent regulatory requirements. On 7 June 2012, the CBIRC promulgated the Capital Rules for Commercial Banks (Provisional), which came into effect on 1 January 2013. The Capital Rules for Commercial Banks (Provisional) clarified and refined the categorisations and methods of measurement in respect of the capital instruments of commercial banks. According to the Capital Rules for Commercial Banks (Provisional), the regulatory requirements on the capital adequacy ratio of commercial banks shall cover the requirements on the minimum capital, reserve capital and counter-cyclical capital, additional capital for systematically important banks, as well as second pillar capital, which shall be reached by commercial banks by the end of 2018. In order to smoothly implement the Capital Rules for Commercial Banks (Provisional), on 30 November 2012, the CBIRC promulgated the *Notice of Transitional Arrangement for the Implementation of the Regulation Governing Capital of Commercial Banks (Provisional)* (中國銀監會關於實施《商業銀行資本管理辦法(試行)過渡期安排相關事項的通知》) (the "**Notice of Transitional Arrangement**"), pursuant to which commercial banks shall reach the minimum capital requirement by 1 January 2013. Within the transitional period for reaching required targets, the Capital Rules for Commercial Banks (Provisional) and the Notice of Transitional Arrangement require commercial banks to formulate and implement feasible plans for reaching capital adequacy ratio targets step by step, and submit the same to the CBIRC for approval.

Although the Bank is currently in compliance with the requirement for capital adequacy, new requirements and regulations may adversely affect the Bank's compliance with capital adequacy ratios requirements, and it is possible that the Bank may face difficulties in meeting the requirement of the regulations regarding capital adequacy and that new requirements and regulations will also affect the Bank's funding needs.

In addition, some regulatory developments may affect the Bank's ability to continually comply with capital adequacy requirements, including the raising of minimum capital adequacy ratios by the CBIRC and the changes in calculations of capital adequacy ratios by the CBIRC. If any of these circumstances occurs, the Bank may be unable to comply with the regulatory requirements of the CBIRC.

In order to support its steady growth and development, the Bank may need to raise more capital to ensure that its capital complies with or exceeds the minimum regulatory requirement. In its future plans to raise capital, the Bank may issue any share securities that can contribute towards core capital or any debt securities that can contribute towards supplementary capital. The Bank's capital-raising ability may be restricted by the Bank's future business, financial condition and results of operations, the Bank's credit rating, necessary regulatory approvals and overall market conditions, including Chinese and global economic, political and other conditions at the time of capital raising.

There is no assurance that the Bank will be able to detect money laundering and other illegal or improper activities on a timely basis.

The Bank is required to comply with applicable anti-money laundering and anti-terrorism laws and regulations in the jurisdictions where it has operations, primarily the PRC and Hong Kong. These laws and regulations require the Bank to adopt and implement "know-your-customer" policies and procedures and to report suspicious and large transactions to the regulatory authorities under relevant regulatory regimes. The Bank has adopted and implemented certain policies and procedures with an aim to detect and prevent the use of its business platforms to facilitate money laundering activities and terrorist acts. Given the complexity of money-laundering activities and other illegal or improper activities and evolution of applicable regulatory regimes, there is no assurance that those policies and procedures can effectively ensure the Bank's compliance under applicable anti-money laundering and anti-terrorism laws and regulations at all times or in a timely manner. As the Bank implements its international business expansion, it expects that it will need to comply with additional and more stringent regulations in the jurisdictions into which it expects to expand. To the extent that the Bank fails to fully comply with such laws and regulations or if the policies and measures the Bank puts in place fail to promptly detect illegal or improper activities in a timely manner, the relevant regulatory authorities may impose fines and other penalties and punishments on the Bank.

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

Fraud and other misconduct by employees or third parties may be difficult to detect and prevent and could subject the Bank to financial losses and sanctions imposed by governmental authorities and seriously harm its reputation. Types of possible misconduct by third parties against the Bank may include, among other things, fraud, theft and robbery. Types of misconduct by the Bank's employees in the past have included, among other things, improper extension of credit, unauthorised business transactions, business process in breach of the Bank's internal policies and procedures, inappropriate accounting treatment, theft, embezzlement or misappropriation of customer funds, fraud and bribery. In addition, the Bank's employees may commit errors or take improper actions that could subject the Bank to financial claims as well as regulatory actions. There can be no assurance that all of the employees of the Bank will comply with its risk management and internal control policies and procedures and it is not always possible to detect or prevent such activities. In addition, there can be no assurance that fraud or other misconduct, whether involving past acts that have gone undetected or future acts, will not have a material adverse effect on the reputation, results of operations and business prospects of the Bank, or that all of the employees of the Bank will comply with its risk management and internal control policies and procedures.

If the Bank fails to maintain the growth rate in its customer deposits or if there is a significant decrease in customer deposits, its business operations and liquidity may be materially and adversely affected.

Customer deposits are the Bank's primary source of funding. As at 31 December 2015, 2016, 2017 and 30 June 2018, the Bank's total customer deposits amounted to RMB2,483.9 billion, RMB2,694.8 billion, RMB3,086.9 billion and RMB3,103.4 billion, respectively. However, many factors affect the growth of deposits, some of which are beyond the Bank's control, such as economic and political conditions, availability of investment alternatives and retail customers' changing perceptions toward savings. For example, with the continuing development of China's capital markets, customers of the Bank may reduce their deposits and increase their investment in securities for a higher return.

If the Bank fails to maintain the growth rate in its deposits or if a substantial portion of its depositors withdraw their deposits or do not roll over their time deposits upon maturity, the Bank's liquidity position, financial condition and results of operations may be materially and adversely affected. In such an event, the Bank may need to seek more expensive sources of funding and there can be no assurance that it will be able to obtain additional funding on commercially reasonable terms as and when required.

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

The Bank depends on its information technology systems to process transactions on an accurate and timely basis, and to store and process its business and operating data. The proper functioning of the Bank's financial control, risk management, credit analysis and reporting, accounting, customer service and other information technology systems, as well as the communication networks between its branches and main data processing centres, are critical to its business and ability to compete effectively. The Bank has built a dual disaster backup system with backup data recoverable from both the same and a different city. The Bank has satisfied the internationally recognised standards and the requirements of the PBOC in relation to disaster recovery. The Bank's business activities would be materially disrupted if there is a partial or complete failure of any of the information technology systems or communication networks. Such failure can be caused by various reasons, including natural disasters, extended power outages, breakdown of key hardware systems and computer viruses. The proper functioning of the information technology systems of the Bank also depends on accurate and reliable data input and other sub-system installation, which are subject to human errors. Any failure or delay in recording or processing its transaction data could subject it to claims for losses and regulatory fines and penalties.

In addition, the secure transmission of confidential information is critical to the Bank's operations. Its networks and systems may be vulnerable to unauthorised access and other security problems. There can be no assurance that its existing security measures are able to prevent unforeseeable security breaches, including break-ins and viruses, or other disruptions such as those caused by defects in hardware or software and errors or misconduct of operators. Persons that circumvent the security measures could use the Bank's or its clients' confidential information wrongfully. Any material security breach or other disruptions could expose the Bank to risk of loss and regulatory actions and harm its reputation.

The competitiveness of the Bank would to some extent depend on its ability to upgrade its information technology systems on a timely and cost-effective basis. In addition, the information available to and received by it through the existing information technology systems may not be timely or sufficient for the Bank to manage risks and prepare for, and respond to, market changes and other developments in the current operating environment. Any substantial failure to improve or upgrade the information technology systems effectively or on a timely basis could materially and adversely affect the competitiveness, financial condition and results of operations of the Bank.

The Bank is subject to credit risk with respect to certain off-balance sheet commitments.

In the normal course of its business, the Bank makes commitments which, under applicable accounting principles, are not reflected as liabilities on the Bank's consolidated statement of financial position, including bank acceptances, loan commitments, guarantees and letters of credit to guarantee the performance of the customers. The Bank is subject to credit risks associated with these off-balance sheet commitments and is required to provide funds when its customers are unable to honour their obligations. If a customer of letters of guarantee fails to fulfil its obligations as stated in the letters of guarantee to the beneficiaries of such guarantees, the Bank will be obliged to make payments in respect of such letters of guarantee. If the Bank is unable to recover payment from its customers in respect of the commitments that it is called upon to fulfil, the financial condition and results of operations of the Bank could be materially and adversely affected.

The Bank's investment assets may suffer significant losses or experience sharp declines in their returns, which could have a material adverse effect on the Bank's business, financial condition and results of operations.

Apart from its businesses of taking deposits, providing loans, granting credit and providing financial services, the Bank also engages in a range of investment activities, such as investments in investment products under trust schemes, investment products managed by securities companies, wealth management products issued by other PRC commercial banks and other debt securities issued by financial institutions. The Bank's returns on investment securities and other financial assets, and its profitability, may be materially and adversely affected by interest rates, foreign exchange rates, credit and liquidity conditions, asset values and macroeconomic and geopolitical conditions. Any significant deterioration in one or more of these factors could reduce the value of, and the gains generated from, the Bank's investment securities and other financial assets portfolio and could have a material adverse effect on its business, financial condition and results of operations. As the derivatives market in China is not as mature as that in some developed countries, there are limited risk management tools available to the Bank to reduce market risks relating to its investment portfolio.

If any of the issuers of investment securities or other financial assets or guarantors goes bankrupt, has poor operating performance, or become unable to service their debts for any other reasons, or if such investment securities or other financial assets lacks liquidity, or if there are adverse changes in macroeconomic environment and other factors, the value of such investment securities and other financial assets may decrease substantially. As a result, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

The Bank is subject to PRC and Hong Kong regulatory requirements, and its failure to fully comply with such requirements, if any, could materially and adversely affect its business, reputation, financial condition and results of operations.

The Bank is subject to the requirements and guidelines set forth by the PRC regulatory authorities. Its Hong Kong Branch is also subject to Hong Kong laws and regulations.

The PRC regulatory authorities include the MOF, the PBOC, the newly-established China Banking and Insurance Regulatory Commission (the "**CBIRC**", which incorporates the functions and powers of the former CBRC), the CSRC, State Administration of Taxation of the PRC ("**SAT**"), National Audit Office of the PRC ("**NAO**"), State Administration for Industry and Commerce of the PRC ("**SAIC**"), the SAFE and Commission for Discipline Inspection of the Communist Party of China. These regulatory authorities carry out periodic supervision and spot checks of the Bank's compliance with laws, regulations and guidelines.

The Bank is subject to various PRC and Hong Kong regulatory requirements, and the PRC and Hong Kong regulatory authorities conduct periodic inspections, examinations and inquiries in respect of its compliance with such requirements. The Bank has in the past failed to meet certain requirements and guidelines set by the PRC regulatory authorities, and has been subjected to fines and other penalties in relation to its non-compliance. There can be no assurance that the Bank will be able to meet all the applicable regulatory requirements and guidelines, or comply with all the applicable regulations at all times, or that it will not be subject to sanctions, fines or other penalties in the future as a result of non-compliance. If sanctions, fines and other penalties are imposed on the Bank for failing to comply with applicable requirements, guidelines or regulations, the business, reputation, financial condition and results of operations of the Bank may be materially and adversely affected.

The Bank is subject to risks related to PRC tax law changes.

On 23 March 2016, the MOF and the SAT jointly issued the *Circular of Full Implementation of Business Tax to VAT Reform* (關於全面推開營業稅改徵增值稅試點的通知) (the "**Circular 36**"), which introduced a new value-added tax ("**VAT**") from 1 May 2016. VAT is applicable where entities or individuals provide services within the PRC. The Bank will be obligated to withhold VAT of 6 per cent. and certain surcharges on VAT for payments of interest and certain other amounts on the Notes paid by the Bank to Noteholders that are non-resident enterprises or individuals. VAT is unlikely to be applicable to any transfer of Notes between entities or individuals located outside of the PRC and therefore unlikely to be applicable to any gains realised upon such transfers of Notes. Circular 36 and its accompanying laws and regulations pertaining to VAT are relatively new and the interpretation and enforcement of such laws and regulations involve uncertainties. The reform may result in an increase in the overall tax liability of the Bank and would therefore adversely affect the Bank's business, financial condition and results of operations.

The uncertainties in the Chinese and global economies, and the financial markets could materially and adversely affect the financial condition and results of operations of the Bank.

After emerging from the global financial crisis, some countries have started to withdraw or decrease the stimulus packages previously executed and to implement more moderate monetary policies. China has started to withdraw its economic stimulus plan implemented during the financial crisis, returning to its normal policy direction. The PRC government implemented stricter controlling measures on the real estate market, regulated the local government financing vehicles, cancelled the export tax refund policies for certain commodities and restarted the reform of Renminbi exchange rate.

Currently, the employment, credit and property market conditions of developed economies are still unstable. The United Kingdom voted on 23 June 2016 in a referendum in favour of leaving the European Union, which is expected to increase market volatility in Europe and potentially globally. Any volatility or deterioration in the economic conditions in the United States, the United Kingdom, the European Union, the PRC or elsewhere may adversely affect the Group's business, financial condition and the results of operations, as well as its ability to access the capital markets. In addition, since July 2018, the U.S. government has been imposing various tariffs on Chinese goods, which then led the PRC to respond with retaliatory tariffs on certain U.S. products. The effect of such tariffs on the economies of the PRC and the U.S. is yet to be seen but any trade war may severely damage the economies and market confidence of both countries. The uncertainties in the global economy coupled with uncertainties in China's economy may adversely affect the Bank's financial condition and results of operations in many ways, including, among other things:

- during a period of economic slowdown, there is a greater likelihood that more of the Bank's customers or counterparties could become delinquent in respect of their loan repayments or other obligations to the Bank, which, in turn, could result in a higher level of non-performing loans, allowance for impairment losses and write-offs, all of which would adversely affect its financial condition and results of operations;
- the increased regulation and supervision of the financial services industry in response to the financial crisis in certain jurisdictions where the Bank operates may restrict its business flexibility and increase its compliance costs, which may adversely affect its business operations;
- the value of the Bank's investments in the debt securities issued by overseas governments and financial institutions may significantly decline, which may adversely affect its financial condition;
- the Bank's ability to raise additional capital on favourable terms, or at all, could be adversely affected; and
- trade and capital flows may further contract as a result of protectionist measures being introduced in certain markets, which could cause a further slowdown in economies and adversely affect the Bank's business prospects.

There can be no assurance that China's economy or the global economy will maintain sustainable growth. If further economic downturn occurs or continues, the business, financial condition and results of operations of the Bank could be materially and adversely affected.

The Bank may be involved in legal and other disputes from time to time arising out of its operations and may face potential liabilities as a result.

The Bank is often involved in legal and other disputes for various reasons, which generally arise because it seeks to recover outstanding amounts from borrowers or because customers or other claimants bring actions against it. The majority of these cases arise in the ordinary course of the Bank's business. Where the Bank assesses that there is a probable risk of loss, it is the Bank's policy to make provisions for such loss. The Bank has made provisions with respect to pending legal proceedings and other disputes against it.

However, there can be no assurance that the judgements in any of the litigation in which the Bank is involved would be favourable to it or that it has made adequate provisions to cover the losses arising from legal proceedings or other disputes. In addition, if the Bank's assessment of the risk changes, its view on provisions will also change. It is expected that the Bank will continue to be involved in various legal and other disputes going forward in the ordinary course of its business, which may subject it to additional risks and losses. These disputes may relate to, among other things, the amount of the unpaid obligations of the relevant borrowers, the terms for such borrowers to perform their obligations and the application of statute of limitations. In addition, the Bank may have to advance legal costs associated with such disputes, including fees relating to appraisal, notarisation, auction, execution and counsel's legal services. These and other disputes may lead to legal, administrative or other proceedings and may result in damage to the reputation of the Bank, additional operational costs and a diversion of resources and management's attention from its core business operations. There can be no assurance that the outcome of future or current disputes or proceedings will not materially and adversely affect the business, reputation, financial condition and results of operations of the Bank.

The Bank is subject to counterparty risks in its derivative transactions.

The Bank acts primarily as an intermediary in domestic and international foreign exchange and derivative markets, and it currently has foreign currency forward and swap arrangements and interest rate swap arrangements with a number of domestic and international banks, other financial institutions and other entities. While the Bank believes that the overall credit quality of its counterparties is satisfactory, there can be no assurance that the Bank's counterparties with significant exposures will not face difficulty in paying the amounts on derivative contracts when due, which may result in financial losses to the Bank.

The Bank has expanded its business in Hong Kong and expects to expand its business in other jurisdictions, which has increased and will continue to further increase the complexity of the risks that it faces.

The Hong Kong Branch of the Bank was established in January 2014 and the Bank plans to establish more overseas branches in the future. The expansion into other jurisdiction outside of China exposes the Bank to a new variety of regulatory and business challenges and risks and has increased the complexity of risks in a number of areas, including currency risk, interest rate risk, regulatory and compliance risk, reputational risk and operational risk. Adverse market conditions in other jurisdictions may result in mark-to-market and realised losses on the investment assets held by the overseas branches and increase their cost of funding. Furthermore, despite the Bank's best efforts to comply with all applicable regulations in all the jurisdictions in which it operates, there may be incidences of failure to comply with the regulations in certain jurisdictions. Overseas regulators may bring administrative or judicial proceedings against the Bank or its employees, representatives, agents and third party service providers, which could result, among other things, in suspension or revocation of one or more of its licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary actions. In addition, the regulatory changes in various jurisdictions, including those in which the Bank has or plans to have operations in, could have an adverse impact on its growth, capital adequacy and profitability. If the Bank is unable to manage the risks resulting from its expansion outside the PRC, its business, reputation, financial condition and results of operations may be materially and adversely affected.

Pursuant to applicable PRC regulatory rules, the Bank publishes periodic financial information in the PRC which may differ from future audited or reviewed financial information.

According to applicable PRC securities regulations and Shanghai stock exchange listing rules, listed companies must publish their annual financial information (audited), semi-annual financial information (reviewed or audited) and quarterly financial information (no audit or review is required). In addition, listed companies can also publish financial information such as preliminary results on a voluntary basis. Quarterly financial information and preliminary results published by the Bank in the PRC, including the quarterly financial information published on 27 October 2018, are derived from the Bank's management accounts which have not been audited or reviewed by its independent auditors and therefore do not provide the same quality of information as reviewed or audited financial information and may deviate from any future audited information covering the same period. Investors should therefore not rely on the Bank's unaudited and unreviewed financial information from time to time published in the PRC when making their investment decision.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the consolidated indebtedness and capitalisation of the Bank as at 30 June 2018. Investors should read this table in conjunction with the Bank's Audited Financial Statements and Reviewed Interim Financial Statements and the notes thereto included elsewhere in the Offering Circular.

	As at 30 June 2018			
	Actual (RMB in million) *(reviewed)*	**Actual (U.S.$ in million)** [2] *(unreviewed)*	**As adjusted (RMB in million)** *(reviewed)*	**As adjusted (U.S.$ in million)** [2] *(unreviewed)*
Debt				
Debt securities issued	658,251	99,477	658,251	99,477
Other borrowings [1]	5,463,923	825,728	5,463,923	825,728
USD Notes to be issued	—	—	3,970	600
EUR Notes to be issued	—	—	2,318	350
Total debt	**6,122,174**	**925,205**	**6,128,462**	**926,155**
Equity				
Equity attributable to equity holders of the Bank				
Share capital	20,774	3,139	20,774	3,139
Preference stock	25,905	3,915	25,905	3,915
Capital reserve	75,011	11,336	75,011	11,336
Other comprehensive income	(1,441)	(218)	(1,441)	(218)
Surplus reserves	10,684	1,615	10,684	1,615
General risk reserve	71,095	10,744	71,095	10,744
Retained earnings	233,165	35,237	233,165	35,237
	435,193	**65,768**	**435,193**	**65,768**
Minority interests	5,854	885	5,854	885
Total equity	**441,047**	**66,653**	**441,047**	**66,653**
Total capitalisation [3]	**6,563,221**	**991,858**	**6,569,509**	**992,808**

(1) Calculated as the difference between total debt and debt securities issued.

(2) The translation of Renminbi amounts into U.S. dollars amounts and Euro amounts into U.S. dollars amounts has been made at the rate of RMB6.6171 to U.S.$1.00 and €1.00 to U.S.$1.1677, being the noon buying rate in New York City on 29 June 2018 as set forth in the weekly H.10 statistical release of the Federal Reserve Board of the Federal Reserve Bank of New York.

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

On 30 October 2018, the Bank issued a total amount of RMB30 billion of green finance bonds for a three year term with a coupon rate of 3.99 per cent. on the National Inter-bank Bond Market.

Except as disclosed above, there has not been any material change in the consolidated indebtedness and capitalisation of the Bank since 30 June 2018.

USE OF PROCEEDS

The net proceeds from the issue of the Notes will be used for financing or refinancing, in whole or in part, Eligible Green Assets (as defined below) that promote a green and low-carbon economy and provide clear environmental, sustainability and climate change benefits in accordance with certain prescribed eligibility criteria as described under the Green Bond Framework. See "*Green Bond Framework*".

"**Eligible Green Assets**" are those projects which fall within one or more of the eligible categories set out in the Green Bond Framework (as defined in "*Green Bond Framework*"). Such categories include: (i) renewable energy, (ii) energy efficiency, (iii) low carbon and low emission transportation and (iv) sustainable water and wastewater management. Specifically excluded from this definition are activities within and/or financings to industries involved in, among others, fossil fuel related assets, large scale hydro power plants, nuclear and nuclear-related assets and biomass which is suitable for human consumption.

Assets in all eligible categories shall attain at least the minimum environmental impact threshold required by relevant official standards recognised in the relevant jurisdiction. Where no official standards are locally recognised, corresponding international standards shall apply.

GREEN BOND FRAMEWORK

Certain information, data and statistics relating to the Bank in this Supplement have been obtained from public sources, including publicly available information. Although this information is believed to be reliable, it has not been independently verified by the Joint Global Coordinators, the Joint Lead Managers, the Agents or their respective directors and advisers, and none of the Joint Global Coordinators, the Joint Lead Managers, the Agents or their respective directors and advisers makes any representation as to the accuracy or completeness of that information.

The Bank first published its green bond framework (the "**Green Bond Framework**") on 7 November 2018 in accordance with:

(a) the Green Bond Principles 2018 (the "**GBP 2018**"), ICMA (the "**ICMA Green Bond Principles**");

(b) the Announcement of the People's Bank of China [2015] No.39 (中國人民銀行公告 [2015] 第39號) and the Catalogue of Projects Supported by Green Bonds (綠色債券支持項目目錄) promulgated by the PBOC on 15 December 2015 (the "**PBOC Green Bond Categories**"); and

(c) the Guidelines for Establishing the Green Financial System (Yinfa 2016 Doc No. 228) (PBOC, MOF, NDRC, Ministry of Environmental Protection, CBIRC and CSRC).

The Green Bond Framework is publicly available on the global website of the Bank at: www.cib.com.cn. As a branch of the Bank, the Issuer has adopted the Green Bond Framework of the Bank. The Green Bond Framework contains the following categories of Eligible Green Assets:

Eligible Green Assets Categories

The net proceeds of the issuance of any relevant green bond will be allocated to finance and refinance Eligible Green Assets in one or more of the following categories:

- **Renewable energy**: the production and transmission of renewable energy, including wind, solar, hydropower, bioenergy and geothermal energy, and the construction of infrastructure related to renewable energy, such as land development, construction of transport networks and base stations;
- **Energy efficiency**: the development and implementation of products or technology that enhance energy efficiency of the underlying products, assets or systems and achieve a minimum energy efficiency improvement of 20 per cent.;
- **Low carbon and low emission transportation**: the purchase and maintenance of electric public transportation assets, systems, infrastructure, components and services, including rail, tram, metro, bus rapid transit systems electric vehicles and hydrogen vehicles (for which purpose vehicles carrying fossil fuel products are excluded), construction, upgrading and/or maintenance of public transport infrastructure as electric rail networks and related infrastructure, such as communication, signalling and lighting systems; and
- **Sustainable water and wastewater management**: the design and implementation of integrated water resources management (including but not limited to agricultural and animal husbandry, irrigation and seawater desalination), construction and maintenance of sustainable clean and/or drinking water infrastructure and urban water networks and treatment and recycling of sewage.

Allocation Reporting

The Bank has committed to publishing an "Annual Green Bond Report" annually, which will provide information on amounts equal to the net proceeds of each green bond issued and provide:

(i) the aggregate amount and percentage allocated to various Eligible Green Assets categories;

(ii) the remaining balance of unallocated funds and the types of temporary investment (if applicable); and

(iii) description of significant Eligible Green Assets, defined as projects ranks top 10 per cent. in remaining balance of all Eligible Green Assets, or with remaining balance larger than RMB50 million, or with remaining balance larger than 1 per cent. of the outstanding balance of the green bond (subject to confidentiality disclosures).

Environmental Impact Reporting

Where possible, the Bank will report on the location of the environmental impact resulting from Eligible Green Assets.

Subject to the categories of Eligible Green Assets and the availability of information, the Bank aims to include, but not limited to, the following Impact Indicators (the "Indicators"):

- **Renewable Energy**: kWh of power generated from renewable energy and the amount of carbon dioxide or standard coal equivalent avoided;
- **Energy Efficiency**: kWh of energy saved per year and the percentage energy efficiency achieved;
- **Low carbon and low emission transportation**: amount of carbon dioxide or standard coal equivalent avoided, kilometres of tracks or dedicated lanes built (applicable to rail tram, metro and bus rapid transit systems), number of passenger transported (applicable to rail tram, metro and bus rapid transit systems), amount of vehicles built or served (applicable to electric vehicles and hydrogen vehicles); and
- **Sustainable water and wastewater management**: amount of water saved/recycled and amount of waste water treated.

External Review

The Bank has engaged The Center for International Climate and Environmental Research ("**CICERO**") to act as an external reviewer of the Green Bond Framework for alignment to the GBP 2018 and Deloitte to act as an external reviewer of the Green Bond Framework for alignment to the PBOC Green Bond Categories and other relevant PRC official guidelines. The opinions ("**Second Party Opinions**") by CICERO and Deloitte are publicly available on the Bank's official global website www.cib.com.cn. The Second Party Opinions extend to the Bank's adoption of the Green Bond Framework.

The Bank has engaged an independent third party to provide assurance ("**Assurance Report**") on its Annual Green Bond Report which will provide information on allocation and impacts. The Assurance Report will be published on the Bank's official global website www.cib.com.cn together with Annual Green Bond Report.

The HKQAA has certified that the Notes to be issued by the Bank comply with the requirements of the HKQAA Green Finance Certification Scheme. See "*The HKQAA Green Finance Certification Scheme*" below.

THE HKQAA GREEN FINANCE CERTIFICATION SCHEME

Information relating to the HKQAA in this Supplement have been obtained from public sources, including the Green Finance Certification Scheme Handbook (as defined below) and other publicly available information. Although this information is believed to be reliable, it has not been independently verified by the Issuer, the Bank, the Joint Global Coordinators, the Joint Lead Managers, the Agents or their respective directors, officers or advisers, and none of the Issuer, the Bank, the Joint Global Coordinators, the Joint Lead Managers, the Agents and their respective directors and advisers makes any representation as to the accuracy or completeness of that information.

The HKQAA

The HKQAA is a non-profit distributing organisation by the Hong Kong Government and is the only Hong Kong organisation accredited as a Designated Operational Entity by the Executive Board of the Clean Development Mechanism ("**CDM**") under the United Nations Framework Convention on Climate Change to deliver CDM validation and verification services.

The HKQAA Green Finance Certification Scheme

The HKQAA Green Finance Certification Scheme was developed with reference to, among others, the CDM, the ICMA Green Bond Principles and the PBOC Green Bond Categories. The benefits of the HKQAA Green Finance Certification Scheme include (i) an issuer being able to attract a larger and broader investor base that focuses on making environmentally-friendly investments, (ii) recognising an issuer's efforts in promoting environmentally-friendly investment, (iii) providing confidence to investors on the ongoing green performance of a particular debt instrument, (iv) encouraging the development of the green economy and (v) promoting a common understanding of green finance.

Under the HKQAA Green Finance Certification Scheme, an applicant may apply for either (i) a pre-issuance stage certificate or (ii) a post-issuance stage certificate.

An applicant may apply for a pre-issuance stage certificate ahead of an issuance of a Green Finance financial instrument. A Green Finance financial instrument is defined in the handbook of the HKQAA Green Finance Certification Scheme (the "**Green Finance Certification Scheme Handbook**") as a financial instrument for achieving economic growth while reducing pollution and greenhouse gas emissions, minimising waste and improving efficiency in the use of natural resources. A pre-issuance stage certificate is an "as-at" certificate and provides assurance that the applicant's past activities (up to the issuance date of the pre-issuance stage certificate) complies with the HKQAA Green Finance Certification Scheme.

As part of the application for a pre-issuance stage certificate, an applicant is required to complete the relevant application forms (including a self-declaration form) and provide an Environmental Method Statement to the HKQAA which will assess and validate its adequacy in producing a positive environmental effect. An Environmental Method Statement shall include:

(i) the intended secondary class of classification ("**Green Category(ies)**") in Appendix A of the Green Finance Certification Scheme Handbook and a description of the positive environmental effect resulting from such Environmental Method Statement;

(ii) a selection mechanism for projects proposed by the applicant to be funded by a specified financial instrument for achieving economic growth while reducing pollution and greenhouse gas emissions, minimising waste and improving efficiency in the use of natural resources, that either fulfil the eligibility criteria set by the applicant for the specific Green Category(ies) or have the capability to make a positive impact on the environment ("**Green Project(s)**") and Green Project eligibility criteria of the specified Green Category;

(iii) a Green Project evaluation mechanism;

(iv) a use and management of proceeds plan;

(v) an information disclosure plan;

(vi) an impact assessment plan; and

(vii) a plan to engage with the public, including individuals, groups or communities, affected, or likely to be affected, by the proposed project activity, or actions leading to the implementation of such an activity (a "**Stakeholder Engagement**" plan).

An annual surveillance assessment by the HKQAA to verify and examine the applicant's continual conformance and fulfilment of all the requirements under the HKQAA Green Finance Certification Scheme is not required.

When the HKQAA has completed its assessment and validation of the Environmental Method Statement and no non-conforming issues are outstanding, it will make a recommendation of certification to the Certification Review Board which reviews and approves the recommendation. Upon such approval, a pre-issuance stage certificate and a Certification Mark (a trademark designed by the HKQAA indicating that the applicant's Green Finance financial instrument is duly certified under the HKQAA Green Finance Certification Scheme) are issued to the applicant.

Once a pre-issuance stage certificate has been issued, the applicant's Environmental Method Statement will be accessible via the HKQAA website. Such pre-issuance stage certificate will only be valid if the applicant's Environmental Method Statement for the time being corresponds to the version of the applicant's Environmental Method Statement accessible via the HKQAA website.

If an applicant makes any change to its Environmental Method Statement after the issuance of a pre-issuance stage certificate, the corresponding pre-issuance stage certificate will be regarded as invalid. An applicant shall inform the HKQAA in writing for any change in its Environmental Method Statement within one month after the occurrence of any foreseeable or actual changes. An applicant has to make a new application to the HKQAA for the certification of the revised Environmental Method Statement.

On 30 October 2018, the HKQAA issued a pre-issuance stage certificate certifying that the Notes, which refers to the Notes described in this Supplement, comply with the requirements of the HKQAA Green Finance Certification Scheme. The Bank is the third financial institution issuer of green bonds to have received a pre-issuance stage certificate from the HKQAA.

HKQAA Certification Disclaimer

The issuance of the HKQAA Pre-issuance Stage Certificate relating to the Notes by the HKQAA is based solely on the Green Finance Certification Scheme Handbook and does not, and is not intended to, make any representation or give any assurance with respect to any other matter relating to the Notes or any Eligible Green Assets, including but not limited to the Principal Offering Circular, the Supplement, the transaction documents, the Bank or the management of the Bank.

The issuance of the HKQAA Pre-issuance Stage Certificate relating to the Notes by the HKQAA was addressed solely to the Bank and is not a recommendation to any person to purchase, hold or sell the Notes and such certification does not address the market price or suitability of the Notes for a particular investor. The certification also does not address the merits of the decision by the Bank, or any third party to participate in any Eligible Green Assets and does not express and should not be deemed to be an expression of an opinion as to the Bank or any aspect of any Eligible Green Assets (including but not limited to the financial viability of any Eligible Green Assets) other than with respect to conformance with the Green Finance Certification Scheme Handbook.

In issuing the HKQAA Pre-issuance Stage Certificate, HKQAA shall not be liable for any loss or damage suffered by any person whatsoever or howsoever caused by, arising from and/or in connection with, whether directly or indirectly, the certification of the Notes.

The HKQAA Pre-issuance Stage Certificate does not and is not in any way intended to address the likelihood of timely payment of interest when due on the Notes and/or the payment of principal at maturity or any other date.

The HKQAA Pre-issuance Stage Certificate may be withdrawn at any time in HKQAA's sole and absolute discretion and there can be no assurance that the HKQAA Pre-issuance Stage Certificate will not be withdrawn.

DESCRIPTION OF THE HONG KONG BRANCH

The section "Description of the Hong Kong Branch" in the Principal Offering Circular shall be deleted in its entirety and replaced with the following:

The Hong Kong Branch was established as the Bank's first overseas branch on 10 January 2014 with CBIRC's approval obtained in September 2012. The establishment of the Hong Kong Branch is an important step in implementing the Bank's strategy of overseas business expansion. The Hong Kong Branch currently possesses the banking license issued by HKMA and is fully qualified to engage in banking business under the laws of Hong Kong. The Hong Kong Branch is also applying for the licenses to carry out Type 1 regulated activities (Dealing in Securities) and Type 4 regulated activities (Advising on Securities) as set out in Schedule 5 to the Securities and Futures Ordinance of Hong Kong.

Business Activities

The Bank positions the Hong Kong Branch as its primary offshore investment and financing platform with a strategic vision to develop it into an offshore platform to offer comprehensive financial services to the Bank's overseas customers. To date, the Hong Kong Branch primarily provides the following financial services to overseas and Hong Kong local customers:

- settlement of cross-border transactions;
- corporate financing relating to offshore merger and acquisition financing and syndicate loans; and
- comprehensive financing solutions.

Since its establishment, the Hong Kong Branch has achieved stable growth. As at the date of this Supplement, the Hong Kong Branch has established cooperative relationships with more than 300 financial institutions in China, Hong Kong, the United States, Europe, Japan and Australia to conduct treasury operations, such as inter-bank money market activities, foreign exchange transactions, forwards, futures transactions and interest rate swaps. Among the corporate customers of the Hong Kong Branch are many large "blue chip" enterprises in China, Hong Kong and overseas.

As at 31 December 2015, 2016, 2017 and 30 June 2018, the Hong Kong Branch's total assets were RMB51,363 million, RMB125,795 million, RMB163,306 million and RMB173,064 million, respectively. For the year ended 31 December 2015, 2016 and 2017, the net profit of the Hong Kong Branch was RMB186 million, RMB696 million and RMB1,762 million, respectively. For the six months ended 30 June 2017 and 2018, the net profit of the Hong Kong Branch amounted to RMB1,274 million and RMB951 million.

Senior Management of the Hong Kong Branch

Mr. Xia Weichun (夏維淳) has been the chief executive of the Hong Kong Branch since June 2015. Mr. Xia previously served as deputy general manager of the general office of the Bank, president of the Ningde branch of the Bank and president of the Shijiazhuang branch of the Bank. Mr. Xia holds a master's degree in business administration from the Imperial College London.

Hong Kong Regulatory Guidelines

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

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

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

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

DESCRIPTION OF THE BANK

The section "Description of the Bank" in the Principal Offering Circular shall be deleted in its entirety and replaced with the following:

OVERVIEW

The Bank is an established nationwide joint stock commercial bank with strong competitiveness incorporated on 22 August 1988 with its headquarters in Fujian Province, China. It is among the first batch of commercial banks the establishment of which was approved by the State Council and PBOC at the state level. Through its nationwide and diversified distribution channels, the Bank provides a wide range of wholesale and retail banking and other financial products and services to its corporate and retail customers. In 2018, the Bank was ranked 26th in terms of Tier 1 Capital and 28th in terms of total asset by the British magazine "*The Banker*". The Bank was listed on the Shanghai Stock Exchange under stock code "601166" in February 2007.

Over the past few decades, the Bank has developed into a universal banking platform with comprehensive financial licenses that allow it to provide traditional banking, trust, futures, financial leasing, fund management, financing research and consultation services to its customers. The Bank believes that its strong full-service capability to offer comprehensive services to customers nationwide have transformed the Bank from a regional bank into a national commercial bank with a significant asset scale in China. As at 31 December 2015, 2016, 2017 and 30 June 2018, the Bank had total assets of RMB5,298,880 million, RMB6,085,895 million, RMB6,416,842 million and RMB6,563,221 million, respectively, and its gross loans and advances to customers totalled RMB1,779,408 million, RMB2,079,814 million, RMB2,430,695 million and RMB2,674,609 million, respectively. According to the annual financial information as at and for the six months ended 30 June 2018 published by the National Joint Stock Commercial Banks that are publicly listed in the PRC or Hong Kong, the Bank was ranked first among all nine publicly listed National Joint Stock Commercial Banks in terms of total assets as at 30 June 2018.

The Bank serves its customers through its comprehensive and diversified distribution channels, comprising physical branches and outlets and electronics platforms. As at 30 June 2018, the Bank had 143 branches, including the Hong Kong Branch, and it had 2,075 outlets and 6,884 ATMs in the PRC. In addition to its domestic presence, the Bank had more than 1,500 correspondence banks across approximately 100 countries and regions, and has established an e-Banking network comprising internet and telephone banking by leveraging on its advanced information technologies, thus providing an all-time access to the Bank's services around the globe.

The Bank prioritises and values innovation and it is dedicated to developing innovative financial services and products to adapt to the evolving market environment and to meet the changing needs of its customers. The Bank has introduced a number of "first-of-its-kind" financial products that have received positive responses from its corporate and retail customers. In addition to traditional banking products and services, the Bank develops and provides green financing for its customers in the environmental industries of renewable energy, carbon emission reduction, water resource utilisation and protection and waste water treatment. The Bank has been awarded the "Prize of Best Green Finance for Social Responsibility" (年度最佳綠色金融獎) by CBIRC for seven consecutive years from 2011 to 2017. In 2017, the Bank was awarded as the "Best Innovative Green Finance Bank" (最佳綠色金融創新銀行) and the "Best Corporate Social Responsibility Bank" (最佳公司社會責任銀行) by Asia Money. Furthermore, the Bank places significant emphasis on corporate social responsibility and was awarded "Annual Best Financial Institution with Social Responsibility" (年度最具社會責任金融機構獎) by the China Banking Association for seven consecutive years from 2011 to 2017. It is the first PRC bank to adopt the Equator Principles, which is a risk management framework for determining, assessing and managing environmental and social risk in project finance adopted by 94 financial institutions in 37 countries.

The Bank is dedicated to establishing and improving its risk management structure, procedures, tools and technologies to monitor, assess and manage credit, market, liquidity and operational risks. The Bank has set up a three-level risk management structure, consisting of its business departments, functional departments, risk management department and internal audit office. In addition, the Bank has established independent credit assessment, approval and monitoring procedures to identify and limit its exposure to high credit risk areas to improve the quality of its loan portfolio. As at 30 June 2018, the Bank's impaired loan ratio was 1.59 per cent., which was lower than the industry average of 1.86 per cent. reported by CBIRC.

With its international expansion strategy, the Bank in January 2014, which has been positioned as the Bank's primary offshore investment and financing platform to offer comprehensive financial services to the Bank's overseas customers. The Hong Kong Branch currently provides financial services to overseas and Hong Kong local customers, including settlement of cross-border transactions, offshore merger and acquisition financing and syndicate loans. In addition, the Bank plans to establish an international financial holding company in Hong Kong to capitalise the internationalisation of the RMB and China's "One Belt, One Road" strategy.

The Bank's financial performance and strengths have steadily developed over the past decades. For the years ended 31 December 2015, 2016, 2017 and 30 June 2017 and 2018, the Bank's net profit for the period was RMB50,650 million, RMB54,327 million, RMB57,735 million, RMB 31,839 million and RMB 33,838 million, respectively. The Bank's total assets and net profit attributable to equity holders have more than doubled during the period from 2011 to 2017.

The tables below set forth certain key financial indicators of the Bank as at and for the periods ended at the indicated dates:

As at 30 June 2018, the Bank had 143 branches, including the Hong Kong Branch, and it had 2,075 outlets and 6,884 ATMs in the PRC.

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	(RMB in million, except for percentage)			(RMB in million, except for percentage)	
Net Profit	50,650	54,327	57,735	31,839	33,838
Return on average total assets (per cent.) (1)	1.04	0.95	0.92	0.51	0.52
Return on average equity (per cent.) (2)	18.89	17.28	15.35	8.61	7.95
Non-interest income to operating income (per cent.) (3)	22.4	28.5	36.8	35.6	37.9
Cost to income ratio (per cent.) (4)	21.59	23.39	27.63	24.21	24.09

(1) Return on average total assets = net profit for the period/average total assets. Average total assets = (total assets at the beginning of the period + total assets at the end of the period)/2.
(2) Return on average equity = net profit attributable to ordinary shareholders of the Bank for the period / average equity attributable to ordinary shareholders of the Bank.
(3) Non-interest income to operating income = non-interest income/operating income.
(4) Cost to income ratio = (total operating expenses — business tax and levies — impairment loss)/operating income.

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	(RMB in million, except for percentage)			
Total assets	5,298,880	6,085,895	6,416,842	6,563,221
Total liabilities	4,981,503	5,731,485	5,994,090	6,122,174
Loans and advances to customers	1,724,822	2,007,366	2,348,831	2,585,301
Tier 1 Capital Adequacy Ratio (per cent.)	9.19	9.23	9.67	9.50
Core Tier 1 Capital Adequacy Ratio (per cent.)	8.43	8.55	9.07	8.94
Non-performing loan ratio	1.46	1.65	1.59	1.59
Provision coverage ratio	210.08	210.51	211.78	209.55

AWARDS

Over the years, the Bank and its financial services have received numerous honours and awards, including, among others:

2018

- Ranked No. 26 in terms of Tier 1 Capital and No. 28 in terms of total assets by *The Banker*;
- Ranked No. 62 among "China Top 500" and No. 237 among "Global Top 500" by *Fortune*;
- Ranked No. 62 among "Forbes Global 2000" by *Forbes*;
- Ranked No. 20 among "2018 Global Brand Finance 500" by *The Banker*;
- "Model Enterprise of Sustainable Development" awarded by *China Business*;

- "Green Finance Prize" and "Outstanding Transactional Bank" awarded by *National Business Daily*;
- "2018 Best Asset Management Bank", "2018 Outstanding Fin-Tech Bank" and "2018 Annual Payment Technology Innovation Prize" awarded by *21st Century Business Herald*;
- "Annual Best Green Financial Bank" awarded by *Asia Money*;
- "Annual People's Enterprise Social Responsibility" awarded by *People's Daily*;
- "Best Social Responsibility Management Prize", "Best Green Finance Prize" and "Best Social Responsibility Special Contribution Branch" awarded by the China Banking Association;
- "2018 China Excellent Trust Company" and "2018 China Excellent Financial Leasing Company Jun Ding Award" awarded by *Securities Times*; and
- "Top 10 Fin-Tech Product Innovation Prize" and "Top 10 Banking Intelligence Network Innovation Prize" awarded by *The Banker*.

2017

- "2017 Best Green Bank" awarded by *Global Banking & Finance Review*;
- Ranked No. 39 among "China Top 500" in terms of operating income and profits awarded by *Fortune*;
- Ranked No. 1 among "Top 50 World Banks" in terms of cost-to-income ratio by *The Banker*;
- Ranked No. 28 in terms of Tier 1 Capital and No. 30 in terms of total assets by *The Banker*;
- Ranked No. 21 among "World Banks" awarded by *Brand Finance*;
- Ranked No. 19 among "Best Global Brands" by *Interbrand*;
- Ranked No. 11 among "Asian Banks Competitive Rankings" by *Asia Ranks*;
- "2017 Fin-Tech Innovative Bank" and "2017 Active Innovation Credit Card" by *China Times*;
- "Best Corporate Social Responsibility Bank", "Annual Best Green Financial Bank" and "Best Green Financial Innovation Bank" awarded by *Asia Money*;
- "Top 10 Internet Finance Innovation Prize", "Top 10 Financial Products Innovation Prize (Corporate Banking)" and "Top 10 Family Trust Management Innovation Prize" awarded by *The Banker*;
- "Annual Outstanding Joint Stock Commercial Bank" awarded by *The Economic Observer*;
- "Annual Joint Stock Commercial Bank", "Outstanding Custody Service Bank" and "Best Internet Diversity and Financial Innovative Bank" awarded by *China Business Network*;
- "2017 Responsibility Enterprise" by *China News Weekly*;
- "Excellent Corporate Social Responsibility Prize" awarded by *The Mirror*;
- "Outstanding Board of Strategic Listed Companies" by *21st Century Business Herald*;
- "2017 Outstanding Trading Bank" awarded by *National Business Daily*;
- "Outstanding Social Responsibility Financial Brand for the Year" awarded by *The Financial Times*;
- The chairman of the Bank, Gao Jianping, was selected as one of the "China's Outstanding Financial Brand Figures" by *The Financial Times*; and
- "Universal Bank Investment Bank Jun Ding Award", "Financial Adviser Bank Jun Ding Award" and "Cross-border Financing Bank Jun Ding Award" awarded by *Securities Times*.

2016

- "2016 Outstanding Board of Directors of China Strategic Listed Companies" awarded by the *21st Century Business Herald*;
- The chairman of the Bank, Gao Jianping, was selected as one of the "Most Respected Chairmen in China's Listed Companies in 2016" by the *21st Century Business Herald*;
- "Outstanding Innovative Bank Award" awarded by *Economic Observer*;
- "Best Joint Stock Bank" awarded by *The Financial Times*;

- Ranked No. 2 in terms of revenue and No. 8 in terms competitiveness among 299 banks in 10 Asian countries (districts) awarded by the *21st Century Business Herald*;
- "2016 Asian Outstanding Commercial Bank" awarded by the *21st Century Business Herald*;
- Ranked No. 4 among "National Commercial Banks" awarded by *The Banker*;
- "Best Asset Management Bank" awarded by *The Banker*;
- "Best Private Bank in China — Most Innovative" awarded by *the Asia Fortune Forum*;
- Ranked No. 59 among "Forbes Global 2000" by *Forbes*;
- Ranked No. 2 among "Top 50 World Banks" in terms of cost-to-income ratio by *The Banker*;
- Ranked No. 195 among "Global 500" by *Fortune*;
- Ranked No. 6 among "Asian Banks on Competitiveness" and No.1 among the Nationwide Joint Stock Commercial Banks by *Asian Banks Competitive Rankings*;
- Ranked No. 35 among "Top 50 World Banks" in terms of total assets by *Standard & Poor's*;
- Ranked No. 130 among "China's 500 Most Valuable Brands" by *World Brand Lab*;
- Named "Best Bank with Investment Banking Business in China" and "Best Financial Advisor" by *Securities Times*;
- The chairman of the Bank, Gao Jianping, was selected as one of the "10 Most Influential Financial Figures" by *The Banker*;
- "Best Joint Stock Bank" award in 2016 from *The Financial Times*;
- "Best Wealth Management Bank" award in 2016 from *The Banker*;
- "Best Cash Management Bank" award in 2016 from *Treasury China*;
- "Best Financial Innovation Products" award in 2016 from *Treasury China*;
- "Excellent Competitiveness Financial Group" award in 2016 from *China Business News*; and
- "Excellent Competitiveness Joint Stock Commercial Bank" award in 2016 from *China Business News.*

2015

- Named "Golden Bull the Most Profitable Company" by *China Securities Journal*;
- Named "The Bank with the Highest Shareholders' Return in Asia" by *21 Century Asian Financial Annual Conference*;
- Named "Best Financial Inclusion Bank" by *Financial Times*;
- Named "Best Trustee Bank" by *China Business News*;
- Named "Best National Trade Finance Bank in China" by *The Asian Banker*;
- Named "Outstanding Asset Management Bank" and "Rising Private Bank" by *Shanghai Securities News;*
- Named "Excellent & Competitive Supply Chain Finance Bank" by *China Business Journal*;
- "Best Financial Innovation Award" by *National Business Daily* for the Bank's Xingdongli credit cards (興動力信用卡);
- "China Financial Innovation Award (Top Ten Internet Financial Innovation)" by *The Chinese Banker*;
- Named "Annual Financial Holding Group" and "Environmental Friendly Award" by *China Times*;
- "2015 Annual Award for the Technical Implementation of Anti-Money Laundering" by *The Asian Banker*;
- "Environmental Friendly Award" by *Xinhuanet;*
- "Best Green Finance Award" by *China Banking Association*;
- "Best Green Bank" by *CFO World*; and
- Ranked among "China's Top 100 Green Companies" by *China Entrepreneur Club*.

HISTORY AND MILESTONES

The following are the milestone events in the history of the Bank:

Year	Milestone
1988	The Bank was established with the approval of the State Council and PBOC at the state level under the name "Fujian Industrial Bank".
1996	The Bank set up branches in Shanghai, Shenzhen, Changsha, Beijing and Hangzhou under stock code "601166".
2003	The Bank was officially renamed as "Industrial Bank".
2004	Three international strategic investors invested in the Bank, namely Hang Seng Bank Limited, International Finance Corporation and Tetrad Ventures Pte Ltd.
2007	The Bank was listed on the Shanghai Stock Exchange under stock code "601166".
2010	The Bank completed RMB17.86 billion A-share placing, the largest placing in the PRC at that time.
	The Bank obtained the approval to establish Industrial Bank Financial Leasing Co., Ltd.
2011	The Bank acquired Union Trust Limited and renamed it "China Industrial International Trust Limited".
2013	The Bank set up CIB Fund Management Co., Ltd., China Industrial Guoxin Asset Management Co., Ltd. and Industrial Wealth Asset Management Co., Ltd.
2014	The Bank set up the Hong Kong Branch to implement of its international business expansion.
	The Bank issued its first tranche of preference shares totalling RMB13 billion in the PRC.
	The Bank issued Tier 2 Capital bonds totalling a principal amount of RMB20 billion in the PRC.
2015	Industrial Digital Financial Service Co., Ltd. and Industrial Economy Research Consultation Co., Ltd. were established.
	The Bank issued its second tranche of preference shares totalling RMB13 billion in the PRC.
2016	The Bank issued Tier 2 Capital bonds totalling a principal amount of RMB30 billion in the PRC.
	The Bank established a US$5,000,000,000 Medium Term Note Programme ("**MTN**") in September 2016.
2017	The Bank issued 1.72 billion share of A-shares totalling a principal amount of RMB26.0 billion in April 2017.
2018	The Bank renewed its MTN in February 2018. As at the date of this Supplement, the Bank had issued US$2.35 billion and €250 million notes under this MTN in six tranches, including a US$700 million 2.00 per cent. notes due 2019, a US$300 million 2.375 per cent. notes due 2021, a US$600 million 3.50 per cent. notes due 2021, a US$250 million 3.75 per cent. notes due 2023, a US$500 million floating rate notes due 2023 and a €250 million floating rate notes due 2021.

COMPETITIVE STRENGTHS

The Bank believes that the following are its key competitive strengths:

An established national commercial bank with strong competitiveness and innovation capabilities

The Bank is an established national joint stock commercial bank with strong competitiveness founded in August 1988 with its headquarters in Fujian Province, China. It is among the first batch of commercial banks the establishment of which was approved by the State Council and PBOC at the state level. After decades of development, the Bank has established its strong competitiveness in the PRC banking industry. In 2018, the Bank was ranked 26th in terms of Tier 1 Capital and 28th in terms of total asset by the British magazine *The Banker*. The Bank was ranked 62nd among the "Forbes Global 2000" by *Forbes* in 2018, 39th among the "China 500" and 230th among the "Global 500" by *Fortune* in 2017.

The Bank believes that its strong competitiveness and market position have been largely attributable to its strong innovation capabilities, with which the Bank has been able to improve its business model, products, distribution channels and information technologies.

- *Corporate culture emphasising innovation*. The Bank prioritises and values innovation. It adopts a market-oriented principle and has been committed to researching some of the most cutting-edge sectors of the banking industry, such as financial services relating to China's urbanisation and aging society. The Bank accelerates the introduction of new products and explores the "internet + bank + platform" financing model to expand its customer base. See "*— The Bank's Principal Business Activities — Corporate Banking Business — Small and Micro Enterprises Business*". The Bank is the first bank to adopt the Equator Principles in China, which is a risk management framework for determining, assessing and managing environmental and social risk in project finance adopted by 94 financial institutions in 37 countries. The implementation of the Equator Principles demonstrates the Bank's attention to corporate social responsibility, including robust standards for indigenous peoples and labour standards. As of 30 June 2018, the Bank provided loans to 364 projects with a total amount of RMB1,506 billion under the Equator Principles.
- *Innovative products*. The Bank has introduced a number of "first-of-its-kind" financial products that have received responses from customers, such as "Ziran Rensheng" (自然人生), "Anyu Rensheng" (安愉人生) and "Huanyu Rensheng" (寰宇人生) which are personal loan products targeting different groups of customers. In 2017, the Bank was awarded the "Top 10 Internet Finance Innovation Prize", "Top 10 Financial Products Innovation Prize (Corporate Banking)" and "Top 10 Family Trust Management Innovation Prize" by *The Banker*. It has leveraged on its in-depth understanding about the market and needs of its customers, and has diversified its product portfolio to provide easily accessible financial services and financing solutions for small and micro enterprises. In recent years, the Bank further expanded into "green financing" to respond to the financing needs of enterprises operating in the environmental industries of renewable energy, carbon emission reduction, water resource utilisation and protection and waste water treatment. The Bank actively promotes the branding of "Green Bank" and continues to expand its influences by providing financing to energy conservation and environmental protection projects. The Bank was awarded "Prize of Best Green Finance for Social Responsibility" (年度最佳綠色金融獎) by CBIRC for seven consecutive years from 2011 to 2017.
- *Innovative distribution channels*. With an aim to improve customer loyalty and value, the Bank has made significant investment in promoting its mobile banking, direct banking and online commerce platform and improving the quality and synchronisation of its "online-to-offline" banking services. The Bank believes that its diversified and innovative distribution channels afforded by its advanced information technologies have provided customers all-time access to its services around the globe regardless of where they are physically located. The Bank believes that its efforts has further improved customer experience and help it to expand its customer base and grow business.
- *Advanced information technologies*. The Bank's advanced information technologies have enabled it to maintain a competitive position in product innovation. Since its establishment, the Bank has focused on implementing its "technology driven" development strategy. The Bank believes that it is one of the few PRC banks that possess proprietary technologies and intellectual property rights for its core operating system, especially its back office operating systems.

A universal banking platform providing comprehensive modern financial services and synergy to grow its business and improve its profitability

The Bank believes that its established market position and strong brand awareness are to a large extent attributable to its capabilities to provide customers with diversified modern financial services. As at the date of this Supplement, the Bank is one of the few PRC commercial banks that have obtained a majority of the principal financial licenses that allow it to engage in banking, trust, futures, financial leasing, fund, consumer finance, asset management, research and consultation, and digital finance. It has proactively developed licensed non-banking financial businesses, such as fund management, trust management, asset management, consumer finance, internet finance, financial leasing and financial search and consultation with a view to satisfying its customers' increasingly diversified needs for integrated financial services. The Bank believes that its comprehensive financial licenses have created a universal banking platform that provides it with the capabilities to offer a broad range of financial services to customers. By operating as an integrated financial group, the Bank believes that resources sharing among its different business segments and cross selling efforts have given and will continue to give the Bank opportunities to grow its business and improve its profitability.

A leader in providing services to financial institutions

The Bank believes that it has established a leading position in the provision of financial services to financial institutions. The Bank has established long-standing co-operation relationships with more than 1,000 domestic and overseas commercial banks, securities firms, funds, insurance companies, trust investment companies, finance companies affiliated to business corporations, financial leasing companies and other financial institutions. In 2015, the Bank introduced an online banking transfer system which connected it with 103 securities companies as at 30 June 2018, and it has also established co-operation relationships with 61 trust companies representing approximately 96.0 per cent. of the market coverage. In addition, the Bank is one of the first batch of banks to provide agency settlement services in the PRC and is an associate member of the Insurance Asset Management Association of China and a member of the Shanghai Clearing House.

The Bank has introduced the "Bank-to-Bank Platform" (銀銀平臺) which is an integrated service system providing comprehensive "online-and-offline" financial services to various collaboration banks covering wealth management, payment and settlement, technological management output, training services, financing services and capital restructure. As at 31 December 2015, 2016, 2017 and 30 June 2018, the Bank had 653, 1,078, 1,324 and 1,382 contracted customers, respectively, of its "Bank to Bank Platform". In addition, as at 30 June 2018, the Bank co-operated with 355 commercial banks to establish a banking information systems which the Bank believes is one of the largest information systems for commercial banks. The "Bank-to-Bank Platform" has won awards from many authoritative media, such as sina.com, *Shanghai Securities News and 21st Century Business*.

Strong cost control capability

For the six months ended 30 June 2018, the Bank achieved net profit of RMB33,838 million, making the Bank one of the most profitable nationwide joint stock commercial banks in China. The Bank was awarded "The Bank with the Highest Shareholders' Return in Asia" by 21 Century Asian Financial Annual Conference in 2015. The Bank believes that its strong cost control capability has enabled it to achieve increasing income and profitability, and is key for the Bank to compete with other commercial banks in the PRC. As at 31 December 2015, 2016, 2017 and 30 June 2017 and 2018, the cost to income ratio of the Bank was 21.59 per cent., 23.39 per cent., 27.63 per cent. 24.21 per cent. and 24.09 per cent. respectively. In 2017, the Bank was ranked first among the "Top 50 World Banks" in terms of cost-to-income ratio by The Banker. The Bank increased its income by optimising its capital structure, strengthening its business structure and capital base, innovating its business model and financial products, enhancing its synergy within the Group and expanding its distribution channels. In addition, the Bank strives to control its costs by developing an internal fund transfer pricing system, internal accounting management system and key performance indicator system to better control its cost and restrict its investment in low efficiency resources.

Prudent and comprehensive risk management and solid asset quality

The Bank has been committed to establishing and improving its risk management structure, procedures, tools and technology to monitor, assess and manage credit, market, liquidity and operational risks. The Bank has formulated an annual credit policy, implemented a differential credit policy of "assuring supply, control and stock compression", actively supported the development of the real economy and optimised the allocation of credit resources. The Bank also actively implements the green credit policies and prioritises supporting green industries. The Bank uses exposure limits on certain restricted industries with high energy consumption, high pollution or overcapacity (兩高一剩). The Bank has established independent credit assessment, approval and monitoring procedures, and rationalised its loan asset portfolio by establishing procedures to identify and limiting its exposure to high credit risk areas. The Bank uses advanced market risk and liquidity risk monitoring and analysis tools in order to identify, measure and manage liquidity risk and market risk. Through these processes the Bank has sought to cultivate a culture of prudent and comprehensive risk management across its business.

The Bank has set up a three-level risk management structure, consisting of its business departments, functional departments and risk management department, and internal audit office. The Bank's business departments, as level one of its management system, are directly responsible for risk management. The functional department and risk management department at the Bank's head office, as level two of its management system, are responsible for establishing risk management policies and procedures, and co-ordinating, supporting, supervising and reporting risk management. The internal audit office, as level three of the system, is responsible for evaluating the adequacy and effectiveness of its risk management policies and procedures.

The Bank believes that its advanced technologies provide strong support for implementing its risk management system and measures. The Bank is one of the first PRC commercial banks that established an integrated emergency back-up system, comprising main data centres, local emergency back-up centres and cross-region emergency back-up centres. In addition, the Bank is one of the first PRC commercial banks that have been accredited to meeting the international five-level emergency back-up standards as well as the emergency back-up standards published by the PBOC. The Bank's prudent risk management has enabled it to maintain solid asset quality. As at 30 June 2018, the Bank's non-performing loan ratio was 1.59 per cent., which was lower than the industry average of 1.86 per cent. reported by CBIRC.

Significant business growth and solid capital base with strong support from its largest shareholder

The Bank enjoys strong support from its largest shareholder, Fujian Provincial Department of Finance (福建省財政廳). As the sole publicly listed and national bank headquartered in Fujian Province, the Bank believes that it has benefited and will continue to benefit substantially from the support of the Fujian Provincial Government. The Fujian Provincial Department of Finance provides strong, stable and continuous support to the Bank by participating in Bank's capital replenishment. The Fujian Provincial Department of Finance increased its capital investment in the Bank by an amount of RMB3,744 million in 2010 and subscribed for preference shares of RMB2.5 billion when the Bank issued its RMB13 billion preference shares in 2014.

The Bank has strived to maintain a strong capital base to strengthen its risk management capabilities by issuing the Bank's first tranche of RMB13 billion preference shares and the second tranche of RMB13 billion preference shares in the PRC in 2014 and 2015, respectively, and the issuance of the Bank's Tier 2 Capital securities in the amount of RMB20 billion and RMB30 billion in 2014 and 2016, respectively. As a result, the Core Tier 1 Capital Adequacy Ratio, Tier 1 Capital Adequacy Ratio and Capital Adequacy Ratio of the Bank was 8.94 per cent. 9.50 per cent. and 11.86 per cent., respectively, as at 30 June 2018.

With the support from its largest shareholder, the Bank's financial performance and strengths have significantly developed over the past few decades. As at 31 December 2015, 2016, 2017 and 30 June 2018, the Bank had total assets of RMB5,298,880 million, RMB6,085,895 million, RMB6,416,842 million and RMB6,563,221 million, respectively, and its gross loans and advances to customers totalled RMB1,779,408 million, RMB2,079,814 million, RMB2,430,695 million and RMB2,674,609 million, respectively. For the years ended 31 December 2015, 2016, 2017 and the six months ended 30 June 2017 and 2018, the Bank's net profit was RMB50,650 million, RMB54,327 million, RMB57,735 million, RMB31,839 million and RMB33,838 million, respectively.

An experienced management team

The Bank's senior management team has extensive experience in the PRC commercial banking industry. The chairman of the Bank, Mr. Gao Jianping, and the president of the Bank, Mr. Tao Yiping, both have more than 20 years of experience in the PRC banking industry.

The Bank's senior management also has long-term strategic vision and keen insight into the PRC banking industry. Under their leadership, the Bank has actively responded to changes in the external environment, continued its product development and business innovations and established powerful information technology systems. The Bank's senior management team has led its transformation from one of the leading tradition bank to a large comprehensive financial services provider.

Although the Bank has faced adverse external conditions caused by the liberalisation of interest rates as well as increasing competition in the industry, the Bank has continued its prudent operations, accelerated its business transformation and maintained smooth and steady development under the leadership of its management team. The Bank believes that its strong management team will be able to lead it in maintaining its competitive advantages in the future, laying a solid foundation for its long-term sustainable growth.

THE BANK'S STRATEGIES

The Bank aims to transform itself into a modern financial services institution with its comprehensive financial licenses. The Bank aims to strengthen its risk management and focus on business innovation to realise sustainable development to realise increased profitability and solid asset quality. The Bank intends to achieve these through the following strategies:

Enhancing intra-bank synergy to satisfy customers' increasingly diversified needs for integrated financial services

The Bank is one of the few PRC commercial banks that have obtained a majority of the principal financial licenses that allow it to engage in banking, trust, futures, financial leasing, fund management, financing research and consultation, and third-party payment operations. This business combination has created a universal banking platform that provides the Bank with the ability to offer a broad range of financial products and services and enables it to establish stronger relationship with strategically targeted customers and strengthen customer loyalty. By operating as an integrated financial group, the Bank believes that its resources sharing among the Bank's different business segments and cross selling efforts have given and will continue to enhance its external synergy.

Intra-bank synergy promotes cost effectiveness and helps the Bank to generate a higher profit margin. The Bank has built up uniform key performance indicator review system and realised uniform management of risk management policies and risk preferences. The Bank continues to promote synergies among members of the Group by cooperating with its subsidiaries to conduct financial leasing, fund management and consumer financial businesses. The Bank will continue to improve its efficiency in internal operations management by connecting office systems, centralising the management of office building leasing, standardizing financial management and sharing IT systems and infrastructure within the Group.

While the Bank promotes synergies within the Group, the Bank centralises strategic planning and development at the group level and enhances brand management to enable the Bank to benefit from the economy of scale and brand recognition, as well as to improve efficiency of resource utilisation.

Sticking to the Bank's Internationalisation Strategy

The Hong Kong Branch was established as the Bank's first overseas branch in January 2014. The establishment of the Hong Kong Branch is an important step to implementing the Bank's strategy of international expansion. The Bank positions the Hong Kong Branch as its primary offshore investment and financing platform with a strategic vision to develop it into an offshore platform which is able to offer comprehensive financial services to the Bank's overseas customers. See "*Description of the Hong Kong Branch*".

In addition to the Hong Kong Branch and its outlets in free trade zones in the PRC, the Bank plans to establish an international financial holding company in Hong Kong to capitalise the internationalisation of the RMB and China's "One Belt, One Road" strategy. With the internationalisation of its "Bank-to-Bank Platform" (銀銀平臺), cross-border Renminbi transactions, and increasing demand for overseas financial services from its private banking customers and the construction preparation of international financial holding company, the Bank aims to provide comprehensive financial services to its customers all over the world.

Continuing to improve business and operating model to achieve sustainable growth

The Bank believes that its sustainable business growth in the future to a large extent relies on, and will continue to benefit from, a business and operating model that is able to respond to the changing market dynamics and competition landscape in an effective and timely manner. The Bank will continue to strategically transform its business and operations from the traditional model driven by lending and deposit to one that focuses on provision of quality intermediary services, such as settlement, investments and treasury operations. In the meantime, it plans to make significant investments in wholesale banking, business solutions, retail banking and asset management as well as international business expansions, thereby improving its capital structure and further enhance its competitive strengths. Furthermore, it will focus on exploring potential cross selling opportunities and synergies across different business segments, offices, PRC domestic and overseas markets, and online and offline markets.

Proactively addressing the customers' need by continuing its focus on product and business model innovation

The Bank aims to optimise its business operations by focusing on new business with large-growth potential, including, individual loans, trade finance and loans to SMEs, as well as high-growth industries, such as service sectors and environmental industries of renewable energy, to further develop its customer base and targeted markets. In addition, the Bank continues to focus on innovation of off-balance sheet business to diversify its revenue sources.

Developing the mobile and electronic form of banking through innovations is a key strategy of the Bank in order to be at the forefront of a market where customer's banking needs are rapidly changing. The advanced technological strengths has provided the Bank with a solid advantage in the Bank's internet banking business. The Bank launched the "Bank-to-Bank Platform" (銀銀平臺) providing online and offline financial services to other collaborative banks by offering comprehensive financial solutions relating to wealth management, payment and settlement, training services, financing services and capital restructure. In addition, the Bank introduced "QianDa Money Manager", which is an online financial platform providing comprehensive asset management products issued by commercial banks, trusts, funds and insurance companies. As at 30 June 2018, "QianDa Money Manager" had approximately 11.7 million registered users.

Focusing on increasing the synergy between the Bank's domestic operations and overseas operations to create additional business opportunity, the Bank diversifies its product portfolio and increases overall profitability. The Bank settled cross-border transaction in the total amount of US$74.7 billion as at the six months ended 30 June 2018.

Continuing to strengthen the risk management system in order to maintain solid asset quality

The Bank believes effective risk management and solid asset quality are essential components of its overall business strategy. The Bank plans to continue to align its risk management and internal control capabilities. The Bank intends to continue to implement enhanced risk management procedures for credit exposures, such as improving its risk warning and early identification and prevention capabilities. The Bank is also instituting changes to further strengthen the independence of its internal control functions and to improve its bank-wide internal control systems. The Bank also seeks to continue to improve its risk management capabilities by enhancing its asset and liability management capabilities and by further centralising its risk management.

Continuing to invest in information technology infrastructure and to utilise advanced technology to support the Bank's growing business

The Bank aims to further invest in information technology infrastructure and to apply data analytics, cloud computing and mobile internet technologies in areas such as marketing and sales, customer services, product innovation and risk control in order to support its business. The Bank intends to use the technology at its disposal to gain more insight into its customers' demands, to increase its risk management capabilities and effectiveness, to strengthen dynamic risk assessment and real time alert controls and to develop an integrated platform combining online and offline services for its customers.

RECENT DEVELOPMENTS

On 27 October 2018, the Bank published its unaudited and unreviewed quarterly financial information for the nine months ended 30 September 2018. For the nine months ended 30 September 2018, the Bank's operating income increased compared to the same period in 2017, which was largely attributable to an increase in its net interest income as a result of the increased net interest spread and the growth of interest-earning assets. For the nine months ended 30 September 2018, the Bank's operating profit and net profit increased compared to the same period in 2017, mainly due to an increase in operating income from intermediary businesses and an increase in investment income. As at 30 September 2018, the Bank's non-performing loan ratio demonstrated a slight increase compared to the nonperforming loan ratio as at 30 September 2017, which was mainly due to the deterioration of the Bank's clients' economic conditions resulting from a slowdown of the PRC economy. The Bank will continue to adhere to its stringent and prudent risk management policies to maintain its financial health and to achieve stable business and financial growth. The Bank will also continue to explore low-cost financial resources through diversified channels, including but not limited to the equity and debt capital markets, to strengthen its capital base.

The Bank's quarterly financial information for the nine months ended 30 September 2018 may differ from future audited or reviewed information and is not included in and does not form part of the Offering Circular and is not incorporated, directly or indirectly, in any form or manner, into the Offering Circular. Investors should therefore not rely on the Bank's quarterly financial information for the nine months ended 30 September 2018 in making their investment decision (see "*Risk Factors — Risks relating to the Bank's Business — Pursuant to applicable PRC regulatory rules, the Bank publishes periodic financial information in the PRC which may differ from future audited or reviewed financial information.*").

THE BANK'S PRINCIPAL BUSINESS ACTIVITIES

The Bank's principal lines of business consist of corporate banking, personal banking and treasury operations. The Bank has historically conducted its business activities in China and Hong Kong. In January 2014, the Bank opened its first overseas branch in Hong Kong, which the Bank positions as its major operating and investment platform outside China. The following table sets forth a geographical analysis of the operating profit of the Bank in China for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	(RMB in million)				
Head office	31,871	44,601	33,220	17,364	18,868
Fujian	1,988	2,352	6,664	3,899	3,692
Beijing	2,781	1,828	5,884	2,481	2,448
Shanghai	5,658	2,687	5,859	3,041	2,052
Guangdong	(540)	1,684	5,467	2,566	2,156
Zhejiang	1,259	628	(1,328)	(437)	(20)
Jiangsu	3,258	2,687	128	292	965
Northeast and other regions of China	5,672	4,364	3,488	3,806	1,814
Western China	5,931	632	(122)	623	2,727
Central China	4,932	1,957	5,553	3,106	3,399
Total	**62,810**	**63,382**	**64,813**	**36,741**	**38,101**

For the six months ended 30 June 2018, the Bank's operations in its head office recorded an operating profit of RMB18,868 million, representing an increase of RMB1,504 million or 8.7 per cent. compared with the six months ended 30 June 2017. Operations of the head office contributed 49.5 per cent. of the Bank's total operating profit for the six months ended 30 June 2018.

For the six months ended 30 June 2018, the Bank's operations in other regions recorded an operating profit of RMB19,233 million, representing a decrease of RMB144 million compared with the six months ended 30 June 2017. The Bank's operations in other regions contributed 50.5 per cent. of the Bank's total operating profit for the six months ended 30 June 2018.

The Bank's operating income comprises net interest income and non-interest income. The following table sets forth the details of the operating income for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	(RMB in million) *(audited)*			(RMB in million) *(reviewed)*	
Interest income	255,972	236,279	252,644	121,872	135,283
Interest expense	(136,138)	(123,960)	(164,193)	(77,869)	(89,684)
Net interest income	**119,834**	**112,319**	**88,451**	**44,003**	**45,599**
Fee and commission income	33,592	38,682	42,027	19,731	22,011
Fee and commission expense	(1,402)	(2,130)	(3,288)	(1,421)	(1,894)
Net fee and commission income	**32,190**	**36,552**	**38,739**	**18,310**	**20,117**
Investment (losses) income	3,482	11,836	4,514	3,190	7,307
Gains (losses) from changes in fair values	1,378	(3,756)	(622)	(979)	4,417
Foreign exchange gains (losses)	(2,850)	(105)	7,386	3,252	(4,578)
Gains on disposal of assets	—	27 (1)	69	29 (1)	6
Other gains	—	—	257	221 (1)	248
Other operating income	314	214	1,181	331	269
Operating income	**154,348**	**157,087** (1)	**139,975**	**68,357** (1)	**73,385**

(1) This line item for the year ended 31 December 2016 in the Bank's consolidated financial information as at and for the year ended 31 December 2017 has been restated. The restatement was made based on newly promulgated and amended accounting rules, including Accounting Standards for Business Enterprises

No. 42 – Non-current Assets Held for Sale, Disposal Groups and Discontinued Operation" (Cai Kuai [2017] No. 13) and "Notice on the Revision of the Format for Issuing General Enterprise Financial Statements" (Cai Kuai [2017] No. 30), which added new statement items including "gains on disposal of assets", "net profit from continuing operation" and "net profit from discontinued operation", and adjusted the calculation scope of non-operating income and non-operating expenses.

For the year ended 31 December 2017 and the six months ended 30 June 2018, the Bank recorded net interest income of RMB88,451 million and RMB45,599 million, respectively, representing 63.2 per cent. and 62.1 per cent., respectively of its total operating income. The following tables set forth the details of interest income and interest expenses for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	(RMB in million) *(audited)*			(RMB in million) *(reviewed)*	
Interest income:					
Balances with Central Bank	6,497	5,898	6,813	3,282	3,279
Amount due from banks and other financial institutions	3,894	2,052	1,991	950	1,854
Placements with banks and other financial institutions	2,095	1,132	1,337	543	837
Financial assets held under resale agreements	27,382	4,511	2,879	1,259	1,725
Loans and advances to customers	101,750	95,505	104,760	50,568	58,223
Bonds and other investment	108,019	121,147	128,567	62,338	65,503
Finance lease	5,367	4,923	5,472	2,641	2,946
Others	968	1,111	825	291	916
Subtotal	**255,972**	**236,279**	**252,644**	**121,872**	**135,283**
Interest expenses:					
Amount due to Central Bank	(1,801)	(3,972)	(7,105)	(3,286)	(4,098)
Amount due to banks and other financial institutions	(57,897)	(49,291)	(64,123)	(31,494)	(32,401)
Placements from banks and other financial institutions	(3,785)	(3,605)	(6,185)	(2,640)	(4,180)
Financial assets sold under repurchase agreements	(2,427)	(2,058)	(3,358)	(1,478)	(1,853)
Amount due to customers	(57,422)	(42,313)	(54,891)	(25,627)	(31,763)
Debt securities issued	(12,673)	(22,569)	(28,390)	(13,236)	(15,302)
Others	(133)	(152)	(141)	(108)	(87)
Subtotal	**(136,138)**	**(123,960)**	**(164,193)**	**(77,869)**	**(89,684)**
Net interest income	**119, 834**	**112,319**	**88,451**	**44,003**	**45,599**
Including: interest income accrued on impaired financial assets	907	1,133	1,173	637	615

Corporate Banking Business

Overview

The Bank provides its corporate banking customers with diversified financial products and services, including corporate loans, corporate deposits, bill discounting, clearing and settlement, industrial finance, green financial service, trade finance, cash management, investment banking, small and micro enterprises business and institutional banking business. The Bank's major corporate banking customers include state-owned enterprises, private enterprises, governmental departments and other institutional customers in China. Corporate banking business is a major source of the Bank's operating income and contributes to a significant source of its operating income. As at 30 June 2018, the Bank had approximately 664,312 corporate financial customers. The Bank delivers its corporate finance products and services through a combination of its branch network, service centres and online banking platform.

Corporate Loans

Corporate loans have historically constituted the largest component of the Bank's loan portfolio. The Bank's corporate loans consist of short-term loans and medium and long-term loans. As at 31 December 2015, 2016, 2017 and 30 June 2018, the Bank had RMB1,197.6 billion, RMB1,271.3 billion, RMB1,482.4 billion and RMB1,587.2 billion of corporate loans outstanding, respectively.

Short-term Loans

Short-term loans have maturities of no more than one year. The Bank's short-term loans primarily include working capital loans and trade finance. The Bank provides revolving loans to its larger corporate customers to meet their special working capital or cash flow needs.

Medium and Long-term Loans

Medium-term loans have maturities of longer than one year but no more than five years, and long-term loans have maturities of more than five years. The Bank provides medium and long-term loans to its corporate customers for a wide range of business purposes, including infrastructure development and construction, technology innovation and working capital.

Consistent with its focus on credit quality and diversification, the Bank lends to corporate borrowers in a wide range of industry sectors and across all geographic regions of the PRC. The Bank's corporate loans as at 30 June 2018 were mainly concentrated in the industries of manufacturing, wholesale and retail, real estate and leasing and commercial services, which collectively accounted for 63.7 per cent. of total corporate loans.

Corporate Deposits

The Bank offers two principal deposit products in Renminbi and major foreign currencies to its corporate customers, namely interest-bearing demand deposits and time deposits. Demand deposits accrue interest that is paid out on a quarterly basis, and account holders may withdraw their funds at any time. Time deposits require that the customer maintain a deposit for a fixed term, during which interest accrues at a fixed rate. Account holders may withdraw funds prior to maturity with interest payments calculated based on the demand deposit interest rate. The Bank's additional deposit products include deposit agreements, negotiated deposits and call deposits. As at 31 December 2015, 2016, 2017 and 30 June 2018, the Bank's corporate deposits amounted to RMB1,841.5 billion, RMB2,146.5 billion, RMB2,456.9 billion and RMB2,396.3 billion, respectively. Under existing PRC regulations, interest rates on the Renminbi-denominated demand and regular time deposits granted by PRC commercial banks, such as the Bank, cannot be higher than 150 per cent. of the relevant PBOC benchmark rate.

Bill Discounting

The Bank offers bill discounting by providing its customers with cash for their unmatured bills of exchange. This facility is provided by the Bank to its customers as a source of short-term financing. The interest rate the Bank charges for bill discounting varies based on the credit worthiness of the customers and the prevailing market conditions of bill discounting. The Bank may have these instruments re-discounted with the PBOC or other financial institutions authorised to conduct bill discounting business, providing it with liquidity and income. In addition to bank acceptance bills, the Bank also purchases commercial acceptance bills issued by certain major entities with high credit ratings. As at 30 June 2018, the Bank had RMB69,571 million in outstanding discounted bills, representing 2.6 per cent. of its gross loans and advances to customers.

Clearing and Settlement

The Bank provides domestic and international settlement services to its corporate customers. The Bank's domestic settlement products primarily include drafts, promissory notes, cheques, Renminbi Remittance, domestic letters of credit and traveller's cheques. The Bank's international settlement products mainly include international letters of credit, export collection, import collection, E-customs clearance and outward remittance. The Bank also provides salary payment, collection and payment, as well as domestic and foreign currency exchange services. The Bank is among the first group of domestic banks in the PRC authorised to provide cross-border Renminbi services. The Bank also provides various services relating to financial and non-financial guarantees for the benefit of third parties.

Green Financial Service

Catering to financial needs from enterprises in environmental industries of renewable energy, carbon emission reduction, water resource utilisation and protection and waste water treatment, the Bank provides green financing to its customers. The Bank actively promoted the branding of "Green Bank" and continued to expand its influences by providing financing to energy conservation and environmental protection projects. As at 30 June 2018, the Bank had granted green financing totalling RMB1,575 billion to more than 15,000 customers. In August 2018, the Bank was awarded "Green Finance Award" by *National Business Daily*.

In January 2016, the Bank successfully issued the first domestic green bonds in China. In addition, the Bank registered and issued the first-ever green Chinese medium term notes on the National Association of Financial Market Institutional Investors. The Bank was the first financial institution in China to sign the Statement by Financial Institutions on Energy Efficiency.

Trade Finance

The Bank provides domestic and international trade finance services to its customers and sticks to national "One Belt, One Road" strategy and the construction of free trade zone.

The Bank's trade finance primarily involves financing services for companies engaging in the procurement of commodities or sale of goods, or operating import and export businesses. The Bank's domestic and international trade finance products and services include packaged loans, import/export bill purchase, domestic/international forfaiting, import financing collection, import/export remittance financing, export invoice financing, import and export factoring, export factoring financing, bill purchase by the buyer/seller, letter of credit negotiation, payment on behalf of others under letter of credit, risk participation under letter of credit, domestic factoring and chattel mortgage. The Bank actively utilised international factoring to help small and medium-sized foreign trade enterprises to avoid the risks from exported exchange collections and provide financing facilities.

Cash Management

In order to meet the growing demand of the Bank's corporate customers for centralised cash management services, the Bank provides customers with collection, payment, account management and working capital position management services.

Investment Banking

The Bank's investment banking business consists primarily of debt financing, underwriting of corporate debt financing instruments such as commercial paper, medium-term notes and financial bonds, merger and acquisition financing and consultancy, syndicated loan arrangement and management services, financial consulting and advisory services and asset securitisation. Over the past few years, due to the continuous innovation of its investment banking business, the Bank has successfully completed a number of significant deals in the PRC.

In recent years, the Bank has adopted the following measures to promote the stable growth and structural optimisation of its investment banking business:

- the Bank sped up the exploration of capital-based financing services by focusing on merger and acquisition financing and consultancy;
- the Bank promoted innovative services and products such as perpetual bonds;
- the Bank actively led and participated in syndicated loan projects; and
- the Bank optimised the investment banking business system and broadened its sales channel.

In 2015, 2016 and 2017, the Bank underwrote the issuance of debt financing instruments with an aggregate principal amount of RMB384.2 billion, RMB407.9 billion and RMB328.9 billion, respectively. In the six months ended 30 June 2018, the Bank underwrote the issuance of debt financing instruments with an aggregate principal amount of RMB194.9 billion. The Bank was ranked No. 1 among the Nationwide Joint Stock Commercial Banks in terms of total debt financing instruments underwritten for consecutive six years from 2012 to 2017. In 2015, 2016, 2017 and the first half in 2018, the Bank completed five, 20, 15 and three issuances of asset-backed securities with an aggregate principal amount of RMB32.7 billion, RMB80.4 billion, RMB52.2 billion and RMB22.6 billion, respectively. In 2017, the Bank was ranked No. 2 among the Nationwide Joint Stock Commercial Banks in terms of total credit asset securitization products issued.

The Bank continues to innovate financial products for its customers to satisfy their diversified demand. The Bank acted as the market maker for the first credit asset securitisation product in inter-bank bond market and invested in the first domestic green asset-backed securities issued by a non-listed company. In addition, the Bank innovated the first super short-term securitisation product in the market and invested to PRC collateralised loan obligation through QFII in China, the first time, successfully.

Small and Micro Enterprises Business

The Bank's corporate finance business for small and micro enterprises effectively satisfies the needs for financing, settlement, cash management and wealth management for these enterprises.

In line with the PRC government's policies to support the development of SMEs, the Bank has been dedicated to diversifying its financial services to small and micro enterprises and has sought to provide professional, efficient and convenient financial services to SMEs. In recent years, the Bank has implemented the following measures to promote its SME business:

- the Bank promoted its specialised operations targeting SMEs and increased the number of employees qualified for SME credit business;
- the Bank accelerated the introduction of new products and promoted financing products for SMEs such as "the Three Loan Services" (小微三劍客)" consisting of "the Easy and Fast Loan" (易速貸), "the Consecutive Loan" (連連貸) and "the Transaction Loan" (交易貸);
- the Bank provided one stop financial solutions to small and micro enterprises with equity financing service, debt financing service, settlement management and consultancy service; and
- the Bank explored the innovation of "internet + bank + platform" financing model to expand its customer base.

As at 31 December 2015, 2016, 2017 and 30 June 2018, the Bank had RMB487.3 billion, RMB497.8 billion, RMB557.6 billion and RMB504.7 billion, respectively, of loans to SME corporate customers outstanding. As at 30 June 2018, the Bank had RMB504.7 billion of loans outstanding to approximately 15,403 SME corporate customers, representing 33.0 per cent. of its total corporate loans.

Institutional Banking Business

In recent years, the Bank has carried out various strategic initiatives to enhance the sustainable development of its institutional banking business. The Bank offers diversified financial services to institutional customers covering assets, liabilities and intermediary services. The Bank has improved financial services relating to the livelihood of its customers, such as social insurance, housing allowance, finance, education and medical care. Furthermore, the Bank improved its diversified financial services package, initiated inter-bank co-operation and effectively consolidated partnership with customers. As at 31 December 2015, 2016, 2017 and 30 June 2018, the Bank had 21,627, 23,290, 24,767 and 25,404 institutional customers with total deposits of RMB553.0 billion, RMB600.2 billion, RMB642.0 billion and RMB652.3 billion, respectively.

Personal Banking Business

Overview

The Bank offers a wide range of products and services to personal customers, including personal loans, personal deposits, debit cards, credit cards, private banking, personal wealth management business and other agency services. As at 31 December 2015, 2016, 2017 and 30 June 2018, the Bank had approximately 36.5 million, 44.8 million, 55.5 million and 62.2 million personal customers, respectively.

Personal Loans

The Bank's personal loans primarily include personal residential and business mortgage loans, personal business loans, and credit cards. The Bank also provides other personal loan products, including automobile loans and personal consumption loans.

The table below sets forth a breakdown of the Bank's personal loans by product type as at the dates indicated:

	As at 31 December						As at 30 June	
	2015		2016		2017		2018	
	Amount	Per cent. of total	Amount	Per cent. of total	Amount	Per cent. of total	Amount	Per cent. of total
	(RMB in million, except percentages)							
Personal residential and business mortgage loans	298,309	58.3	517,597	69.0	603,047	66.2	659,802	64.8
Personal business loans	67,216	13.1	49,279	6.5	41,004	4.5	51,493	5.1
Credit cards	77,960	15.2	110,330	14.7	186,256	20.5	226,379	22.2
Others (1)	68,421	13.4	73,332	9.8	80,517	8.8	80,116	7.9
Total	**511,906**	**100.0**	**750,538**	**100.0**	**910,824**	**100.0**	**1,017,790**	**100.0**

(1) Others primarily include personal consumption loans, automobile loans and student loans.

Although personal loans represent a smaller portion of the Bank's overall loan business as compared to corporate loans, personal loans (including credit cards) increased by RMB107.0 billion, or 11.7 per cent., from RMB910.8 billion as at 31 December 2017 to RMB1,017.8 billion as at 30 June 2018. The Bank strives to build its branding in personal loans, such as "Anyu Rensheng" (安愉人生) for older customers to manage their wealth and "Huanyu Rensheng" (寰宇人生) by providing overseas financing services. The Bank also actively developed online financing and electronic channels for personal loans in order to enhance customer service quality.

Personal Deposits

The Bank offers two principal deposit products to its personal customers, namely, interest-bearing demand deposits and time deposits. The Bank offers these deposit products in Renminbi and other major foreign currencies. As at 31 December 2015, 2016, 2017 and 30 June 2018, the Bank had RMB370.8 billion, RMB350.9 billion, RMB421.3 billion and RMB486.4 billion of personal deposits, respectively, representing 14.9 per cent., 13.0 per cent., 13.6 per cent. and 15.7 per cent. of its total customer deposits. In recent years, the Bank continued its efforts to develop innovative products in its deposits business in order to meet the diverse needs of its customers. In addition, the Bank comprehensively promoted its distribution channels by establishing community outlets to facilitate its customers.

Bank Card Business

Debit Card Business

The Bank offers debit card services under the brand name "Ziran Rensheng" (自然人生). The "Ziran Rensheng" debit card is the first family-oriented debit card in China. The Bank's debit card services include the "Qing Chun" (青春) card series and standard card series. The "Qing Chun" card series target young users to diversify its product coverage. The Bank issues different categories of standard cards, including silver, gold, platinum and black card based on the Bank's customers' financial assets under management.

Debit cardholders are allowed to have deposits in different currencies such as Renminbi, Hong Kong Dollar, U.S. Dollar, Japanese Yen and Euro. The Bank also allows debit cardholders to handle multiple accounts under one single card such as wealth management product, fund, and collective asset management plan. Furthermore, the Bank provides several value-added services to its cardholders such as in-advance booking on hotel and air tickets, access to golf courses, and airport VIP lounge services.

Credit Card Business

In recent years, as a result of the development of internet technology, internet financing and online payment, the Bank further improved its credit card products structure and enhanced the functions and services of its credit card products, providing unique, innovative and comprehensive services to its customers. As at 31 December 2015, 2016, 2017 and 30 June 2018, the Bank had issued a total of 15,492,200, 20,823,000, 31,046,600 and 36,639,300 credit cards, respectively.

The revenue of the Bank's credit card business mainly derives from the transactional service fees charged the merchants and the interest, annual fees, instalment payments and other fees the Bank charges the cardholders.

For the years ended 31 December 2015, 2016, 2017 and for the six months ended 30 June 2018, the Bank's total transaction volume of credit cards issued was RMB452.0 billion, RMB633.1 billion, RMB990.6 billion and RMB691.2 billion, respectively.

Private Banking

The Bank provides a wide range of products and services to its private banking customers, including asset management, product selection, alternate investments, family trust, legal consultancy, taxation planning, financial management, cross-border financial services, wealth succession and other value-added services. The Bank has in recent years increased its investments in expanding its network of private banking business and diversifying its product portfolios, forming a nationwide coverage network for high net-worth customers. The Bank expanded its wealth management product lines to meet the diverse needs of its clients, introducing a variety of financial products in recent years, including the family trust management. The Bank established and further improved the offering of its advisory service and information platform so as to broaden its range of value-added services and improved its expertise and service capabilities for middle and high-end customers.

As at 31 December 2015, 2016, 2017 and 30 June 2018, the Bank had a total of more than 18,000, 20,000, 23,000 and 25,000 private banking customers, respectively, and its total assets under management in private banking business was RMB263.9 billion, RMB290.7 billion, RMB324.0 billion and RMB342.2 billion, respectively.

Personal Wealth Management Business

The Bank provides diversified wealth management products and services to retail banking customers primarily under the "Wanlibao" (萬利寶) "Fenglibao" (豐利寶) and "Zhiyingbao" (智盈寶) series. The Bank's personal wealth management products provide customers with various choices of investments that have good returns. Furthermore, the maintenance of its existing customers and the development of its competitive wealth management products helps it explore external customer groups to enhance its competitiveness.

As at 30 June 2018, retail asset under management ("**AUM**") by the Bank amounted to RMB1,091.7 billion, representing an increase of 2.40 per cent. from 31 December 2017.

Agency services

The Bank's agency services mainly include fund distribution, agency sales of insurance products, agency sales of precious metal and agency sales of wealth management products.

Treasury Operations

Overview

The Bank's treasury operations consist primarily of (i) money market activities, (ii) investment and trading activities, (iii) institutional financial service, (iv) inter-bank co-operation business, (v) asset management and (vi) asset custody. In conducting its treasury operations, the Bank seeks to ensure its liquidity and achieve a balance between returns and risks on its investment portfolio, taking into consideration various factors including the market and macroeconomic conditions.

Money Market Activities

The Bank's money market activities primarily consist of (i) inter-bank money market activities, repurchase and reverse repurchase transactions and (ii) public market bidding, including bidding for repurchase and reverse repurchase transactions by the PBOC, PBOC bills and national treasury cash administration. The securities underlying the Bank's inter-bank repurchase and reverse repurchase transactions are predominantly Renminbi-denominated PRC government and policy bank bonds, bank acceptance bills and PBOC bills, with a portion of foreign currency-denominated bonds primarily issued by foreign governments and agencies.

The Bank was one of the first banks to be approved by the PBOC to provide SHIBOR quotes. As one of the SHIBOR-quoting banks, the Bank provides daily quotes based on its own liquidity and capital supply and demand. The Bank is one of the most active market maker in Renminbi foreign exchange market, spot transaction, forward, swap and forward transactions of standard bonds market. In June 2016, the Bank started its business in inter-bank money market activities and conducted foreign exchange transaction as foreign exchange dealers in Shanghai Free-Trade Zone.

Investment and Trading Activities

As at 30 June 2018, the Bank's net investment securities and other financial assets amounted to RMB2,987.9 billion.

The following table sets forth, at the dates indicated, the distribution of the Bank's investment securities and other financial assets by its investment intention.

	As at 31 December						As at 30 June	
	2015		2016		2017		2018	
	Amount	Per cent. of total	Amount	Per cent. of total	Amount	Per cent. of total	Amount	Per cent. of total
	(RMB in million, except percentages)							
Financial assets at fair value through profit or loss	128,685	4.9	354,595	10.8	362,072	11.6	355,000	11.9
Available-for-sale financial assets	426,634	16.4	584,850	17.8	504,221	16.2	557,058	18.6
Held-to-maturity financial assets	206,802	8.0	249,828	7.6	337,483	10.8	359,625	12.0
Debt securities classified as receivables	1,834,906	70.6	2,102,801	63.8	1,913,382	61.3	1,712,975	57.3
Long-term equity investments	1,918	0.1	2,418	0.1	3,008	0.1	3,198	0.1
Total	**2,598,945**	**100.0**	**3,294,492**	**100.0**	**3,120,166**	**100.0**	**2,987,856**	**100.0**

Investment Activities

The Bank sets the target returns on available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables, principally based on its assessment of the interest rate, exchange rate, credit, liquidity, macroeconomic trends and other risks associated with the investment. In the domestic market, the Bank primarily invests in debt securities issued by the PRC government, PBOC bills, debt securities issued by the policy banks and, to a lesser extent, debt securities issued by other financial institutions and nonfinancial institutions. In light of the global macroeconomic environment, a substantial portion of the Bank's debt securities denominated in foreign currencies are short-term.

Trading Activities

The Bank purchases and sells various highly-liquid debt securities and bills for trading purposes, from which the Bank seeks to obtain short-term profits. The Bank primarily invests in debt securities issued by the PRC government, PBOC bills and debt securities issued by foreign governments. The Bank classifies such trading securities as financial assets at fair value through profit or loss, and the Bank employs strict stop-loss and other limits for such trading transactions.

In terms of its development in futures market, the Bank has obtained the futures margin depository qualification of the four major futures exchanges in China, namely, the Shanghai Futures Exchange, China Financial Futures Exchange, Dalian Commodity Exchange and Zhengzhou Commodity Exchange. In addition, the Bank maintains an active role on Shanghai Gold Exchange in terms of its trading volume of precious metal trading.

The Bank hedges its investment risks through the purchase of derivative financial instruments, such as interest rate swap contracts.

Institutional Financial Service

The Bank places great effort in developing the financial factor market. The Bank is determined to be the leading player in domestic institutional banking and the professional provider of banking service in capital markets. With its professional banking service and innovative financial products, the Bank has been consistently expanding its institutional customer base, widening its service scope, extending its means of co-operation and increasing its profit.

The Bank has established long-standing co-operation relationships with more than 1,000 domestic and overseas financial institutions, including commercial banks, securities firms, fund firms, insurance companies, trust investment companies, finance companies affiliated to business corporations, financial leasing companies and other financial institutions. In 2015, Bank introduced an online banking transfer system that links it with 103 securities companies. In terms of collaborations with trust investment companies, the Bank has established co-operation relationships with 61 trust investment companies, representing approximately 96.0 per cent. market coverage. As at 31 December 2015, 2016, 2017 and 30 June 2018, the Bank's cooperation with securities companies, fund management companies, finance companies, futures companies and insurance companies represents over 98 per cent., 93 per cent., 92 per cent. 93 per cent. and 85 per cent. market coverage, respectively.

The Bank is one of the first batch of banks to provide agency settlement service in the PRC and is an associate member of the Insurance Asset Management Association of China and a member of the Shanghai Clearing House.

Inter-bank Co-operation Business

The Bank-to-Bank Platform (銀銀平臺) is an integrated service system providing comprehensive online-and-offline financial services to other collaborative banks covering wealth management, payment and settlement, technological management output, training services, financing services and capital restructure. As at 30 June 2018, the Bank had 1,382 contracted customers of its Bank-to-Bank Platform. In addition, the Bank co-operated with approximately 355 commercial banks to establish a banking information system which the Bank believes is one of the largest information systems for commercial banks. As at 30 June 2018, 217 commercial banks had launched their financial products and services on the Bank-to-Bank Platform. For the six months ended 30 June 2018, the Bank settled transactions in a total amount of RMB2,230 billion and sold financial products in a total amount of RMB707.9 billion through the Bank-to-Bank Platform.

"QianDa Money Manager" is an online financial platform providing comprehensive asset management products issued by commercial banks, trusts, funds and insurance companies. As at 30 June 2018, "QianDa Money Manager" had a total of over 11.7 million individual registered users.

The Bank's inter-bank co-operation services and products have won many awards. "QianDa Money Manager" and the Bank-to-Bank Platform have won awards from various authoritative media, such as sina.com, Shanghai Securities News and 21st Century Business. The Project of "the construction and promotion of application of financial cloud service platform designed for banking and financial firms" was listed as a national strategic emerging industrial project and was granted a subsidy from the MOF in 2014.

Asset Management Business

The Bank offers comprehensive asset management services to different types of clients, including individuals, corporate clients, private banking clients and institutions. In recent years, the Bank optimised its procedures for wealth management product development, investment management and risk management and promoted the standardised, sustainable and orderly development of the business. Also, the Bank adapted its products in order to meet the demands of various types of customers with different risk-reward features and investments in different types of markets.

The Bank's wealth management business emphasises innovative products, low risk, high efficiency and sustainability. The Bank launched total return swap products and QDII asset management products in the market. The wealth management business of the Bank complies strictly with regulatory requirements. In order to promote the steady growth of its wealth management business, the Bank conducted a comprehensive study of the market, divided customers into more specific categories, and strengthened the innovation of wealth management products and the expansion of sales channels.

For the years ended 31 December 2015, 2016, 2017 and for the six months ended 30 June 2017 and 2018, the net fee and commission income generated from wealth management customers was RMB9.5 billion, RMB12.3 billion, RMB11.3 billion, RMB5.0 billion and RMB4.2 billion, respectively.

Asset Custody Services

The Bank provides a range of custody services to securities investment funds, enterprise annuity, the National Council for Social Security Fund of the PRC, insurance companies, commercial banks, QFII, QDII and other bank customers, including assets custody, investment clearing, accounting, asset valuation, transaction monitoring, collective payment and information disclosure services.

The Bank actively markets to quality customers and continuously promotes product innovation, delivering growth in the Bank's custody and fund distribution business. In recent years, the Bank further reinforced co-operation with key customers including fund management companies, securities companies and other commercial banks. The Bank also boosted custody service levels and information technology capabilities and enhanced its overall customer relationship management performance.

As at 31 December 2015, 2016, 2017 and 30 June 2018, the total net value of the Bank's assets under custody was RMB7,213.9 billion, RMB9,442.3 billion, RMB11,232.7 billion and RMB11,325 billion, respectively. The Bank was ranked No. 1 and No. 4 in the market in terms of its asset custody products and its total value of assets under custody, respectively, as at 30 June 2018. For the six months ended 30 June 2017 and 2018, the net fee and commission income generated from the Bank's asset custody services was RMB2.1 billion and RMB1.7 billion, respectively.

PRICING

Under the regulatory regime of the PRC banking industry, the Bank has established a competitive product pricing mechanism based on risk-adjusted returns. The Bank takes various factors into consideration to determine or adjust its prices, such as the capital cost, management cost, risk, expected return and prices guided by government and regulatory bodies. The Bank also considers the overall market conditions as well as prices of similar products and services offered by its competitors.

The Bank's Renminbi lending interest rate is subject to regulations of the PBOC. There has been no upper limit on interest rates for Renminbi-denominated loans since October 2004. The lower limit of 70 per cent. of the PBOC's benchmark rate was removed in July 2013. With respect to interest rates of home mortgage loans, the lowest interest rate the Bank may charge is 70 per cent. of the relevant PBOC benchmark rate. Pursuant to the current PBOC rules, the Bank may set loan interest rate other than individual housing mortgage loans through commercial negotiations.

The Bank prices its products and service based on various criteria such as the borrower's financial position and credit rating, nature and value of collateral, loan maturity, current market conditions, as well as capital cost, expected rate of return, risks and its internal capital pricing standard. Based on these considerations, the Bank seeks to have a pricing mechanism that can match risks with return and can generally charge higher interest rates for customers with relatively high risk profile.

The Bank also sets differentiated prices for corporate loans based on the borrower's business scale and contribution, guarantees and industry. For example, the Bank has greater pricing power for small and micro enterprises than large corporate customers. The Bank adopts risk adjustment principle to price personal loans, and usually applies higher interest rates to personal business loans and unsecured personal loans than compared to other types of personal loans.

DISTRIBUTION CHANNELS

The Bank provides services through a variety of distribution channels, consisting of physical outlets, self-service banking centres and its E-banking network. The Bank has built an integrated distribution system that enables online and offline integration, making the system available to its customers through any single point of access. The Bank continues to improve the layout of physical outlets, self-service banking centres and its E-banking network.

Physical Outlets

The Bank provides comprehensive financial products and services to its customers via its distribution channel consisting of 143 branches and 2,075 outlets as at 30 June 2018. There are 792 outlets, 370 outlets, 240 outlets, 169 outlets, 226 outlets, 147 outlets and 130 outlets located in East China, North China, Southwest China, Middle China, South China, Northwest China and Northeast China, respectively.

The Bank improved the layout of physical outlets and moderately expanded its channel network in key regions and areas identified as having significant potential and emerging markets. As at 31 December 2015, 2016, 2017 and 30 June 2018, the Bank had a total of 1,787, 2,003, 2,064 and 2,075 outlets, respectively. Moreover, the Bank reinforced co-ordination and resource allocation as well as service collaboration between self-service banking and physical outlets. The Bank plans to continue to open new branches and sub-branches in other cities and counties in China, and further expand the distribution network, business territory and customer base.

Self-service Banking

The Bank intensified its efforts in improving its self-service banking and providing better and more efficient service to its customers. The Bank optimised the transaction process of self-service terminals and increased the amount of transactions through ATMs. As at 31 December 2015, 2016, 2017 and 30 June 2018, the Bank owned 2,529, 2,501, 2,467 and 2,411 self-service banking centres and 7,813, 7,695, 7,245 and 6,884 ATMs, respectively.

Internet Banking

The Bank provides Internet banking services through its official website "http://www.cib.com.cn" to its corporate and retail customers. The Bank attaches special importance to the security of Internet banking services by using multilayer security mechanisms and measures from system technology, security regulations, functional design, business management and other perspectives. As at 30 June 2018, the Bank had 312,400 corporate internet banking customers, which accounted for 47.0 per cent. of all the corporate customers of the Bank.

The Bank has further enriched its Internet banking services, such as cost management, group client fund management, corporate finance, virtual sub-account, bulk payment, corporate community and other featured services for corporate Internet banking customers and real-time interbank transfer, Unicom fund, CIB e-Card and other featured services for retail Internet banking customers.

Telephone Banking

The Bank provides telephone banking service 24 hours a day and 365 days a year through "95561", accessible in all areas of the PRC, and "4008895561", a special line for VIPs. Customers can choose from automatic voice services or staff services. The Bank's services primarily include account inquiries, transfer service, self-service payment, loss report, password service and credit card business.

Mobile Banking

The Bank enriched business features of its mobile banking services, launching Apple Pay application service, HCE (host-card emulation) cloud flash payment and other cutting-edge services. The Bank also carried forward the establishment of various near-field payment methods, such as UnionPay POS payment and bracelet payment. The Bank also upgraded the safety of mobile banking products, optimised user interactive interface and improved customer experience. As at 30 June 2018, the Bank's mobile banking customers exceeded 21.9 million.

WeChat Banking

The Bank launched WeChat banking, which features a function that enables users to remotely open a banking account, among other features. New clients can submit account opening applications through the WeChat banking platform and then the client's identity will be verified by a customer service staff through WeChat video call.

E-commerce Financial Services Platform

The Bank launched a direct banking platform through "http://directbank.cib.com.cn", which focuses on four core functions which include electronic accounts, sales of wealth management products, investments and agency sales of funds. In addition, the Bank launched an online commerce platform through "http://shop.cib.com.cn", selling users with gold, wine and other agency services such as car rental.

Online and Offline Integration

The Bank explored online-to-offline business modes and online and offline channels to provide integrated services for customers whenever and wherever possible. The Bank has since strengthened collaboration of its online and offline services.

The Bank established the interactive "Service Booking Platform" customer service platform, which provides appointments through mobile banking and advance filing of forms via web browser, tablet, mobile and WeChat services. The Bank launched Virtual Teller Machines, connecting its customer service centre to physical branches, achieving integrated services through one platform.

The Bank continues to promote the application of pioneering technologies and innovative service models in the field of e-finance. The Bank's customer service centre provides seamless integrated services to its customers. It continues to improve its core operations, specialised management and standardised services. Across channels including mobile, e-mail, online service, video service and WeChat banking, the Bank seeks to provide its customers with constantly accessible and interactive services with voice-to-voice, text-to-text and face-to face interaction features, in its continued pursuit of improving the customer experience.

CONTROLLED SUBSIDIARIES OF THE GROUP

Industrial Bank Financial Leasing Co., Ltd. (興業金融租賃有限責任公司)

Industrial Bank Financial Leasing Co., Ltd. (the "**Industrial Leasing**") is a wholly-owned subsidiary of the Bank with a registered capital of RMB9.0 billion as at 30 June 2018. As at 30 June 2018, Industrial Leasing's total assets reached RMB136.3 billion and the balance of financing leasing assets was RMB121.8 billion. It generated a net profit of RMB820 million for the six months ended 30 June 2018.

Industrial Leasing focused on building the green leasing brand and expanding the green leasing business. For the six months ended 30 June 2018, Industrial Leasing has invested in green leasing projects with a total investment amount of RMB6.1 billion. Industrial Leasing has established a comprehensive financial leasing product system with eight product series namely, industrial emission, green travel, energy intensification, clean energy, water treatment, soil remediation, solid waste treatment and biomass energy.

China Industrial International Trust Limited (興業國際信託有限公司)

China Industrial International Trust Limited (the "**Industrial Trust**") is a subsidiary of the Bank with a registered capital of RMB5.0 billion and 73.0 per cent. of its equity interest held by the Group as at 30 June 2018. The business scope of Industrial Trust is the management of fund investment trust, personal property investment trust, real estate investment trust, marketable securities investment trust, other property or property right investment trust and other businesses stipulated by laws and regulations or approved by the China banking regulatory agencies. As at 30 June 2018, Industrial Trust's shareholders' equity was RMB15.3 billion. It managed 1,484 trust projects with total amount of RMB1,031.7 billion. For the six months ended 30 June 2018, Industrial Trust achieved operating revenue of RMB1.3 billion and net profits of RMB466 million.

Industrial Trust has obtained the qualification of conducting foreign exchange trust business and is registered as private equity fund manager by the Asset Management Association of China. The integrated operations of Industrial Trust includes asset management, futures business, securities service, financial research and corporate financial management. In addition, Industrial Trust cooperated with Bank of China to launch non-performing loan asset backed securities in China.

Industrial Guoxin Asset Management Co., Ltd. (the "**Industrial Guoxin Asset Management**") (興業國信資產管理有限公司) is a wholly owned subsidiary of Industrial Trust. The outstanding wealth management products of Industrial Guoxin Asset Management amounted to RMB182.4 billion as at 30 June 2018. For the six months ended 30 June 2018, Industrial Guoxin Asset Management raised RMB12.7 billion by issuing wealth management products.

Industrial Futures Co., Ltd. (the "**Industrial Futures**") (興業期貨有限公司) is a subsidiary of Industrial Trust. As at 30 June 2018, the total daily average deposits for futures fund of Industrial Futures amounted to RMB2.40 billion.

CIB Fund Management Co., Ltd. (興業基金管理有限公司)

CIB Fund Management Co., Ltd. (the "**CIB Fund Management**") was established with a registered capital of RMB1.2 billion and 90.0 per cent. of its equity interest is held by the Bank as at 30 June 2018. As at 30 June 2018, CIB Fund Management has a total assets of RMB3.2 billion and assets managed by it amounted to RMB434.0 billion. For the six months ended 30 June 2018, CIB Fund Management achieved operating revenue of RMB643 million and net profits of RMB314 million. In November 2015, CIB Fund Management obtained the QDII qualification by the CSRC.

CIB Fund Management has established 15 branches in China and a wholly-owned subsidiary, CIB Wealth Management Co., Ltd. (興業財富資產管理有限公司). In December 2015, CIB Wealth Management Co., Ltd.

established Industrial Digital Financial Service Co., Ltd. (興業數字金融服務股份有限公司) by holding 51.0 per cent. of its equity interest. Industrial Digital Financial Service Co., Ltd. focused on providing financial information cloud services to corporate customers of the Group and providing internet finance services.

Industrial Consumer Finance Co., Ltd. (興業消費金融股份公司)

Industrial Consumer Finance Co., Ltd. (the "**Industrial Consumer Finance**") is a subsidiary of the Bank with a registered capital of RMB1.2 billion and 66.0 per cent. of its equity interest held by the Group as at 30 June 2018. As at 30 June 2018, Industrial Consumer Finance had a total assets of RMB15.3 billion. For the six months ended 30 June 2018, Industrial Consumer Finance achieved operating revenue of RMB869 million and net profit of RMB200 million.

Industrial Economy Research Consultation Co., Ltd. (興業經濟研究諮詢股份有限公司)

Industrial Economy Research Consultation Co., Ltd. (the "**Industrial Consultation**") is a subsidiary of the Group with a registered capital of RMB60 million and 66.67 per cent. of its equity interest held by the Group as at 30 June 2018. Industrial Consultation was established in June 2015 and was the first professional research institution operated by a bank in the form of a corporation. Industrial Consultation had preliminarily established a research system, including macroscopic (including interest rate, exchange rate and commodity), industrial, credit, financial engineering product and data mining. Industrial Consultation provides services to the head office, branches, and subsidiaries of the Group, as well as other financial institutions and regulatory authorities. Industrial Consultation's research results follow the market trend and business requirements of the Group and have made a significant contribution to the business development of the Group. For the six months ended 30 June 2018, Industrial Consultation provided approximately 1,600 research reports to the Group and over 200 research activities to support the Group's business.

INFORMATION TECHNOLOGY

The Bank's information technology systems are integral to many aspects of the Bank's business operations, including customer services, transaction processing, risk management and financial management. The Bank believes that the establishment of advanced information technology systems that complement its overall business strategies will greatly improve its efficiency, the quality of its customer service, as well as risk and financial management.

The Bank has invested heavily in its information technology systems, primarily covering business processing, channel services, management decision-making and modern office system. Highlights of its products and achievements include, among others: its independently researched and developed Pre-Authorized Debits Online Banking System, which enables the Bank to approve credit to its customers' loan applications without the need to submit any paperwork; its recognised excellence in bank industry in terms of its key indicators including the transaction success rate relating to premium card holders; and its centralised electronic payment systems in Fujian, Hebei and Liaoning connecting the Bank and the provincial treasuries.

In addition, the Bank greatly values improving its risk management and information safety. As a matter of strategy, the Bank requires full implementation of its internal control measures and an enhanced information safety control. The Bank is among the first batch of domestic banks which have reengineered a modern management system in accordance with the theory of Process Banking (流程銀行). The Bank is also one of the first banks to have built a dual disaster backup system with backup data recoverable from both the same and a different city. The Bank believes that it is one of the first banks to have satisfied the internationally recognised standards and the requirements of the PBOC in relation to disaster recovery.

The Bank's information technology department, with administrative centres and research and development centres in different levels, was established under the supervision of business management committee and internal control committee to ensure the implementation of the Bank's strategies of developing information technology systems. The Bank's information technology department is featured by its strong research and development capabilities. The Bank is one of the few domestic banks that are able to independently develop its core banking systems and own the intellectual property rights. For example, the Bank has developed the Virtual Teller Machines, which are able to provide comprehensive teller services around the clock. The Bank has also researched and developed the automatic loan machines, of which it owns independently the intellectual property rights. Leveraging on its professional customer service centre, the Bank has introduced its centralised hotline platform which features cross-selling and outsourced marketing services. The hotline platform is supported by the Watson system originally developed by IBM. The Bank expects to increasingly leverage on information technology to drive its business in the future. In addition to the upgrades and improvements the Bank has made in recent years to its information technology systems, the Bank will continue to upgrade and integrate its information technology systems to facilitate operational efficiency, risk management and business development.

INTELLECTUAL PROPERTIES RIGHTS

The Bank conducts business under the brand names and logos of and Industrial Bank. As at 30 June 2018, the Bank has owned a total of 211 PRC registered trademarks and 29 overseas registered trademarks. The Bank is also the registered owner of the domain name "http://www.cib.com.cn".

As at 30 June 2018, the Bank had been awarded two patents in the PRC and two patents in Hong Kong, among which "a data processing method and system to achieve uninterrupted services" was granted invention patent in 2005, rendering the Bank the first commercial bank in the PRC which patented its business system and method.

COMPETITION

The Bank faces significant competition in the Bank's principal areas of business from other commercial banks and other financial institutions in China. The Bank currently competes primarily with the Large Commercial Banks and Nationwide Joint Stock Commercial Banks. The Bank also faces increasing competition from other financial institutions, including city commercial banks and foreign banks operating in China. The Bank's competition with other commercial banks and financial institutions in China primarily focuses on the variety, pricing and quality of products and services, convenience of banking facilities, reach of distribution network and brand recognition as well as information technology capabilities. In addition, the Bank faces competition from internet finance companies, as well as non-banking institutions such as securities firms and insurance companies in providing financing services to the Bank's customers.

In response to such a competitive environment, the Bank intends to continue to implement its strategies to differentiate itself from its competitors and compete effectively in the PRC commercial banking industry.

EMPLOYEES

The Bank had approximately 59,600 full time employees as at 30 June 2018. In addition, the Bank had 610 contracted employees as at 30 June 2018.

The Bank contributes to its employees' social insurance, provident housing fund and certain other employee benefits in accordance with PRC laws and regulations. The Bank provides training programmes to its employees to improve their professional competence and skills. The Bank has not experienced any strikes or other material labour activities that have interfered with its operations, and the Bank believes that it has maintained a good relationship with its employees.

LEGAL AND REGULATORY PROCEEDINGS

The Bank is involved in legal proceedings in the ordinary course of business. Most of the legal proceedings were initiated by the Bank for recovering NPLs, while some legal proceedings arose from customer disputes or others. The Bank does not anticipate any material adverse effect from these pending legal proceedings, individually or in aggregate, on its business, financial position and results of operations.

SUBSTANTIAL SHAREHOLDERS

The section "Substantial Shareholders" in the Principal Offering Circular shall be deleted in its entirety and replaced with the following:

As at the date of this Supplement, the Bank has issued 20,744,190,751 ordinary shares with a par value of RMB1.0 per share, and 260,000,000 preferred shares with a par value of RMB100.0 per share. The share capital of the Bank has been fully paid.

The table below sets forth information with respect to direct ownership of the Bank's ordinary shares as at 30 June 2018 held by the 10 largest shareholders:

Name of shareholders	Approximate percentage of share capital	Number of ordinary shares held
Fujian Provincial Department of Finance (福建省財政部)	18.78	3,902,131,806
China National Tobacco Corporation (中國煙草總公司)	5.34	1,110,226,200
PICC Property and Casualty Company Limited – traditional – common insurance product (中國人民財產保險股份有限公司 – 傳統 – 普通保險產品)	4.56	948,000,000
China Securities Finance Corporation Limited (中國證券金融股份有限公司)	4.17	866,701,239
PICC Life Insurance Company Limited – participating – personal insurance (participating) (中國人民人壽保險股份有限公司 – 分紅 – 個險分紅)	3.86	801,639,977
Tianan Property Insurance Company Limited – Guarantee Profit No.1 (天安財產保險股份有限公司 – 保贏1號)	3.84	798,420,149
Wutongshu Investment Platform Co., Ltd. (梧桐樹投資平臺有限責任公司)	3.23	671,012,396
Yango Holding Company Limited (陽光控股有限公司)	2.39	496,688,700
PICC Life Insurance Company Limited – universal – personal insurance (universal) (中國人民人壽保險股份有限公司 – 萬能 – 個險萬能)	2.28	474,000,000
Fujian Tobacco Haisheng Investment Management Co., Ltd. (福建煙草海晟投資管理有限公司)	2.13	441,504,000

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The section "Directors, Supervisors and Senior Management" in the Principal Offering Circular shall be deleted in its entirety and replaced with the following:

DIRECTORS

The Bank's board of directors consists of 14 members, including nine directors and five independent directors. The board of directors determines major matters of the Bank (such as operating plans and development proposals) and is responsible for hearing and deciding on matters reported by the various committees.

The following table sets forth the Bank's directors as at the date of this Supplement:

Name	Age	Position
Gao Jianping (高建平)	59	Chairman of the board of directors
Chen Yichao (陳逸超)	68	Director
Fu Anping (傅安平)	55	Director
Han Jingwen (韓敬文)	59	Director
Xi Xinghua (奚星華)	49	Director
Lin Tengjiao (林騰蛟)	50	Director
Tao Yiping (陶以平)	55	Director
Chen Jinguang (陳錦光)	57	Director
Chen Xinjian (陳信健)	51	Director
Paul M. Theil	65	Independent director
Zhu Qing (朱青)	61	Independent director
Liu Shiping (劉世平)	56	Independent director
Su Xijia (蘇錫嘉)	64	Independent director
Lin Hua (林華)	43	Independent director

Mr. Gao Jianping (高建平) has been the chairman of the board of directors of the Bank since September 2000. Mr. Gao previously served as a deputy general manager of the general office of the Bank, a director of the Bank's office in Fuzhou Economic and Technological Development Zone (福州經濟技術開發區辦事處), the general manager of the Bank's general office, the head of the preparatory team of the Shanghai Branch of the Bank (興業銀行上海分行籌建組), the president of the Shanghai Branch of the Bank, an assistant to the president, a vice president, a communist party committee secretary and the president of the Bank. Mr. Gao is currently a member of the National Committee of the Chinese People's Political Consultative Conference (全國政協), a member of the Twelfth Plenary Session of the Chinese People's Political Consultative Conference (中國人民政治協商會議第十二屆全國委員會) and a party committee secretary of the Bank. Mr. Gao holds a bachelor's degree and is a senior economist.

Mr. Chen Yichao (陳逸超) has been a director of the Bank since July 2015. Mr. Chen previously served as a staff member of Fujian Provincial Department of Finance (福建省財政廳), a deputy director of the research institute of Fujian Provincial Department of Finance, a deputy governor on temporary assignment of Changting County (長汀縣), a supervisor of the information centre of Fujian Provincial Department of Finance, the chief of the integrated division of Fujian Provincial Department of Finance, and an executive deputy supervisor of the general office of Fujian Provincial Department of Finance. Mr. Chen holds a postgraduate degree.

Mr. Fu Anping (傅安平) has been a director of the Bank since June 2016. Mr. Fu previously served as a deputy chief of the insurance management division of the ministry of non-bank institutions of the People's Bank of China (中國人民銀行), the chief of the life insurance management division of the ministry of insurance of the People's Bank of China, a deputy supervisor and the chief of the life insurance supervision department of the China Insurance Regulatory Commission (中國保監會), a deputy chief of the Beijing general office of the China Insurance Regulatory Commission, a deputy director of the China Insurance Regulatory Commission Beijing Bureau (中國保險監督管理委員會北京保監局), a deputy team leader of the life insurance preparatory team of the People's Insurance Company of China Holdings Company (中國人民保險集團公司) and a vice president of People's Insurance Company of China Life Insurance Company Limited (中國人民人壽保險股份有限公司). Mr. Fu is currently a vice chairman of the board of directors, a president and a party committee secretary of People's Insurance Company of China Life Insurance Company Limited. Mr. Fu holds a doctoral degree and is a senior economist and a Chinese actuary.

Mr. Han Jingwen (韓敬文) has been a director of the Bank since February 2017. Mr. Han previously served as a deputy researcher in the Financial Management and Supervision Division (Audit Division), deputy division chief, division chief and deputy inspector in the Comprehensive Division of the State Tobacco Monopoly Bureau (國家煙草專賣局) (China National Tobacco Corporation (中國煙草總公司)). Mr. Han is currently a deputy division chief in the Financial Management and Supervision Division (Audit Division) of the State Tobacco Monopoly Bureau (國家煙草專賣局) (China National Tobacco Corporation (中國煙草總公司)) and a director of National Integrated Circuit Industry Investment Fund Co., Ltd (國家集成電路產業投資基金股份有限公司). Mr. Han holds a part-time master degree.

Mr. Xi Xinghua (奚星華) has been a director of the Bank since February 2017. Mr. Xi previously served as a clerk of Land Bureau (國土局) in Sanmen County, Zhejiang, macro researcher of Beijing Securities Co., Ltd. (北京證券有限公司), deputy general manager of Zibohong Investment Company (紫博鴻投資公司), general manager of Hengtai Changcai Securities Brokerage Co., Ltd. (恒泰長財證券經紀有限公司), deputy general manager of Hengtai Securities Co., Ltd. (恒泰證券有限責任公司), general manager of Rongtong Fund Management Co., Ltd. (融通基金管理有限公司), deputy general manager and deputy executive general manager of Huaxia Jiuying Asset Management Co., Ltd. (華夏九盈資產管理有限責任公司). Mr. Xi is currently a general manager in Asset Management Division of Ti'an Property Insurance Co., Ltd. (天安財產保險股份有限公司). Mr. Xi holds a master degree.

Mr. Lin Tengjiao (林騰蛟) has been a director of the Bank since July 2017. Mr. Lin is a representative of the National People's Congress and also a member of the Standing Committee of China Youth Federation (全國青聯). Mr. Lin holds various positions in different organisations, namely vice president of China Federation of Overseas Chinese Entrepreneurs (中國僑商聯合會), vice president of The Chinese Association for Non-government Funded Education (中國民辦教育協會) and honorary president of Peking University Fujian Alumni Association (北京大學福建校友會). Mr. Lin is currently also is a vice chairman of Fujian Star-net Communication Co., Ltd. (福建星網銳捷通訊股份有限公司) and a supervisor of China Minsheng Investment Co., Ltd. (中國民生投資股份有限公司). Mr. Lin graduated from Guanghua School of Management, Peking University and obtained an executive MBA degree.

Mr. Tao Yiping (陶以平) has been a director of the Bank since June 2016. Mr. Tao previously served as a director of the integrated planning division of the Fujian branch of Bank of China (中國銀行福建省分行), a senior manager of the Office of Hong Kong and Macau Administration Office of the Bank of China (中銀集團港澳管理處辦公室), a senior manager of the China operation department of the Hong Kong Branch of Kinchueng Banking Corporation (金城銀行), the head of the general office of the Fujian Branch of the Bank, an assistant to the president, a vice president and the president of the Fujian Branch of the Bank, a vice president of the Xiamen Branch of the Bank, and the president of the Shandong Branch of the Bank of China. Mr. Tao holds a master's degree and is a senior economist.

Mr. Chen Jinguang (陳錦光) has been a director of the Bank since June 2016. Mr. Chen previously served as the president of the Pudong sub-branch of the Shanghai Branch of the Bank, a vice president of the Shanghai Branch of the Bank and the president of the Ningbo, Chengdu and Beijing branches of the Bank. Mr. Chen is currently a party committee member of the Bank. Mr. Chen holds a bachelor's degree and is an economist.

Mr. Chen Xinjian (陳信健) has been a director of the Bank since June 2016. Mr. Chen previously served as the chief of the finance division and external debt division of the Finance Bureau of Fujian Province (福建省財政廳), a vice president of the Shanghai Branch of the Bank, a vice president (in charge of overall management) and the president of the Xiamen Branch of the Bank and the president of the Nanjing and Beijing branches of the Bank. Mr. Chen is currently serving as a party committee of the Bank. Mr. Chen holds a master's degree.

Mr. Paul M. Theil has been an independent director of the Bank since December 2013. Mr. Theil previously served as a first secretary and a commercial counsellor of the American Embassy in China (美國駐華使館) and an executive director of Morgan Stanley (摩根士丹利). Mr. Theil is currently the chairman of the board of directors of Shenzhen Zhong An Credit Venture Capital Co., Ltd. (深圳市中安信業創業投資有限公司), a director of Shenzhen Longgang Guo'an County Bank Co., Ltd. (深圳龍崗國安村鎮銀行有限責任公司), an independent director of Morgan Stanley Huaxin Fund Management Company Limited (摩根士丹利華鑫基金管理有限公司), a legal representative of Mohs Industrial Development (Shenzhen) Co., Ltd. (摩氏實業發展 (深圳)有限公司) and the president of the Small Loans Industry Association of Shenzhen (深圳市小額貸款行業協會). Mr. Theil holds a doctoral degree.

Mr. Zhu Qing (朱青) has been an independent director of the Bank since August 2014. Mr. Zhu previously served as a lecturer, an associate professor, a professor and a doctoral advisor at the School of Finance of Renmin University of China (中國人民大學財政金融學院) and had worked in the Budget Department and the Customs

Department in the European Commission (歐盟委員會預算司和關稅司). Mr. Zhu is currently a director of the academic committee of the School of Finance of Renmin University of China, a professor and a doctoral advisor at Renmin University of China (中國人民大學), an executive director of the Chinese Finance Society (中國財政學會), an executive director and a deputy chairman of the academic committee of the China International Taxation Research Institute (中國國際稅收研究會), a director of the Taxation Institute of China (中國稅務協會), an executive director of the China Social Insurance Association (中國社會保險學會), an executive director of the Beijing Finance Society (北京市財政學會), a distinguished professor at Yangzhou Tax Institute of the State Administration of Taxation (國家稅務總局揚州稅務進修學院) and an adjunct professor at the Beijing National Accounting Institute (北京國家會計學院) and Xiamen National Accounting Institute (廈門國家會計學院). Mr. Zhu holds a doctoral degree.

Mr. Liu Shiping (劉世平) has been an independent director of the Bank since August 2014. Mr. Liu previously served as the head of the data consulting team (global financial industry) of the service division of International Business Machines Corporation (IBM公司服務部全球金融行業數據挖掘諮詢組) and the chief advisor of the business intelligence division of International Business Machines Corporation. Mr. Liu is currently the chairman of the board of directors of the Global Business Intelligence Consulting (Beijing) Co., Ltd. (吉貝克資訊技術 (北京)有限公司), a committee member of the Informatization Committee of the China Association for Public Companies (中國上市公司協會資訊化專業委員會), a professor and a doctoral advisor at the University of Chinese Academy of Sciences (中科院大學), an associate of the Research Centre of Finance Sciences and Technology of the University of Chinese Academy of Sciences (中科院大學金融科技研究中心), a entrepreneurship tutor of the Ministry of Science and Technology (科技部火炬創業導師), a member of the professional consultant committee of the China Association of Technology Entrepreneurs (中國技術創業協會專家諮詢委員會), a committee member of the China Accounting Informatization Committee (中國會計信息化委員會), a vice chairman of the execution committee of eXtensible Business Reporting Language China (XBRL 中國執行委員會), a technical consultant of Southern Medicine Economic Research Institute of China Food and Drug Administration (國家藥監局南方醫藥經濟研究所) and a consultant of the Chengdu Technology Consulting Team (成都市科技顧問團). Mr. Liu holds a doctoral degree.

Mr. Su Xijia (蘇錫嘉) has been an independent director of the Bank since December 2016. Mr. Su previously served as a lecturer at the School of Accountancy of Shanghai University of Finance and Economics (上海財經大學) and an associate professor at the Department of Accountancy of the College of Business of the City University of Hong Kong (香港城市大學). Mr. Su is currently a professor of accounting at the China Europe International Business School (中歐國際工商學院), an independent director of China Jinmao Holdings Group Limited (中國金茂集團) and Shenzhen Ellassay Fashion Co., Ltd. (深圳歌力思服飾股份有限公司) and a director of Jiangsu Changbao Steeltube Co., Ltd. (江蘇常寶鋼管股份有限公司). Mr. Su holds a doctoral degree.

Mr. Lin Hua (林華) has been an independent director of the Bank since July 2015. Mr. Lin previously served as the general manager of Jinyuan Capital Management (Xiamen) Co., Ltd. (金圓資本管理 (廈門) 有限公司), the general manager of Xiamen Venture Capital Co., Ltd. (Fund of Funds of Xiamen Municipal Government) (廈門市創業投資公司 (廈門市政府母基金)), the chief investment officer of the Capital Operations Department of China General Nuclear Power Group (中國廣東核電集團) and a senior modelling engineer and a project manager of the Department of Structuring under KPMG US LLP (美國畢馬威). Mr. Lin is currently an adjunct professor at Nankai University (南開大學) and Southwestern University of Finance and Economics (西南財經大學) and a visiting professor at Xiamen National Accounting Institute (廈門國家會計學院). Mr. Lin holds a doctoral degree.

SUPERVISORS

The Bank's board of supervisors consists of eight members, including five supervisors and three external supervisors.

The board of supervisors is responsible for (1) monitoring the Bank's financial matters; (2) overseeing the actions of the board of directors and the senior management of the Bank; and (3) managing risks and carrying out internal control measures.

The following table sets forth the Bank's board of supervisors as at the date of this Supplement:

Name	Age	Position
Jiang Yunming (蔣雲明)	53	Chairman of the board of supervisors
Yuan Jun (袁俊)	34	Supervisor
He Xudong (何旭東)	41	Supervisor
Zhang Guoming (張國明)	52	Supervisor
Lai Furong (賴富榮)	50	Supervisor
Li Ruoshan (李若山)	69	External supervisor
Ben Shenglin (賁聖林)	52	External supervisor
Xia Dawei (夏大慰)	65	External supervisor

Mr. Jiang Yunming (蔣雲明) has been the chairman of the board of supervisors of the Bank since February 2016. Mr. Jiang previously served as a manager of the publication department of the Bank, an assistant to the general manager of Industrial Securities Co., Ltd. (興業證券公司), a manager of the investment banking department of Industrial Securities Co., Ltd., a deputy general manager of the Bank's general office, the general manager of the board secretariat of the Bank, the president of the Beijing Branch of the Bank and a vice president and a director of the Bank. Mr. Jiang holds a doctoral degree and is a senior economist.

Mr. Yuan Jun (袁俊) has been a supervisor of the Bank since May 2018. Mr. Yuan previously served as a deputy general manager of Longyan Huijin Asset Operation Development Company (龍岩市匯金資產經營發展公司) and as an assistant to operations manager of the Longyan Branch of Huafu Securities Corporation Limited (華福證券). Mr. Yuan is currently the standing deputy general manager of Longyan Huijin Development Group (龍岩市匯金發展集團), chairman of Yanhai Financial Leasing Co., Ltd. (岩海融資租賃有限公司) and Yanhai Commercial Factoring Company (岩海商業保理公司), executive director of Longyan Huijin Emerging Investment Company (龍岩市匯金創業投資公司), chairman of Longyan Industrial Equity Investment Fund (龍岩市產業股權投資基金) and vice chairman of Longyan Youth Confederation Committee (龍岩市青年聯合會). Mr. Yuan holds a master's degree and is a member of the China Democratic National Construction Association.

Mr. He Xudong (何旭東) has been a supervisor of the Bank since December 2016. Mr. He previously served as an employee of the Project Management Department of Zhejiang Electric Power Development Co., Ltd. (浙江電力開發公司), an employee in the Asset Operation Department of Zhejiang Provincial Energy Group Company Ltd. (浙江省能源集團有限公司), the director of the Asset Operation Department and the director in the General Office of the Coal and Transportation Branch of Zhejiang Provincial Energy Group Co., Ltd. (浙江省能源集團有限公司煤炭及運輸分公司). Mr. He is currently a deputy director in the Asset Operation Department of Zhejiang Provincial Energy Group Co., Ltd. (浙江省能源集團有限公司), a director of Jiangxi Ganzhe Energy Co., Ltd. (江西省贛浙能源有限公司), Zhonghai Zhejiang Ningbo LNG Co., Ltd. (中海浙江寧波液化天然氣有限公司), Zhejiang Zheneng Jiaxing Power Generation Co., Ltd. (浙江浙能嘉興發電有限公司), Zhejiang Zheneng Jiahua Power Generation Co., Ltd. (浙江浙能嘉華發電有限公司) and a supervisor of China Zheshang Bank Co., Ltd (浙商銀行股份有限公司) and Sinopec Xinjiang Coal Gas Natural Gas Pipeline Co., Ltd (中國石化新疆煤質天然氣外輸管道有限公司). Mr. He holds a bachelor's degree and is an economist.

Mr. Zhang Guoming (張國明) has been a supervisor of the Bank since August 2018. Mr. Zhang previously served as a deputy director of Fujian Provincial Disciplinary Inspection Commission Cadre Management Office (福建省紀委幹部管理室), a deputy secretary of the Fujian Provincial Disciplinary Inspection Commission Party Committee (福建省紀委機關黨委) and a deputy director of the Fujian Provincial Disciplinary Inspection Commission Inspection Office (福建省委巡視辦). Mr. Zhang is currently a member of the party committee and a secretary of the disciplinary inspection committee of the Bank. Mr. Zhang holds a bachelor's degree.

Mr. Li Ruoshan (李若山) has been an external supervisor of the Bank since December 2016. Mr. Li previously served as a deputy dean of the School of Economics of Xiamen University (廈門大學經濟學院), a deputy chief in the accounting department of the School of Economics of Xiamen University, and an associate dean of the Business School of Fudan University (復旦大學管理學院). Mr. Li is currently a chief academic officer of the Master of Professional Accounting Program, a professor and a doctoral advisor at the School of Management of Fudan University, a director of Shanghai Fudan Forward S&T Co., Ltd. (上海復旦複華科技股份有限公司) and an independent director of China Eastern Airlines Co., Ltd. (中國東方航空股份有限公司), Xi'an Shaangu Power Co., Ltd. (西安陝鼓動力股份有限公司) and Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd. (上海張江高科技園區開發股份有限公司). Mr. Li holds a doctoral degree and is a professor and a non-practicing certified accountant.

Mr. Lai Furong (賴富榮) has been a supervisor of the Bank since October 2007. Mr. Lai previously served as the president and a vice president of the Jin'an sub-branch of the Fuzhou Branch of the Bank, a deputy general manager of the finance and accounting department of the Bank, a vice president of the Guangzhou Branch of the Bank and a deputy general manager of the financial planning department of the Bank. Mr. Lai is currently the general manager of the audit department of the Bank. Mr. Lai holds a bachelor's degree and is a senior accountant.

Mr. Ben Shenglin (賁聖林) has been an external supervisor of the Bank since December 2016. Mr. Ben previously served as senior vice president and general manager of Working Capital Business (China) of ABN AMRO Bank N.V. (荷蘭銀行), the manager director and general manager of Industrial and Commercial Finance Business (China) of the Hongkong and Shanghai Banking Corporation Limited (香港上海滙豐銀行有限公司), the president of JP Morgan Chase Bank (China) Co., Ltd. (摩根大通銀行（中國）有限公司) and a member of the Global Leader Team of JP Morgan Chase Global Enterprise Bank (摩根大通環球企業銀行全球領導小組). Mr. Ben is currently a professor and a doctoral supervisor at the School of Management of Zhejiang University (浙江大學管理學院), the founding president of the Internet Academy of Finance, Zhejiang University (浙江大學互聯網金融研究院), an assistant to the dean of the School of Management and a director of the EMBA Centre of Zhejiang University, an executive head of the International Monetary Institute at Renmin University of China (中國人民大學國際貨幣研究所), a counsellor of Zhejiang Provincial People's Government (浙江省人民政府), and an independent director of Tsingtao Beer Co., Ltd. (青島啤酒股份有限公司), Bank of Ningbo Co., Ltd. (寧波銀行) and Zhejiang Material Industrial Zhongda Group Co., Ltd. (浙江物產中大集團公司) and an independent non-executive director of China International Capital Corporation Limited (中國國際金融有限公司). Mr. Ben holds a doctoral degree and is a professor and a doctoral supervisor.

Mr. Xia Dawei (夏大慰) has been an external supervisor of the Bank since May 2016. Mr. Xia previously served as a dean of the School of International Business Administration, an assistant to the president and a vice president of Shanghai University of Finance and Economics (上海財經大學), and a dean of Shanghai National Accounting Institute (上海國家會計學院). Mr. Xia is currently the chief of the academic committee, a doctoral advisor and a professor at Shanghai National Accounting Institute, a vice president of the China Society of Industrial Economics (中國工業經濟學會), a consultant of the China Accounting Standards Committee (財政部會計準則委員會), a committee member of China Internal Control Standards Committee (財政部企業內部控制標準委員會) and a committee member of the Shanghai Stock Exchange Listing Committee (上海證券交易所上市委員會). Mr. Xia holds a master's degree.

SENIOR MANAGEMENT

The Bank currently has one president and four vice presidents. The president is appointed by and reports to the board of directors. The president is primarily responsible for (1) making annual budgets; (2) making the Bank's annual business and investment plans; and (3) setting up the corporate governance structure and developing the detailed corporate regulations. The following table sets forth the Bank's senior management as at the date of this Supplement:

Name	Age	Position
Tao Yiping (陶以平)	55	President
Chen Jinguang (陳錦光)	57	Vice president
Li Weimin (李衛民)	51	Vice president
Chen Xinjian (陳信健)	51	Vice president and Secretary of the board of directors
Sun Xiongpeng (孫雄鵬)	51	Vice president

Mr. Tao Yiping (陶以平) has been the president of the Bank since April 2016. For Mr. Tao's biography, see "*Directors*" above.

Mr. Chen Jinguang (陳錦光) has been a vice president of the Bank since February 2013. For Mr. Chen's biography, see "*Directors*" above.

Mr. Li Weimin (李衛民) has been a vice president of the Bank since December 2012. Mr. Li previously served as a deputy general manager and a manager of the operation department of the Fuzhou Branch of the Bank, an assistant to the president and a manager of the general office of the Fuzhou Branch of the Bank, a vice president of the Fuzhou Branch of the Bank, a vice president of the Nanjing Branch of the Bank and the president of the Zhangzhou, Zhenzhou and Fuzhou branches of the Bank. Mr. Li is currently a party committee member of the Bank. Mr. Li holds a master's degree and is a senior accountant.

Mr. Chen Xinjian (陳信健) has been a vice president of the Bank since July 2014 and the secretary of the board of directors since November 2015. For Mr. Chen's biography, see "*Directors*" above.

Mr. Sun Xiongpeng (孫雄鵬) has been a vice president of the Bank since August 2016. Mr. Sun previously served as a deputy general manager of the international operation department of the Quanzhou Branch of the Bank, a manager of the national business department and the operation department of the Quanzhou Branch of the Bank, an assistant to the president and a vice president of the Quanzhou Branch of the Bank and the president of the Zhangzhou, Quanzhou and Xiamen branches of the Bank. Mr. Sun is currently a party secretary and the president of the Fuzhou Branch of the Bank. Mr. Sun holds a master's degree and is a senior economist.

The business address of the above directors, supervisors and senior management is No. 154, Hudong Road, Fuzhou, Fujian Province, People's Republic of China.

CORPORATE GOVERNANCE

The Bank has established and implemented an effective corporate governance structure. It has set up five committees: the Strategic Planning Committee, the Risk Management Committee, the Auditing and Related Party Transaction Supervision Committee, the Nomination Committee and the Remuneration and Evaluation Committee. The primary duties of these five committees are set forth as follows:

- The Strategic Planning Committee actively assists the board of directors in developing strategic plans, adjusting business plans and enhancing the management of capital of the Bank. The Committee is also responsible for conducting internal investigations and ensuring the Bank's compliance with the relevant rules and regulatory guidelines;
- The Risk Management Committee is responsible for analysing the risks of the Bank in its daily business operation and minimising any recognised risks involved;
- The Auditing and Related Party Transaction Supervision Committee is responsible for checking audit documents and reports and evaluating the external financial environment;
- The Nomination Committee is responsible for nominating qualified and appropriate persons as directors to ensure the quality of the directors, supervisors and senior management of the Bank; and
- The Remuneration and Evaluation Committee is responsible for evaluating the performance of the board of directors and the senior management for the Bank's development.

SUBSCRIPTION AND SALE

The Singapore selling restriction under the section "Subscription and Sale" in the Principal Offering Circular shall be deleted in its entirety and replaced with the following:

Singapore

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

The Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Notes may not be circulated or distributed, nor may any Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275 (1), or any person pursuant to Section 275 (1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

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

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

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

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

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

(iii) where the transfer is by operation of law; or

(iv) as specified in Section 276(7) of the SFA.

GENERAL INFORMATION

1 Listing

Application will be made to SEHK for the listing of the USD Notes on the Hong Kong Stock Exchange by way of debt issues to Professional Investors only. Such listing is expected to be effective on or immediately following the Issue Date.

Application has been made to the Luxembourg Stock Exchange for the EUR Notes to be admitted to trading on the Euro MTF market and listed on the Official List of the Luxembourg Stock Exchange. All the notices will be published in a leading newspaper having general circulation in Luxembourg or alternatively on the website of the Luxembourg Stock Exchange www.bourse.lu.

2 Clearing

The EUR Notes have been accepted for clearance and settlement through Euroclear and Clearstream.

3 Authorisation

The establishment and update of the Programme and the issue of the Notes thereunder were authorised by resolutions of the board of directors passed on 25 August 2016, 23 January 2018 and 24 October 2018, respectively. The Bank and the Issuer have obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of their respective obligations under the Notes.

4 Legal Entity Identifier

The legal entity identifier of the Issuer is 3003007Y03W5HH1MXR96.

5 Legal and Arbitration Proceedings

None of the Issuer, the Bank or the Group is or has been involved in any governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Bank or the Issuer is aware), which may have, or have had, during the 12 months prior to the date of this Supplement, a significant effect on the financial position or profitability of the Issuer, the Bank or the Group.

6 No Material Adverse Change

Except as disclosed in this Supplement, there has been no material adverse change in the financial position or prospects of the Issuer, the Bank or of the Group since 30 June 2018.

ANNEX I — PRICING SUPPLEMENT IN RELATION TO THE USD NOTES

MiFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer's target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

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

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

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

In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore as modified or amended from time to time including by any subsidiary legislation as may be applicable at the relevant time (together, the "**SFA**") and the Securities and Futures Act (Capital Market Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the CMP Regulations 2018) and are Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products.

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

Pricing Supplement dated 13 November 2018

Industrial Bank Co., Ltd. Hong Kong Branch

Issue of U.S.$600,000,000 Floating Rate Notes due 2021
under the U.S.$5,000,000,000 Medium Term Note Programme of Industrial Bank Co., Ltd.

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

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Principal Offering Circular dated 2 February 2018 (the "**Principal Offering Circular**") and the Supplemental Offering Circular dated 13 November 2018 (the "**Supplemental Offering Circular**", together with the Principal Offering Circular, the "**Offering Circulars**"). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circulars. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Offering Circulars.

1	Issuer:		Industrial Bank Co., Ltd. Hong Kong Branch (The Issuer's legal entity identifier number is 3003007Y03W5HH1MXR96)
2	(i)	Series Number:	007
	(ii)	Tranche Number:	001
3	Specified Currency or Currencies:		United States dollar ("**U.S.$**")
4	Aggregate Nominal Amount:		
	(i)	Series:	U.S.$600,000,000
	(ii)	Tranche:	U.S.$600,000,000
5	(i)	Issue Price:	100 per cent. of the Aggregate Nominal Amount
	(ii)	Net proceeds:	Approximately U.S.$598 million
	(iii)	Use of proceeds:	Used for financing or refinancing Eligible Green Assets (as defined in the Supplemental Offering Circular).
6	(i)	Specified Denominations:	U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof
	(ii)	Calculation Amount:	U.S.$1,000
7	(i)	Issue Date:	20 November 2018
	(ii)	Interest Commencement Date:	Issue Date
8	Maturity Date:		The Interest Payment Date falling on or nearest to 20 November 2021
9	Interest Basis:		3 months LIBOR + 0.85 per cent. Floating Rate (further particulars specified below)
10	Redemption/Payment Basis:		Redemption at par
11	Change of Interest or Redemption/ Payment Basis:		Not Applicable
12	Put/Call Options:		Not Applicable
13	Statusof the Notes:		Senior Notes
14	Listing:		Hong Kong Stock Exchange (effective date of listing of the USD Notes is on or about 21 November 2018)
15	Method of distribution:		Syndicated

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16	Fixed Rate Note Provisions:	Not Applicable
17	Floating Rate Note Provisions:	Applicable
(i)	Interest Period(s):	Each period beginning on (and including) the Interest Commencement Date or any Specified Interest Payment Date and ending on (but excluding) the next Specified Interest Payment Date, subject to adjustment in accordance with the Business Day Convention set out in (iv) below
(ii)	Specified Interest Payment Dates:	20 February, 20 May, 20 August and 20 November in each year up to and including the Maturity Date, with the first Interest Payment Date being 20 February 2019, subject to adjustment in accordance with the Business Day Convention set out in (iv) below
(iii)	Interest Period Date(s):	Not Applicable
(iv)	Business Day Convention:	Modified Following Business Day Convention
(v)	Business Centre(s) (Condition 5(j)):	Not Applicable
(vi)	Manner in which the Rate(s) of Interest is/ are to be determined:	Screen Rate Determination
(vii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s):	Citibank, N.A., London Branch
(viii)	Screen Rate Determination (Condition 5(b)(iii)(B)):	
—	Reference Rate:	3 months USD LIBOR
—	Interest Determination Date:	A day falling two Business Days in London for U.S. Dollar prior to the first day of the relevant Interest Accrual Period and, for the purposes of this definition of “Interest Determination Date”, “Business Day” shall mean a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in London.
—	Reference Screen Page:	Reuters Page LIBOR01
(ix)	ISDA Determination (Condition 5(b)(iii)(A)):	Not Applicable
—	Floating Rate Option:	Not Applicable
—	Designated Maturity:	Not Applicable
—	Reset Date:	Not Applicable
—	ISDA Definitions: (if different from those set out in the Conditions)	Not Applicable
(x)	Margin(s):	+0.85 per cent. per annum
(xi)	Minimum Rate of Interest:	Not Applicable
(xii)	Maximum Rate of Interest:	Not Applicable
(xiii)	Day Count Fraction (Condition 5(j)):	Actual/360
(xiv)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	Not Applicable

18	Zero Coupon Note Provisions:	Not Applicable
19	Index Linked Interest Note Provisions:	Not Applicable
20	Dual Currency Note Provisions:	Not Applicable

PROVISIONS RELATING TO REDEMPTION

21	Call Option:	Not Applicable
22	Put Option:	Not Applicable
23	Final Redemption Amount of each Note:	U.S.$1,000 per Calculation Amount
24	Early Redemption Amount:	
	(i) Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons (Condition 6(c)) or Event of Default (Condition 10(a) or 10(b)) and/or the method of calculating the same (if required or if different from that set out in the Conditions):	U.S.$1,000 per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25	Form of Notes:	Registered Notes: Global Certificate exchangeable for Certificates in the limited circumstances described in the Global Certificate
26	Financial Centre(s) (Condition 7(h)) or other special provisions relating to payment dates:	New York City; Hong Kong
27	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	No
28	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	Not Applicable
29	Details relating to Instalment Notes:	Not Applicable
30	Redenomination, renominalisation and reconventioning provisions:	Not Applicable
31	Consolidation provisions:	Not Applicable
32	Other terms or special conditions:	Not Applicable

DISTRIBUTION

33	(i) If syndicated, names of Managers:	Industrial Bank Co., Ltd. Hong Kong Branch The Hongkong and Shanghai Banking Corporation Limited Crédit Agricole Corporate and Investment Bank Citigroup Global Markets Limited Bank of Communications Co., Ltd. Hong Kong Branch Deutsche Bank AG, Hong Kong Branch Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch CCB International Capital Limited China Construction Bank (Asia) Corporation Limited China Construction Bank Corporation Singapore Branch

		Agricultural Bank of China Limited Hong Kong Branch
		BNP Paribas
		China Everbright Bank Co., Ltd., Hong Kong Branch
		China Industrial Securities International Brokerage Limited
		China Minsheng Banking Corp., Ltd., Hong Kong Branch
		Chiyu Banking Corporation Limited
		CMB Wing Lung Bank Limited
		ICBC International Securities Limited
		Industrial and Commercial Bank of China (Asia) Limited
		Industrial and Commercial Bank of China (Europe) S.A.
		SinoPac Securities (Asia) Limited
	(ii) Stabilisation Manager (if any):	Any Stabilisation Manager as defined below
34	If non-syndicated, name of Dealer:	Not Applicable
35	U.S. Selling Restrictions:	Reg. S Category 1; TEFRA Not Applicable
36	Additional selling restrictions:	Not Applicable

OPERATIONAL INFORMATION

37	ISIN Code:	XS1898122301
38	Common Code:	189812230
39	CMU Instrument Number:	Not Applicable
40	Any clearing system(s) other than Euroclear, Clearstream, Luxembourg, the CMU Service and the relevant identification number(s):	Not Applicable
41	Delivery:	Delivery against payment
42	Additional Paying Agents (if any):	No

GENERAL

43	The aggregate principal amount of Notes issued has been translated into US dollars at the rate of, producing a sum of (for Notes not denominated in US dollars):	Not Applicable
44	Rating:	The Notes to be issued are expected to be rated:
		Moody's: Baa2
45	In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong:	1 North Wall Quay Dublin 1 Ireland
46	In the case of Bearer Notes, specify the location of the office of the Fiscal Agent if other than London:	Not Applicable
47	Private Bank Rebate/Commission:	Not Applicable
48	Regulatory Approval/Registration:	
	(i) NDRC pre-issue registration obtained:	10 October 2018
	(ii) PBOC pre-issue approval obtained:	Not Applicable
	(iii) CBRC pre-issue approval obtained:	Not Applicable
	(iv) NDRC post-issue reporting:	Within 10 PRC business days after the Issue Date

LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S.$5,000,000,000 Medium Term Note Programme of Industrial Bank Co., Ltd.

STABILISATION

In connection with this issue, any of the Managers appointed and acting in its capacity as a stabilisation manager (the "**Stabilisation Manager**") (or persons acting on behalf of any Stabilisation Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilisation Manager (or persons acting on behalf of a Stabilisation Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes or 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager (or persons acting on behalf of any Stabilisation Manager) in accordance with all applicable laws and rules.

MATERIAL ADVERSE CHANGE STATEMENT

There has been no significant change in the financial or trading position of the Issuer or of the Group since 30 June 2018 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 30 June 2018.

2018 THIRD QUARTER FINANCIAL INFORMATION

On 27 October 2018, the Bank published its 2018 Third Quarter Report (the "**Third Quarter Report**") in accordance with applicable PRC regulations in relation to disclosure of information in quarterly reports for listed companies.

The Third Quarter Report contains the unaudited and unreviewed consolidated financial information of the Bank as at and for the nine months ended 30 September 2017 and 2018, which have not been audited or reviewed by the Bank's independent auditor. The Third Quarter Report is not included in this Pricing Supplement nor incorporated by reference into the Offering Circulars. The Third Quarter Report does not form part of the disclosure in relation to the issue and offering of the Notes and investors should not rely on such information in making their investment decision.

RESPONSIBILITY STATEMENT

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

Signed on behalf of the Issuer:

By: Chen Xian
Duly authorised

ANNEX II — PRICING SUPPLEMENT IN RELATION TO THE EUR NOTES

MiFID II product governance / Professional investors and ECPs only target market — Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

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

In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore as modified or amended from time to time including by any subsidiary legislation as may be applicable at the relevant time (together, the "**SFA**") and the Securities and Futures Act (Capital Market Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the CMP Regulations 2018) and are Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products.

Pricing Supplement dated 13 November 2018
Industrial Bank Co., Ltd. Hong Kong Branch

Issue of €300,000,000 Floating Rate Notes due 2021
under the U.S.$5,000,000,000 Medium Term Note Programme of Industrial Bank Co., Ltd.

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

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Principal Offering Circular dated 2 February 2018 (the "**Principal Offering Circular**") and the Supplemental Offering Circular dated 13 November 2018 (the "**Supplemental Offering Circular**", together with the Principal Offering Circular, the "**Offering Circulars**"). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circulars. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Offering Circulars.

1	Issuer:		Industrial Bank Co., Ltd. Hong Kong Branch (The Issuer's legal entity identifier number is 3003007Y03W5HH1MXR96)
2	(i)	Series Number:	008
	(ii)	Tranche Number:	001
3	Specified Currency or Currencies:		euro ("**€**")
4	Aggregate Nominal Amount:		
	(i)	Series:	€300,000,000
	(ii)	Tranche:	€300,000,000
5	(i)	Issue Price:	100 per cent. of the Aggregate Nominal Amount
	(ii)	Net proceeds:	Approximately €299 million
	(iii)	Use of proceeds:	Used for financing or refinancing Eligible Green Assets (as defined in the Supplemental Offering Circular).
6	(i)	Specified Denominations:	€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000. No notes in definitive form will be issued with a denomination above €199,000.
	(ii)	Calculation Amount:	€1,000
7	(i)	Issue Date:	20 November 2018
	(ii)	Interest Commencement Date:	Issue Date
8	Maturity Date:		The Interest Payment Date falling on or nearest to 20 November 2021
9	Interest Basis:		3 months EURIBOR + 0.85 per cent. Floating Rate (further particulars specified below)
10	Redemption/Payment Basis:		Redemption at par
11	Change of Interest or Redemption/ Payment Basis:		Not Applicable
12	Put/Call Options:		Not Applicable
13	Status of the Notes:		Senior Notes
14	Listing:		Luxembourg Stock Exchange (effective date of listing of the EUR Notes is on or about 14 November 2018)
15	Method of distribution:		Syndicated

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16	Fixed Rate Note Provisions:	Not Applicable
17	Floating Rate Note Provisions:	Applicable
(i)	Interest Period(s):	Each period beginning on (and including) the Interest Commencement Date or any Specified Interest Payment Date and ending on (but excluding) the next Specified Interest Payment Date, subject to adjustment in accordance with the Business Day Convention set out in (iv) below
(ii)	Specified Interest Payment Dates:	20 February, 20 May, 20 August and 20 November in each year up to and including the Maturity Date, with the first Interest Payment Date being 20 February 2019, subject to adjustment in accordance with the Business Day Convention set out in (iv) below
(iii)	Interest Period Date(s):	Not Applicable
(iv)	Business Day Convention:	Modified Following Business Day Convention
(v)	Business Centre(s) (Condition 5(j)):	Not Applicable
(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	Screen Rate Determination
(vii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s):	Citibank, N.A., London Branch
(viii)	Screen Rate Determination (Condition 5(b)(iii)(B)):	
—	Reference Rate:	3 months euro EURIBOR
—	Interest Determination Date:	A day falling two TARGET Business Days prior to the first day of the relevant Interest Accrual Period and, for the purposes of this definition of “Interest Determination Date”, “TARGET Business Day” shall mean a day on which the TARGET System is operating.
—	Reference Screen Page:	Reuters Page EURIBOR01 at 11.00 am (Brussels time) on the Interest Determination Date
(ix)	ISDA Determination (Condition 5(b)(iii)(A)):	Not Applicable
—	Floating Rate Option:	Not Applicable
—	Designated Maturity:	Not Applicable
—	Reset Date:	Not Applicable
—	ISDA Definitions: (if different from those set out in the Conditions)	Not Applicable
(x)	Margin(s):	+0.85 per cent. per annum
(xi)	Minimum Rate of Interest:	Not Applicable
(xii)	Maximum Rate of Interest:	Not Applicable
(xiii)	Day Count Fraction (Condition 5(j)):	Actual/360
(xiv)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	Not Applicable

18	Zero Coupon Note Provisions	Not Applicable
19	Index Linked Interest Note Provisions	Not Applicable
20	Dual Currency Note Provisions	Not Applicable

PROVISIONS RELATING TO REDEMPTION

21	Call Option	Not Applicable
22	Put Option	Not Applicable
23	Final Redemption Amount of each Note	€1,000 per Calculation Amount
24	Early Redemption Amount	
	(i) Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons (Condition 6(c)) or Event of Default (Condition 10(a) or 10(b)) and/or the method of calculating the same (if required or if different from that set out in the Conditions):	€1,000 per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25	Form of Notes:	Registered Notes: Global Certificate exchangeable for Certificates in the limited circumstances described in the Global Certificate
26	Financial Centre(s) (Condition 7(h)) or other special provisions relating to payment dates:	Hong Kong; TARGET2
27	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	No
28	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	Not Applicable
29	Details relating to Instalment Notes:	Not Applicable
30	Redenomination, renominalisation and reconventioning provisions:	Not Applicable
31	Consolidation provisions:	Not Applicable
32	Other terms or special conditions:	Not Applicable

DISTRIBUTION

33	(i) If syndicated, names of Managers:	Industrial Bank Co., Ltd. Hong Kong Branch The Hongkong and Shanghai Banking Corporation Limited Crédit Agricole Corporate and Investment Bank Citigroup Global Markets Limited Bank of Communications Co., Ltd. Hong Kong Branch Deutsche Bank AG, Hong Kong Branch Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch CCB International Capital Limited China Construction Bank (Asia) Corporation Limited China Construction Bank Corporation Singapore Branch

		Agricultural Bank of China Limited Hong Kong Branch BNP Paribas China Everbright Bank Co., Ltd., Hong Kong Branch China Industrial Securities International Brokerage Limited China Minsheng Banking Corp., Ltd., Hong Kong Branch Chiyu Banking Corporation Limited CMB Wing Lung Bank Limited ICBC International Securities Limited Industrial and Commercial Bank of China (Asia) Limited Industrial and Commercial Bank of China (Europe) S.A. SinoPac Securities (Asia) Limited
	(ii) Stabilisation Manager (if any):	Any Stabilisation Manager as defined below
34	If non-syndicated, name of Dealer:	Not Applicable
35	U.S. Selling Restrictions:	Reg. S Category 1; TEFRA Not Applicable
36	Additional selling restrictions:	Not Applicable

OPERATIONAL INFORMATION

37	ISIN Code:	XS1898123374
38	Common Code:	189812337
39	CMU Instrument Number:	Not Applicable
40	Any clearing system(s) other than Euroclear, Clearstream, Luxembourg, the CMU Service and the relevant identification number(s):	Not Applicable
41	Delivery:	Delivery against payment
42	Additional Paying Agents (if any):	No

GENERAL

43	The aggregate principal amount of Notes issued has been translated into US dollars at the rate of, producing a sum of (for Notes not denominated in US dollars):	Not Applicable
44	Rating:	The Notes to be issued are expected to be rated: Moody's: Baa2
45	In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong:	1 North Wall Quay Dublin 1 Ireland
46	In the case of Bearer Notes, specify the location of the office of the Fiscal Agent if other than London:	Not Applicable
47	Private Bank Rebate/Commission:	Not Applicable

48 Regulatory Approval/Registration:

(i)	NDRC pre-issue registration obtained:	10 October 2018
(ii)	PBOC pre-issue approval obtained:	Not Applicable
(iii)	CBRC pre-issue approval obtained:	Not Applicable
(iv)	NDRC post-issue reporting:	Within 10 PRC business days after the Issue Date

LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S.$5,000,000,000 Medium Term Note Programme of Industrial Bank Co., Ltd.

STABILISATION

In connection with this issue, any of the Managers appointed and acting in its capacity as a stabilisation manager (the "**Stabilisation Manager**") (or persons acting on behalf of any Stabilisation Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilisation Manager (or persons acting on behalf of a Stabilisation Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes or 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager (or persons acting on behalf of any Stabilisation Manager) in accordance with all applicable laws and rules.

MATERIAL ADVERSE CHANGE STATEMENT

There has been no significant change in the financial or trading position of the Issuer or of the Group since 30 June 2018 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 30 June 2018.

2018 THIRD QUARTER FINANCIAL INFORMATION

On 27 October 2018, the Bank published its 2018 Third Quarter Report (the "**Third Quarter Report**") in accordance with applicable PRC regulations in relation to disclosure of information in quarterly reports for listed companies.

The Third Quarter Report contains the unaudited and unreviewed consolidated financial information of the Bank as at and for the nine months ended 30 September 2017 and 2018, which have not been audited or reviewed by the Bank's independent auditor. The Third Quarter Report is not included in this Pricing Supplement nor incorporated by reference into the Offering Circulars. The Third Quarter Report does not form part of the disclosure in relation to the issue and offering of the Notes and investors should not rely on such information in making their investment decision.

RESPONSIBILITY STATEMENT

The Issuer accepts responsibility for the information contained in this Pricing Supplement and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

Signed on behalf of the Issuer:

By: Chen Xian

Duly authorised

INDEX TO FINANCIAL STATEMENTS

REVIEW REPORT

De Shi Bao (Yue) Zi (18) No. R00076

TO THE SHAREHOLDERS OF INDUSTRIAL BANK CO., LTD.

We have reviewed the accompanying financial statements of Industrial Bank Co., Ltd. (the "Bank"), which comprise the consolidated and Bank's balance sheets as at 30 June 2018, and the consolidated and Bank's income statements, the consolidated and Bank's cash flow statements, the consolidated and Bank's statements of changes in shareholders' equity for the six months period then ended, and the notes to the financial statements. The Bank's management is responsible for the preparation of these financial statements. Our responsibility is to issue a review report on these financial statements based on our review work.

We conducted our review in accordance with *China Certified Accountants' Standards on Reviewing No. 2101 — Review on Financial Statements.* The Standards require us to plan and perform the review to obtain limited assurance about the fact of whether the financial statements are free from material misstatements. Review is mainly limited to procedures of enquiring relative staff and implementing analytical procedures on financial data, and the extent of assurance is lower than that of auditing. We have not conducted auditing, thus we will not express an audit opinion.

We have not noted any fact to make us believe that the aforesaid financial statements have not been prepared in accordance with Accounting Standards for Business Enterprises No. 32 — Interim Financial Statements in all material respects.

Deloitte Touche Tohmatsu CPA LLP
Shanghai, China

Chinese Certified Public Accountant

Hu Xiaojun
Zhang Hua

28 August 2018

The review report and the accompanying financial statements are English translations of the Chinese review report and interim financial statements prepared under accounting principles and practices generally accepted in the People's Republic of China. These financial statements are not intended to present the financial position and results of operations in accordance with accounting principles and practices generally accepted in other countries and jurisdictions. In case the English version does not conform to the Chinese version, the Chinese version prevails.

THE CONSOLIDATED AND BANK'S BALANCE SHEETS
AT 30 JUNE 2018 UNIT: RMB IN MILLION

	Note VI	The Group 30/06/2018 (Unaudited)	The Group 31/12/2017	The Bank 30/06/2018 (Unaudited)	The Bank 31/12/2017
Assets					
Cash and balances with Central Bank	1	462,202	466,403	462,192	466,392
Amount due from banks and other financial institutions	2	119,414	77,559	115,105	67,478
Precious metals		21,837	30,053	21,837	30,053
Placements with banks and other financial institutions	3	54,553	31,178	64,397	36,412
Financial assets at fair value through profit or loss	4	355,000	362,072	314,852	337,965
Derivative financial assets	5	38,963	28,396	38,963	28,396
Financial assets held under resale agreements	6	56,422	93,119	54,449	89,464
Interest receivable	7	34,453	30,406	33,380	29,258
Loans and advances to customers	8	2,585,301	2,348,831	2,574,294	2,341,397
Available-for-sale financial assets	9	557,058	504,221	573,248	516,016
Held-to-maturity investments	10	359,625	337,483	359,625	337,483
Debt securities classified as receivables	11	1,712,975	1,913,382	1,698,109	1,899,969
Finance lease receivables	12	116,632	103,495	—	—
Long-term equity investments	13	3,198	3,008	17,951	16,964
Fixed assets		14,883	14,874	10,488	10,607
Construction in progress		7,502	7,124	7,489	7,122
Intangible assets		541	551	507	514
Goodwill	14	532	532	—	—
Deferred tax assets	15	27,783	27,297	26,189	26,233
Other assets	16	34,347	36,858	21,264	12,844
Total assets		6,563,221	6,416,842	6,394,339	6,254,567

(Continued)

THE CONSOLIDATED AND BANK'S BALANCE SHEETS - continued
AT 30 JUNE 2018 UNIT: RMB IN MILLION

	Note VI	The Group 30/06/2018 (Unaudited)	The Group 31/12/2017	The Bank 30/06/2018 (Unaudited)	The Bank 31/12/2017
Liabilities					
Amount due to Central Bank		253,500	245,000	253,500	245,000
Amount due to banks and other financial institutions	18	1,554,390	1,446,059	1,558,469	1,449,053
Placements from banks and other financial institutions	19	249,345	187,929	145,496	85,149
Financial liabilities at fair value through profit or loss	20	4,454	6,563	2,789	5,725
Derivative financial liabilities	5	33,787	29,514	33,787	29,514
Financial assets sold under repurchase agreements	21	166,631	229,794	159,200	223,885
Amount due to customers	22	3,103,429	3,086,893	3,104,030	3,087,919
Employee benefits payable	23	11,962	14,037	10,665	12,684
Tax payable	24	5,129	8,128	4,706	7,427
Interest payable	25	44,003	41,293	42,649	39,945
Bonds payable	26	658,251	662,958	642,578	648,032
Other liabilities	27	37,293	35,922	15,200	16,735
Total liabilities		6,122,174	5,994,090	5,973,069	5,851,068
Shareholders' equity					
Share capital	28	20,774	20,774	20,774	20,774
Other equity instruments	29	25,905	25,905	25,905	25,905
Including: preferred share		25,905	25,905	25,905	25,905
Capital reserve	30	75,011	75,011	75,260	75,260
Other comprehensive income	43	(1,441)	(1,067)	(187)	(1,017)
Surplus reserve	31	10,684	10,684	10,684	10,684
General risk reserve	32	71,095	70,611	67,888	67,888
Retained earnings	33	233,165	214,977	220,946	204,005
Equity attributable to shareholders of the Bank		435,193	416,895	421,270	403,499
Minority interests		5,854	5,857	—	—
Total shareholders' equity		441,047	422,752	421,270	403,499
Total liabilities and shareholders' equity		6,563,221	6,416,842	6,394,339	6,254,567

The accompanying notes form part of the interim financial statements.

The interim financial statements on pages 2 to 88 were signed by the following:

Gao Jianping	Tao Yiping	Li Jian
Chairman of the Board Legal Representative	President Financial Director	Person in Charge of the Accounting Body

THE CONSOLIDATED AND BANK'S INCOME STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018 UNIT: RMB IN MILLION

	Note VI	The Group Six months ended 30 June 2018 (Unaudited)	The Group Six months ended 30 June 2017 (Unaudited)	The Bank Six months ended 30 June 2018 (Unaudited)	The Bank Six months ended 30 June 2017 (Unaudited)
1. Operating income		73,385	68,357	68,980	64,156
Net interest income	34	45,599	44,003	43,272	41,472
Interest income	34	135,283	121,872	129,920	117,330
Interest expense	34	(89,684)	(77,869)	(86,648)	(75,858)
Net fee and commission income	35	20,117	18,310	18,191	16,353
Fee and commission income	35	22,011	19,731	19,886	17,810
Fee and commission expense	35	(1,894)	(1,421)	(1,695)	(1,457)
Investment income	36	7,307	3,190	7,810	3,777
Including: income from investments in an associate		207	153	207	135
Gains (losses) from changes in fair values	37	4,417	(979)	4,335	(647)
Foreign exchange (losses) gains		(4,578)	3,252	(4,728)	3,086
Income from disposal of assets		6	29	6	29
Other income		248	221	17	21
Other operating income		269	331	77	65
2. Operating expenses		(35,284)	(31,366)	(33,434)	(29,792)
Taxes and levies	38	(697)	(624)	(649)	(584)
General and administrative expenses	39	(17,433)	(16,229)	(16,247)	(15,199)
Impairment losses of assets	40	(16,911)	(14,253)	(16,408)	(13,883)
Other operating expenses		(243)	(260)	(130)	(126)
3. Operating profit		38,101	36,991	35,546	34,364
Add: Non-operating income		140	113	125	81
Less: Non-operating expenses		(100)	(24)	(97)	(24)
4. Total profit		38,141	37,080	35,574	34,421
Less: Income tax expenses	41	(4,303)	(5,241)	(3,648)	(4,572)
5. Net profit		33,838	31,839	31,926	29,849
(i) Categorized by the nature of continuing operation:					
1. Net profit from continuing operations		33,838	31,839	31,926	29,849
2. Net profit from discontinued operations		—	—	—	—
(ii) Categorized by ownership:					
1. Attributable to shareholders of the Bank		33,657	31,601	31,926	29,849
2. Minority interests		181	238	—	—
6. Earnings per share:					
Basic earnings per share (RMB)	42	1.55	1.51	—	—
Diluted earnings per share (RMB)	42	1.55	1.51	—	—
7. Other comprehensive income	43	(778)	(484)	830	(474)
Other comprehensive income attributable to shareholders of the Bank		(374)	(478)	830	(474)
1. Items that will be reclassified subsequently to profit or loss:					
(1) Losses arising from changes in fair value of available-for-sale financial assets		(450)	(1,215)	768	(1,211)
(2) Translation differences of financial statements denominated in foreign currencies		14	—	—	—
2. Items that will not be reclassified subsequently to profit or loss:					
The movement of net asset or liability arising from re-measurement of defined benefit plan		62	737	62	737
Other comprehensive income attributable to minority interests		(404)	(6)	—	—
8. Total comprehensive income		33,060	31,355	32,756	29,375
Total amount attributable to shareholders of the Bank		33,283	31,123	32,756	29,375
Minority interests		(223)	232	—	—

The accompanying notes form part of the interim financial statements.

THE CONSOLIDATED AND BANK'S INCOME STATEMENTS - continued
FOR THE SIX MONTHS ENDED 30 JUNE 2018 UNIT: RMB IN MILLION

The interim financial statements on pages 2 to 88 were signed by the following:

Gao Jianping	Tao Yiping	Li Jian
Chairman of the Board Legal Representative	President Financial Director	Person in Charge of the Accounting Body

THE CONSOLIDATED AND BANK'S CASH FLOW STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018 UNIT: RMB IN MILLION

		The Group		The Bank	
		Six months ended 30 June		Six months ended 30 June	
	Note VI	2018	2017	2018	2017
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Cash flows from operating activities:					
Net increase in amount due to customers and due to banks and other financial institutions		122,775	143,174	123,435	141,000
Net decrease in balances with Central Bank and amount due from banks and other financial institutions		5,615	—	3,832	—
Net increase in placements from banks and other financial institutions and financial assets sold under repurchase agreements		—	39,677	—	26,716
Net decrease in placements with banks and other financial institutions and financial assets held under resale agreements		—	7,421	—	8,357
Net increase in amount due to Central Bank		8,500	33,500	8,500	33,500
Net decrease in finance leases		903	—	—	—
Cash receipts from interest, fee and commission		93,800	77,208	87,670	72,510
Other cash receipts relating to operating activities		25,680	14,194	4,854	4,222
Sub-total of cash inflows from operating activities		257,273	315,174	228,291	286,305
Net increase in balances with Central Bank and amount due from banks and other financial institutions		—	49,787	—	51,625
Net decrease in placements from banks and other financial institutions and financial assets sold under repurchase agreements		1,747	—	4,338	—
Net increase in placements with banks and other financial institutions and financial assets held under resale agreements		14,925	—	20,018	—
Net increase in loans and advances to customers		252,845	207,088	248,994	206,156
Net increase in finance leases		—	7,140	—	—
Cash payments to interest, fee and commission		71,286	50,050	68,499	48,447
Cash payments to and on behalf of employees		12,945	12,892	12,054	12,052
Cash payments of various types of taxes		13,320	14,173	11,739	13,409
Other cash payments relating to operating activities		49,457	16,087	22,736	1,972
Sub-total of cash outflows from operating activities		416,525	357,217	388,378	333,661
Net cash flow from operating activities	44	(159,252)	(42,043)	(160,087)	(47,356)
Cash flows from investing activities					
Cash receipts from recovery of investments		2,607,857	3,015,142	2,562,387	2,902,668
Cash receipts from investment income		61,377	59,449	60,860	58,565
Cash receipts from disposals of fixed assets, intangible assets and other long-term assets		82	523	82	523
Other cash receipts relating to investing activities		20	834	19	826
Sub-total of cash inflows from investing activities		2,669,336	3,075,948	2,623,348	2,962,582
Cash payments to acquire investments		2,475,103	2,990,143	2,442,233	2,890,765
Cash payments to acquire fixed assets, intangible assets and other long-term assets		1,713	5,476	1,563	1,788
Other cash payments relating to investing activities		859	—	859	—
Sub-total of cash outflows from investing activities		2,477,675	2,995,619	2,444,655	2,892,553
Net cash flow from investing activities		191,661	80,329	178,693	70,029

(Continued)

THE CONSOLIDATED AND BANK'S CASH FLOW STATEMENTS - continued
FOR THE SIX MONTHS ENDED 30 JUNE 2018 UNIT: RMB IN MILLION

	Note VI	The Group		The Bank	
		Six months ended 30 June		Six months ended 30 June	
		2018	2017	2018	2017
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Cash flows from financing activities:					
Cash receipts from capital contributions		220	27,050	—	26,000
Including: Cash receipts from capital contributions from minority owners of subsidiaries		220	1,050	—	—
Cash receipts from bonds issuance		703,891	635,672	700,401	629,212
Other cash receipts relating to financing activities		1,584	—	—	—
Sub-total of cash inflows from financing activities		705,695	662,722	700,401	655,212
Cash repayments of borrowings		708,778	626,548	705,854	625,940
Cash payments for distribution of dividends or profits or settlement of interest expenses		32,287	28,961	32,017	28,734
Including: payments for distribution of dividends to minority owners of subsidiaries		—	10	—	—
Other cash payments relating to financing activities		823	99	—	99
Sub-total of cash outflows from financing activities		741,888	655,608	737,871	654,773
Net cash flow from financing activities		(36,193)	7,114	(37,470)	439
Effect of foreign exchange rate changes on cash and cash equivalents		563	(384)	559	(382)
Net (decrease) increase in cash and cash equivalents	44	(3,221)	45,016	(18,305)	22,730
Add: Opening balance of cash and cash equivalents		470,321	433,063	480,627	465,783
Closing balance of cash and cash equivalents	44	467,100	478,079	462,322	488,513

The accompanying notes form part of the interim financial statements.

The interim financial statements on pages 2 to 88 were signed by the following:

Gao Jianping	Tao Yiping	Li Jian
Chairman of the Board Legal Representative	President Financial Director	Person in Charge of the Accounting Body

THE CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2018

UNIT: RMB IN MILLION

		For the six months ended 30 June 2018 (Unaudited)								
		Attributable to shareholders of the Bank								
	Note VI	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained earnings	Minority interests	Total
I. As at 1 January 2018		20,774	25,905	75,011	(1,067)	10,684	70,611	214,977	5,857	422,752
II. Changes for the period										
(I) Net profit		—	—	—	—	—	—	33,657	181	33,838
(II) Other comprehensive income	43	—	—	—	(374)	—	—	—	(404)	(778)
Sub-total of (I) and (II)		—	—	—	(374)	—	—	33,657	(223)	33,060
(III) Capital contribution from shareholders		—	—	—	—	—	—	—	220	220
1. Ordinary shares contributed by shareholders		—	—	—	—	—	—	—	220	220
(IV) Profit distribution		—	—	—	—	—	484	(15,469)	—	(14,985)
1. Transfer to general risk reserve		—	—	—	—	—	484	(484)	—	—
2. Distribution of ordinary share dividends		—	—	—	—	—	—	(13,503)	—	(13,503)
3. Distribution of preferred share dividends		—	—	—	—	—	—	(1,482)	—	(1,482)
III. As at 30 June 2018		20,774	25,905	75,011	(1,441)	10,684	71,095	233,165	5,854	441,047

THE CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY - continued
FOR THE SIX MONTHS ENDED 30 JUNE 2018

UNIT: RMB IN MILLION

		For the six months ended 30 June 2017 (Unaudited)								
		Attributable to shareholders of the Bank								
	Note VI	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained earnings	Minority interests	Total
I. As at 1 January 2017		19,052	25,905	50,861	1,085	9,824	69,878	173,524	4,281	354,410
II. Changes for the period										
(I) Net profit		—	—	—	—	—	—	31,601	238	31,839
(II) Other comprehensive income	43	—	—	—	(478)	—	—	—	(6)	(484)
Sub-total of (I) and (II)		—	—	—	(478)	—	—	31,601	232	31,355
(III) Capital contribution from shareholders		1,722	—	24,179	—	—	—	—	1,050	26,951
1. Ordinary shares contributed by shareholders		1,722	—	24,179	—	—	—	—	1,050	26,951
(IV) Profit distribution		—	—	—	—	—	60	(14,214)	(10)	(14,164)
1. Transfer to general risk reserve		—	—	—	—	—	60	(60)	—	—
2. Distribution of ordinary share dividends		—	—	—	—	—	—	(12,672)	(10)	(12,682)
3. Distribution of preferred share dividends		—	—	—	—	—	—	(1,482)	—	(1,482)
III. As at 30 June 2017		20,774	25,905	75,040	607	9,824	69,938	190,911	5,553	398,552

THE CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY - continued
FOR THE SIX MONTHS ENDED 30 JUNE 2018 UNIT: RMB IN MILLION

		For the six months ended 31 December 2017 (Unaudited)								
		Attributable to shareholders of the Bank								
	Note VI	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained earnings	Minority interests	Total
I. As at 30 June 2017		20,774	25,905	75,040	607	9,824	69,938	190,911	5,553	398,552
II. Changes for the period										
(I) Net profit		—	—	—	—	—	—	25,599	297	25,896
(II) Other comprehensive income	43	—	—	—	(1,674)	—	—	—	(9)	(1,683)
Sub-total of (I) and (II)		—	—	—	(1,674)	—	—	25,599	288	24,213
(III) Capital contribution from shareholders		—	—	(29)	—	—	—	—	16	(13)
1. Ordinary shares contributed by shareholders		—	—	—	—	—	—	—	68	68
2. Others		—	—	(29)	—	—	—	—	(52)	(81)
(IV) Profit distribution		—	—	—	—	860	673	(1,533)	—	—
1. Transfer to general risk reserve		—	—	—	—	—	673	(673)	—	—
2. Transfer to surplus reserve		—	—	—	—	860	—	(860)	—	—
III. As at 31 December 2017		20,774	25,905	75,011	(1,067)	10,684	70,611	214,977	5,857	422,752

The accompanying notes form part of the interim financial statements.

The interim financial statements on pages 2 to 88 were signed by the following:

Gao Jianping	Tao Yiping	Li Jian
Chairman of the Board Legal Representative	President Financial Director	Person in Charge of the Accounting Body

INDUSTRIAL BANK CO., LTD.

THE BANK'S STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2018

UNIT: RMB IN MILLION

		For the six months ended 30 June 2018 (Unaudited)							
	Note VI	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained earnings	Total shareholders' equity
I. As at 1 January 2018		20,774	25,905	75,260	(1,017)	10,684	67,888	204,005	403,499
II. Changes for the period									
(I) Net profit		—	—	—	—	—	—	31,926	31,926
(II) Other comprehensive income	43	—	—	—	830	—	—	—	830
Subtotal of (I) and (II)		—	—	—	830	—	—	31,926	32,756
(III) Capital contribution from owners		—	—	—	—	—	—	—	—
1. Ordinary shares contributed by shareholders		—	—	—	—	—	—	—	—
(IV) Profit distribution		—	—	—	—	—	—	(14,985)	(14,985)
1. Distribution of ordinary share dividends		—	—	—	—	—	—	(13,503)	(13,503)
2. Distribution of preferred share dividends		—	—	—	—	—	—	(1,482)	(1,482)
III. As at 30 June 2018		20,774	25,905	75,260	(187)	10,684	67,888	220,946	421,270

		For the six months ended 30 June 2017 (Unaudited)							
	Note VI	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained earnings	Total shareholders' equity
I. As at 1 January 2017		19,052	25,905	51,081	1,105	9,824	67,744	165,156	339,867
II. Changes for the period									
(I) Net profit		—	—	—	—	—	—	29,849	29,849
(II) Other comprehensive income	43	—	—	—	(474)	—	—	—	(474)
Subtotal of (I) and (II)		—	—	—	(474)	—	—	29,849	29,375
(III) Capital contribution from owners		1,722	—	24,179	—	—	—	—	25,901
1. Ordinary shares contributed by shareholders		1,722	—	24,179	—	—	—	—	25,901
(IV) Profit distribution		—	—	—	—	—	—	(14,154)	(14,154)
1. Distribution of ordinary share dividends		—	—	—	—	—	—	(12,672)	(12,672)
2. Distribution of preferred share dividends		—	—	—	—	—	—	(1,482)	(1,482)
III. As at 30 June 2017		20,774	25,905	75,260	631	9,824	67,744	180,851	380,989

INDUSTRIAL BANK CO., LTD.

THE BANK'S STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY - continued
FOR THE SIX MONTHS ENDED 30 JUNE 2018

UNIT: RMB IN MILLION

		For the six months ended 31 December 2017 (Unaudited)							
	Note VI	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained earnings	Total shareholders' equity
I. As at 30 June 2017		20,774	25,905	75,260	631	9,824	67,744	180,851	380,989
II. Changes for the period									
(I) Net profit		—	—	—	—	—	—	24,158	24,158
(II) Other comprehensive income	43	—	—	—	(1,648)	—	—	—	(1,648)
Subtotal of (I) and (II)		—	—	—	(1,648)	—	—	24,158	22,510
(III) Profit distribution		—	—	—	—	860	144	(1,004)	—
1. Transfer to general risk reserve		—	—	—	—	—	144	(144)	—
2. Transfer to surplus reserve		—	—	—	—	860	—	(860)	—
III. As at 31 December 2017		20,774	25,905	75,260	(1,017)	10,684	67,888	204,005	403,499

The accompanying notes form part of the interim financial statements.

The interim financial statements on pages 2 to 88 were signed by the following:

Gao Jianping	Tao Yiping	Li Jian
Chairman of the Board Legal Representative	President Financial Director	Person in Charge of the Accounting Body

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018

I. GENERAL INFORMATION

Industrial Bank Co., Ltd. (hereinafter referred to as "the Bank") which was referred to as Fujian Industrial Bank Co., Ltd. previously, is a stock commercial bank approved by the People's Bank of China (the "PBOC"), with the document YF [1988] No. 347 issued on 20 July 1988, in accordance with the Application by Fujian Province for Deepening Reform and Opening and Accelerating the Development of Export-oriented Economy (GH [1988] No.58) approved by the State Council. The Bank started trading on Shanghai Stock Exchange on 5 February 2007 with the stock code 601166.

The Bank holds the license for carrying out financial activities issued by China Banking Regulatory Commission (the "CBRC") with the license number of No. B0013H135010001; and the Business License of Enterprise Legal Person issued by Fujian Provincial Administration for Industry and Commerce with uniform social credit code of 91350000158142711F. The Bank's the registered address is No.154 Hudong Road, Fuzhou, Fujian Province. The legal representative of the Bank is Mr. Gao Jianping.

The principal activities of the Bank comprise the provision of banking service, which includes accepting deposits from the public; granting short-term, medium-term and long-term loans; domestic and overseas settlement services; issuance of discount and acceptance bills and notes; issuing financial bonds; agency issuance and encashment, underwriting of government bonds and debentures; trading of government and financial bonds and debentures; agency trading and trading of marketable securities except stock; asset custody business; inter-bank lending and borrowings; agency trading, trading, settlement and sale of foreign exchanges; bank card business; letters of credit and letters of guarantee; remittance and insurance agent services; safety deposit box services; financial advisory services; credit investigation, advisory and attestation services and other banking activities approved by the CBRC.

The principal activities of the Bank's subsidiaries comprise finance leasing, trust services, fund raising and marketing, asset management for specific clients, asset management, consumer finance, equity investment, industrial investment, investment management and advisory, investment consulting (excluding brokerage), financial consulting, business consulting, enterprise management consulting, financial data processing, commodity futures brokerage, financial futures brokerage, futures investment consulting, asset management, economic information consulting service, application software development and operational services, system integration services, investment and asset management, acquisition, transfer and disposal of bad debts in batches of financial institutions in the province and acquisition, transfer and disposal of bad debts of non-financial institutions; other banking activities approved by the CBRC as well as other businesses permitted by China Securities Regulatory Commission (the "CSRC").

II. BASIS OF PREPARATION OF INTERIM FINANCIAL STATEMENTS

The Bank and its subsidiaries (hereinafter referred to as "the Group") has adopted the Accounting Standards for Business Enterprises (the "ASBE") and related standards issued by the Ministry of Finance of People's Republic of China (the "MOF"). The unaudited interim financial statements are prepared in accordance with the Accounting Standards for Business Enterprises No. 32 — Interim Financial Statements.

The report shall be read together with the Group's financial statements of 2017.

The report is prepared on a going concern basis.

III. STATEMENT OF COMPLIANCE WITH THE ASBE

The interim financial statements of the Bank have been prepared in accordance with Accounting Standards for Business Enterprises No.32 — Interim Financial Statements, and present truly and completely, the Bank's and consolidated financial position as of 30 June 2018, and the Bank's and consolidated results of operations and cash flows for the six months ended 30 June 2018.

IV. SIGNIFICANT ACCOUNTING POLICES AND CHANGES

The accounting policies adopted by the interim financial statements are in consistent with that for preparing financial statements of 2017.

V. CONSOLIDATION SCOPE

1. Details of the Bank's principal subsidiaries included in the scope of consolidation are set out as follows:

Key subsidiaries	Main business place/ Place of registration	Business nature	Registered capital	Total shareholding by the Group 30/06/2018 Direct	Indirect	31/12/2017 Direct	Indirect
			RMB in Million	(%)	(%)	(%)	(%)
Industrial Bank Financial Leasing Co., Ltd.	Tianjin	Financial leasing	9,000	100	—	100	—
China Industrial International Trust Limited	Fuzhou	Trust	5,000	73	—	73	—
CIB Fund Management Co., Ltd. (2)	Fuzhou	Fund management	1,200	90	—	90	—
Industrial Consumer Finance Co., Ltd. (2)	Quanzhou	Consumer finance	1,200	66	—	66	—
CIIT Asset Management Co., Ltd. (1)(2)	Shanghai	Assets management, equity investment, industrial investment, investment management and consulting	3,400	—	100	—	100
Industrial Wealth Asset Management Co., Ltd. (1)	Shanghai	Assets management	780	—	100	—	100
Industrial Future Co., Ltd. (1)	Ningbo	Merchandise futures brokerage, financial futures brokerage, futures investment consulting, asset management	500	—	100	—	100

(1) The companies are the subsidiaries of the Bank's controlled subsidiaries.

(2) The Bank increased the registered capital of its holding subsidiary CIB Fund Management Co., Ltd by RMB 0.45 billion in accordance with shareholding in February 2018. After the capital increase, the registered capital of CIB Fund Management Co., Ltd is 1.2 billion. The Bank increased the registered capital of its holding subsidiary Industrial Consumer Finance Co., Ltd by RMB 0.33 billion in accordance with shareholding in June 2018. After the capital increase, the registered capital of Industrial Consumer Finance Co., Ltd is 1.2 billion. The Bank's holding subsidiary China Industrial International Trust Limited increased the registered capital of its wholly-owned subsidiary CIIT Asset Management Co., Ltd by RMB 0.3 billion in June 2018. After the capital increase, the registered capital of CIIT Asset Management Co., Ltd is RMB 3.4 billion, with 100% shares held by China Industrial International Trust Limited.

2. Refer to No. VI, 46 for the information of consolidated structure entities included in the consolidation scope.

3. Exchange rates on principal financial line items of overseas operating entities

The operating entities of the Group convert the financial statement from foreign currency to RMB based on the following method: all assets and liabilities in the balance sheet should be converted by spot rate at the balance sheet date; equity of shareholders except for the retained earnings should be converted by spot rate when occurs; all subjects in the income statement and subjects which reflect the accrual distributed profit should be converted by approximate spot rate when occurs.

The exchange rate of USD, JPY, EUR, HKD, and GBP to RMB should be determined by the middle rate published by State Administration of Foreign Exchange (the "SAFE"). The exchange rate of other currency to RMB should be calculated by the benchmark rate of USD to RMB and rate of USD to other currencies offered by the SAFE.

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS

1. CASH AND BALANCES WITH CENTRAL BANK

	The Group		The Bank	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
	RMB Million (Unaudited)	RMB Million	RMB Million (Unaudited)	RMB Million
Cash	4,985	5,535	4,985	5,535
Statutory deposit reserves (1)	397,853	444,091	397,845	444,082
Surplus deposit reserves (2)	58,209	13,989	58,207	13,987
Other deposits (3)	1,155	2,788	1,155	2,788
Total	462,202	466,403	462,192	466,392

(1) The domestic institution of the Bank places general deposit reserves mainly with the PBOC as required, including RMB deposit reserves and foreign deposit reserves. These deposit reserves are not available for the Group's daily operations and can't be transferred or used without the PBOC's approval. General deposit generates from organizations deposit, non-financial-budget deposit, individual deposit, enterprise deposit, net trust funds and other deposits. On 30 June 2018, the ratio of the Bank's RMB deposit reserves is 13.5% (31 December 2017: 15%), the ratio of foreign deposit reserves is 5% (31 December 2017:5%). According to related regulations from the PBOC, foreign deposit reserves are non-interest bearing. The Group's subsidies' RMB reserve deposit ratio is in accordance with regulations of PBOC. Deposit ratio of statutory reserve in Hong Kong branch is in accordance with regulations from local regulators.

(2) Surplus deposit reserves in Central Bank are maintained with the PBOC mainly for the purpose of clearing, transferring, etc.

(3) The majority of other deposits are the fiscal deposits placed at Central Bank. Fiscal deposit at Central Bank refers to the fiscal deposit at PBOC by the Bank according to regulations, including the Bank's agent central budgetary revenues, local treasury deposits, etc. The fiscal deposits placed with the PBOC of institutions in mainland China are non-interest bearing.

2. AMOUNT DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group		The Bank	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
	RMB Million (Unaudited)	RMB Million	RMB Million (Unaudited)	RMB Million
Banks in mainland China	100,086	61,425	95,796	51,427
Other financial institutions in mainland China	6,037	4,232	6,018	4,149
Banks outside mainland China	13,307	11,918	13,307	11,918
Subtotal	119,430	77,575	115,121	67,494
Less: Provisions for impairment	(16)	(16)	(16)	(16)
Net value	119,414	77,559	115,105	67,478

3. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group		The Bank	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
	RMB Million (Unaudited)	RMB Million	RMB Million (Unaudited)	RMB Million
Banks in mainland China	2,774	1,774	2,774	1,774
Other financial institutions in mainland China	20,632	12,396	30,476	17,630
Banks outside mainland China	31,207	17,068	31,207	17,068
Subtotal	54,613	31,238	64,457	36,472
Less：Provisions for impairment	(60)	(60)	(60)	(60)
Net value	54,553	31,178	64,397	36,412

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

4. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group		The Bank	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
	RMB Million (Unaudited)	RMB Million	RMB Million (Unaudited)	RMB Million
Held-for-trading financial assets:				
Debt instrument investment:				
Government bonds	17,896	22,335	7,334	11,079
The Central Bank bills and policy financial bonds	7,404	6,992	3,044	3,583
Bonds of banks and other financial institutions	4,160	4,869	2,194	3,373
Corporate bonds	69,444	67,834	39,159	47,144
Interbank certificates of deposit	21,364	34,701	20,637	30,791
Subtotal of debt instruments investment	120,268	136,731	72,368	95,970
Equity instrument investment:				
Funds	226,542	216,485	239,943	237,256
Stocks	—	142	—	—
Subtotal of equity instrument investment	226,542	216,627	239,943	237,256
Total of held-for-trading financial assets	346,810	353,358	312,311	333,226
Designated as financial assets at fair value through profit or loss:				
Debt instrument investment	7,798	8,302	2,541	4,739
Equity instrument investment	392	412	—	—
Total financial assets designated at fair value through profit or loss	8,190	8,714	2,541	4,739
Total	355,000	362,072	314,852	337,965

5. DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into derivative financial instruments related to foreign currency exchange rate, interest rate and precious metals for purposes of trading, asset and liability management and customer driven business.

The notional amounts of derivative instruments represent the value of the underlying asset or the reference rate as a basis to measure changes in derivative financial instruments, which provide an indication of the volume of business transacted by the Group, but don't stand for the relevant future cash flow or current fair value, thus, do not indicate the Group's exposure to credit or market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or precious metal prices relative to their terms. The aggregate fair values of derivative financial assets and financial liabilities can fluctuate significantly from time to time.

The notional amount and fair value of the Group's derivative financial instruments are as follows:

The Group and the Bank

	30/06/2018 (Unaudited)			31/12/2017		
		Fair Value			Fair Value	
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Interest rate derivatives	2,980,290	9,618	8,325	1,911,173	4,590	3,800
Exchange rate derivatives	2,543,830	28,428	24,904	2,354,545	22,965	24,973
Precious metal derivatives	35,435	407	292	74,569	553	723
Credit derivatives	14,566	510	266	14,248	288	18
Total		38,963	33,787		28,396	29,514

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

5. DERIVATIVE FINANCIAL INSTRUMENTS - continued

Fair value hedge

The Group uses the fair value hedges to hedge the influences of changes in fair value of financial assets caused by the changes of market interest rate. For interest rate risk of financial assets, the Group adopts interest rate swaps as hedging instruments and available-for-sale bonds as the hedged item.

Included in the aforesaid derivative financial instruments, the hedging instruments designated by the Group and the Bank are as follows:

The Group and the Bank

	30/06/2018 (Unaudited)			31/12/2017		
		Fair Value			Fair Value	
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Derivatives designated as fair value hedging instruments:						
Interest rate swaps	18,215	188	(15)	7,922	70	—

The effectiveness of the hedging activities in the year which is reflected by the changes in fair value of hedging instruments and the net profit or loss from the hedged item attributable to the hedged risks is as follows:

The Group and the Bank

	30/06/2018	31/12/2017
	RMB Million (Unaudited)	RMB Million
Net gain/(loss) from fair value hedge:		
Hedging instruments	98	74
Hedged item attributable to the hedged risk	(109)	(83)

6. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	The Group		The Bank	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
	RMB Million (Unaudited)	RMB Million	RMB Million (Unaudited)	RMB Million
Bonds	51,368	88,684	49,395	85,029
Bills	4,254	333	4,254	333
Beneficial rights of trust and others (Note 1)	800	4,102	800	4,102
Total	56,422	93,119	54,449	89,464

Note 1: Beneficial rights of trust and others mainly comprised of the investment to trust plans and asset management plans operated by trust companies, securities companies and asset management companies.

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

7. INTEREST RECEIVABLE

	The Group		The Bank	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
	RMB Million (Unaudited)	RMB Million	RMB Million (Unaudited)	RMB Million
Amount due from Central Bank and financial institutions	967	733	957	696
Placements with banks and other financial institutions	210	93	345	155
Financial assets held under resale agreements	87	49	85	45
Loans and advances to customers	7,228	6,686	7,098	6,566
Bonds and other investments	25,459	22,475	24,677	21,691
Others	502	370	218	105
Total	34,453	30,406	33,380	29,258

8. LOANS AND ADVANCES TO CUSTOMERS

(1) Analysis of loans and advances to customers by person and corporate:

	The Group		The Bank	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
	RMB Million (Unaudited)	RMB Million	RMB Million (Unaudited)	RMB Million
Personal loans and advances				
Residential and business mortgage loans	659,802	603,047	659,802	603,047
Credit cards	226,379	186,256	226,379	186,256
Others	131,609	121,521	116,824	111,651
Subtotal	1,017,790	910,824	1,003,005	900,954
Corporate loans and advances				
Loans and advances	1,587,248	1,482,362	1,590,491	1,484,432
Discounted bills	69,571	37,509	69,571	37,509
Subtotal	1,656,819	1,519,871	1,660,062	1,521,941
Gross loans and advances	2,674,609	2,430,695	2,663,067	2,422,895
Less: Provisions for impairment	(89,308)	(81,864)	(88,773)	(81,498)
- Individually assessed	(17,067)	(16,378)	(17,067)	(16,378)
- Collectively assessed	(72,241)	(65,486)	(71,706)	(65,120)
Loans and advances to customers	2,585,301	2,348,831	2,574,294	2,341,397

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

8. LOANS AND ADVANCES TO CUSTOMERS - continued

(2) Analysis of loans and advances to customers by industry distribution:

	The Group				The Bank			
	30/06/2018 (Unaudited)		31/12/2017		30/06/2018 (Unaudited)		31/12/2017	
	RMB Million	(%)	RMB Million	(%)	RMB Million	(%)	RMB Million	(%)
Manufacturing	363,098	13.58	335,445	13.80	363,098	13.63	335,445	13.84
Leasing and commercial services	253,595	9.48	226,770	9.34	258,023	9.70	230,410	9.51
Retail and wholesale	220,570	8.25	223,649	9.20	220,570	8.28	223,649	9.23
Real estate	174,508	6.53	151,488	6.23	173,323	6.51	149,918	6.19
Water, environment and public facilities administration	169,343	6.33	163,577	6.73	169,343	6.36	163,577	6.75
Construction	98,531	3.68	89,581	3.69	98,531	3.70	89,581	3.70
Transport, logistics and postal service	79,772	2.98	69,794	2.87	79,772	3.00	69,794	2.88
Production and supply of power, gas and water	78,348	2.93	72,413	2.98	78,348	2.94	72,413	2.99
Extractive industry	64,513	2.41	65,503	2.69	64,513	2.42	65,503	2.70
Financial industry	28,688	1.07	23,865	0.98	28,688	1.08	23,865	0.98
Other corporate industries	56,282	2.11	60,277	2.48	56,282	2.11	60,277	2.49
Bill discounted	69,571	2.60	37,509	1.54	69,571	2.61	37,509	1.55
Personal loans	1,017,790	38.05	910,824	37.47	1,003,005	37.66	900,954	37.19
Gross loans and advances	2,674,609	100.00	2,430,695	100.00	2,663,067	100.00	2,422,895	100.00
Less: Provisions for impairment	(89,308)		(81,864)		(88,773)		(81,498)	
-Individually assessed	(17,067)		(16,378)		(17,067)		(16,378)	
-Collectively assessed	(72,241)		(65,486)		(71,706)		(65,120)	
Loans and advances to customers	2,585,301		2,348,831		2,574,294		2,341,397	

(3) Analysis of loans and advances to customers by geographical distribution:

	The Group				The Bank			
	30/06/2018 (Unaudited)		31/12/2017		30/06/2018 (Unaudited)		31/12/2017	
	RMB Million	(%)	RMB Million	(%)	RMB Million	(%)	RMB Million	(%)
Head office (Note 1)	253,016	9.46	196,298	8.08	253,016	9.50	196,298	8.10
Fujian	307,573	11.50	302,458	12.44	309,578	11.62	304,296	12.56
Beijing	154,407	5.77	154,237	6.35	154,017	5.78	154,237	6.37
Shanghai	120,843	4.52	121,291	4.99	118,010	4.43	119,897	4.95
Guangdong	289,822	10.84	250,615	10.31	288,428	10.83	249,506	10.30
Zhejiang	181,948	6.80	161,574	6.65	180,957	6.80	160,923	6.64
Jiangsu	242,915	9.08	206,352	8.49	241,531	9.07	205,430	8.48
Other (Note 2)	1,124,085	42.03	1,037,870	42.69	1,117,530	41.97	1,032,308	42.60
Gross loans and advances	2,674,609	100.00	2,430,695	100.00	2,663,067	100.00	2,422,895	100.00
Less: Provisions for impairment	(89,308)		(81,864)		(88,773)		(81,498)	
-Individually assessed	(17,067)		(16,378)		(17,067)		(16,378)	
-Collectively assessed	(72,241)		(65,486)		(71,706)		(65,120)	
Loans and advances to customers	2,585,301		2,348,831		2,574,294		2,341,397	

Note 1: Head office contains the credit card centre and the treasury centre.

Note 2: As at 30 June 2018, the Bank has 44 tier-1 branches, apart from the tier-1 branches mentioned above, the rest is categorized into “Others”. Loans and advances originated by the Bank and the subsidiaries are presented by geographical distribution.

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

8. LOANS AND ADVANCES TO CUSTOMERS - continued

(4) Analysis of loans and advances to customers by security type:

	The Group		The Bank	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
	RMB Million (Unaudited)	RMB Million	RMB Million (Unaudited)	RMB Million
Unsecured loans	676,012	585,734	665,654	579,504
Guaranteed loans	604,980	582,000	604,480	581,250
Collateralised loans	1,324,046	1,225,452	1,323,362	1,224,632
-Secured by mortgage	1,045,282	977,266	1,044,598	976,446
-Secured by collaterals	278,764	248,186	278,764	248,186
Discounted bills	69,571	37,509	69,571	37,509
Gross loans and advances	2,674,609	2,430,695	2,663,067	2,422,895
Less: Provisions for impairment	(89,308)	(81,864)	(88,773)	(81,498)
-Individually assessed	(17,067)	(16,378)	(17,067)	(16,378)
-Collectively assessed	(72,241)	(65,486)	(71,706)	(65,120)
Loans and advances to customers	2,585,301	2,348,831	2,574,294	2,341,397

(5) Overdue loans

The Group

	30/06/2018 (Unaudited)					31/12/2017				
	1-90 days (including 90 days)	90-360 days (including 360 days)	360 days to 3 years (including 3 years)	over 3 years	Total	1-90 days (including 90 days)	90-360 days (including 360 days)	360 days to 3 years (including 3 years)	over 3 years	Total
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Unsecured loans	6,664	3,926	501	53	11,144	2,546	2,742	546	61	5,895
Guaranteed loans	6,891	8,423	4,085	1,120	20,519	4,732	3,802	3,927	1,161	13,622
Collateralised loans	10,553	7,389	6,401	742	25,085	6,542	5,724	6,490	329	19,085
-Secured by mortgage	9,435	7,306	6,281	528	23,550	6,380	5,643	6,228	225	18,476
-Secured by collaterals	1,118	83	120	214	1,535	162	81	262	104	609
Total	24,108	19,738	10,987	1,915	56,748	13,820	12,268	10,963	1,551	38,602

The Bank

	30/06/2018 (Unaudited)					31/12/2017				
	1-90 days (including 90 days)	90-360 days (including 360 days)	360 days to 3 years (including 3 years)	over 3 years	Total	1-90 days (including 90 days)	90-360 days (including 360 days)	360 days to 3 years (including 3 years)	over 3 years	Total
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Unsecured loans	6,524	3,671	442	53	10,690	2,350	2,629	444	61	5,484
Guaranteed loans	6,891	8,423	4,085	1,120	20,519	4,732	3,802	3,927	1,161	13,622
Collateralised loans	10,553	7,389	6,401	742	25,085	6,542	5,724	6,490	329	19,085
-Secured by mortgage	9,435	7,306	6,281	528	23,550	6,380	5,643	6,228	225	18,476
-Secured by collaterals	1,118	83	120	214	1,535	162	81	262	104	609
Total	23,968	19,483	10,928	1,915	56,294	13,624	12,155	10,861	1,551	38,191

Note: The loan will be categorized into overdue when principal or interest is overdue for one day.

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

8. LOANS AND ADVANCES TO CUSTOMERS - continued

(6) Provisions for loan impairment

The Group

	Six months ended 30 June 2018 (Unaudited)			2017		
	Individually	Collectively	Total	Individually	Collectively	Total
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Opening balance	16,378	65,486	81,864	12,669	59,779	72,448
Charge for the year	5,503	9,071	14,574	22,313	6,308	28,621
Write-off/Transfer out	(6,223)	(2,708)	(8,931)	(20,482)	(1,047)	(21,529)
-Recoveries of loans and advances written off in previous years	1,910	483	2,393	2,837	707	3,544
-Unwinding of discount on allowance	(501)	(114)	(615)	(959)	(214)	(1,173)
Fluctuation in exchange rate	—	23	23	—	(47)	(47)
Closing balance	17,067	72,241	89,308	16,378	65,486	81,864

The Bank

	Six months ended 30 June 2018 (Unaudited)			2017		
	Individually	Collectively	Total	Individually	Collectively	Total
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Opening balance	16,378	65,120	81,498	12,669	59,594	72,263
Charge for the year	5,503	8,793	14,296	22,313	6,116	28,429
Write-off/Transfer out	(6,223)	(2,599)	(8,822)	(20,482)	(1,031)	(21,513)
-Recoveries of loans and advances written off in previous years	1,910	483	2,393	2,837	702	3,539
-Unwinding of discount on allowance	(501)	(114)	(615)	(959)	(214)	(1,173)
Fluctuation in exchange rate	—	23	23	—	(47)	(47)
Closing balance	17,067	71,706	88,773	16,378	65,120	81,498

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

(1) Listed by types:

	The Group		The Bank	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
	RMB Million (Unaudited)	RMB Million	RMB Million (Unaudited)	RMB Million
Available-for-sale debt instrument:				
Government bonds	98,608	116,726	98,608	116,726
The Central Bank bills and policy financial bonds	25,942	28,791	25,942	28,791
Bonds issued by banks and other financial institutions	111,013	98,679	111,483	99,099
Corporate bonds	149,355	139,941	148,862	139,381
Interbank certificates of deposit	743	4,818	496	4,818
Wealth management products	2,103	2,848	—	—
Trust fund plans and other equity instrument (Note 1):	44,418	21,107	43,718	20,803
Credit assets	38,412	15,019	38,287	14,935
Bonds	4,121	4,575	4,121	4,575
Funds	1,885	1,513	1,310	1,293
Subtotal	432,182	412,910	429,109	409,618
Available-for-sale equity instrument:				
Measured by fair value	122,909	89,471	143,835	106,094
Measured by cost	1,967	1,840	304	304
Subtotal	124,876	91,311	144,139	106,398
Net value of available-for-sale financial assets	557,058	504,221	573,248	516,016

Note 1: Trust fund plans and others are the beneficial rights of trust which are designated as available-for-sale financial assets when initially invested by the Group. These products' investment directions are mainly the trust loans or fund management plans run by the trust companies, asset management companies or securities companies as entrusted fund administrators. According to the liquidity management or operation management, these beneficial rights of trust or fund management plans will be probably for sale.

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS - continued

(2) Related analysis for available-for-sale financial assets at fair value in the period-end:

	The Group		The Bank	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
	RMB Million (Unaudited)	RMB Million	RMB Million (Unaudited)	RMB Million
Available-for-sale debt instrument:				
Amortized cost	437,071	417,600	433,758	414,319
Fair value	432,182	412,910	429,109	409,618
Accumulative appropriation to other comprehensive income	(2,369)	(2,524)	(2,151)	(2,553)
Accumulative appropriation to provisions	(2,520)	(2,166)	(2,498)	(2,148)
Available-for-sale equity instrument:				
Cost	123,681	89,480	143,106	105,987
Fair value	122,909	89,471	143,835	106,094
Accumulative appropriation to other comprehensive income	(770)	(7)	729	107
Accumulative appropriation to provisions	(2)	(2)	—	—
Total:				
Amortized cost of debt instruments/ cost of equity instrument	560,752	507,080	576,864	520,306
Fair value	555,091	502,381	572,944	515,712
Accumulative appropriation to other comprehensive income	(3,139)	(2,531)	(1,422)	(2,446)
Accumulative appropriation to provisions	(2,522)	(2,168)	(2,498)	(2,148)

(3) Related analysis about available-for-sale financial assets at cost in the period-end

The Group

Investee	Book balance			Provision for assets impairment	Proportion of share in Investee	Cash dividends for the period
	Opening	Increase	Closing			
	RMB Million	RMB Million	RMB Million (Unaudited)	RMB Million (Unaudited)	(%)	RMB Million
China Unionpay	81	—	81	—	2.13	—
Huafu Securities	359	—	359	—	4.35	—
Zijin Mining Group	25	—	25	—	5.00	—
China Trust Registration Corporation Limited	60	—	60	—	2.00	—
Shanghai Commercial Paper Exchange Co., Ltd.	50	—	50	—	2.71	—
Others	1,265	127	1,392	—		—
Total	1,840	127	1,967	—		—

The Bank

Investee	Book balance			Provision for assets impairment	Proportion of share in Investee	Cash dividends for the period
	Opening	Increase	Closing			
	RMB Million	RMB Million	RMB Million (Unaudited)	RMB Million (Unaudited)	(%)	RMB Million
China Unionpay	81	—	81	—	2.13	—
Others	223	—	223	—		—
Total	304	—	304	—		—

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS - continued

(4) Related analysis about provisions for impairment on available-for-sale financial assets

	The Group			The Bank		
	Available-for-sale debt instrument	Available-for-sale equity instrument	Total	Available-for-sale debt instrument	Available-for-sale equity instrument	Total
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Opening	2,166	2	2,168	2,148	—	2,148
Provision/ (Reversal)	354	—	354	350	—	350
Effect of exchange rate	—	—	—	—	—	—
Closing (Unaudited)	2,520	2	2,522	2,498	—	2,498

10. HELD-TO-MATURITY INVESTMENTS

The Group and the Bank

	30/06/2018	31/12/2017
	RMB Million (Unaudited)	RMB Million
Government bonds	313,662	287,900
The Central Bank bills and policy financial bonds	2,095	746
Bonds issued by banks and other financial institutions	13,490	14,486
Interbank certificates of deposit	5,244	11,349
Corporate bonds	25,266	23,133
Subtotal	359,757	337,614
Less: Provisions	(132)	(131)
Net value	359,625	337,483

11. DEBT SECURITIES CLASSIFIED AS RECEIVABLES

	The Group		The Bank	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
	RMB Million (Unaudited)	RMB Million	RMB Million (Unaudited)	RMB Million
Government bonds	386,196	397,626	386,196	397,626
Bonds issued by banks and other financial institutions	6,739	44,131	6,739	44,131
Corporate bonds	46,389	47,064	46,864	47,574
Wealth management products (Note 1)	20,349	85,173	20,349	85,173
Beneficial rights of trust and others (Note 2):	1,271,380	1,356,354	1,255,945	1,342,377
Credit assets	860,823	896,775	850,103	887,491
Bills	173,348	110,435	173,348	110,435
Bonds	174,072	231,789	174,072	231,789
Interbank deposits	29,001	68,793	29,001	68,793
Funds	21,033	38,656	16,819	34,471
Others	13,103	9,906	12,602	9,398
Total	1,731,053	1,930,348	1,716,093	1,916,881
Less: Provisions	(18,078)	(16,966)	(17,984)	(16,912)
Net value	1,712,975	1,913,382	1,698,109	1,899,969

Note 1: Wealth management products are fixed-period financial products issued by other financial institutions.

Note 2: Trust fund plans and others are the beneficial rights of the trust and fund management plans, etc. These products' investment directions are mainly the trust loans or fund management plans operated by the trust companies, securities companies and asset management companies as entrusted fund administrators.

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

12. FINANCE LEASE RECEIVABLES

The Group

Presented by nature:

	30/06/2018	31/12/2017
	RMB Million (Unaudited)	RMB Million
Finance lease receivables	136,286	120,070
Less: unrealized financing income	(15,604)	(13,153)
Subtotal	120,682	106,917
Less: Provision for finance lease	(4,050)	(3,422)
-Individually assessed	(687)	(355)
-Collectively assessed	(3,363)	(3,067)
Net value	116,632	103,495

Listed as follows:

	30/06/2018	31/12/2017
	RMB Million (Unaudited)	RMB Million
1st year subsequent to the balance sheet date	38,313	36,028
2nd year subsequent to the balance sheet date	32,083	27,799
3rd year subsequent to the balance sheet date	26,535	23,177
Subsequent periods	39,355	33,066
Minimum lease receipts	136,286	120,070
Unrealized financing income	(15,604)	(13,153)
Subtotal	120,682	106,917
Less: Provision for finance lease	(4,050)	(3,422)
-Individually assessed	(687)	(355)
-Collectively assessed	(3,363)	(3,067)
Net value	116,632	103,495
-Finance lease receivables due less than 1 year	32,788	32,921
-Finance lease receivables due more than 1 year	83,844	70,574

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

13. LONG-TERM EQUITY INVESTMENTS

Breakdown of long-term equity investments:

The Group

Investee	Accounting method	Initial investment	01/01/2018	Changes	30/06/2018	Proportion of equity interest	Proportion of voting power in the investee	Explanation on inconsistency between the proportion of equity interest and the proportion of voting power in the investee	Provisions	Cash dividends for this period
		RMB Million	RMB Million	RMB Million	RMB Million (Unaudited)	(%)	(%)		RMB Million (Unaudited)	RMB Million
Bank of Jiujiang Co., Ltd. (1)	Equity method	561	2,657	207	2,864	14.72	14.72	not applicable	—	—
Others	Equity method	352	351	(17)	334			not applicable	—	—
Total			3,008	190	3,198				—	—

The Bank

Investee	Accounting method	Initial investment	01/01/2018	Additions	30/06/2018	Proportion of equity interest	Proportion of voting power in the investee	Explanation on inconsistency between the proportion of equity interest and the proportion of voting power in the investee	Provisions	Cash dividends for this period
		RMB Million	RMB Million	RMB Million	RMB Million (Unaudited)	(%)	(%)		RMB Million (Unaudited)	RMB Million
Bank of Jiujiang Co., Ltd. (1)	Equity method	561	2,657	207	2,864	14.72	14.72	not applicable	—	—
Industrial Bank Financial Leasing Co., Ltd. (Note V)	Cost method	5,000	7,000	—	7,000	100.00	100.00	not applicable	—	—
China Industrial International Trust Limited (Note V)	Cost method	6,395	6,395	—	6,395	73.00	73.00	not applicable	—	—
CIB Fund Management Co., Ltd. (Note V)	Cost method	450	450	450	900	90.00	90.00	not applicable	—	—
Industrial Consumer Finance Co., Ltd (Note V)	Cost method	198	462	330	792	66.00	66.00	not applicable	—	—
Total			16,964	987	17,951				—	—

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

13. LONG-TERM EQUITY INVESTMENTS - continued

(1) In accordance with the YJF [2008] No.449, approved by the CBRC on 4 November 2008, the Bank has acquired 102.2 million shares of Bank of Jiujiang Co., Ltd. (refers to as Bank of Jiujiang hereafter) for the price of RMB 2.9 per share. As the result, the Bank holds 20% of the total shares of Bank of Jiujiang after it expanded its share capital. In 2009, Bank of Jiujiang increases 4 shares for every 10 shares to all recorded shareholders based on the share capital by the end of August 2009 by utilizing capital reserve. The Bank currently holds 143.08 million shares of Bank of Jiujiang. In 2010, Bank of Jiujiang increases its registered capital RMB 400.66 million, offered privately and subscribed in cash for the price of RMB 3.3 per share. The Bank has acquired 80.12 million shares. After the acquisition, the Bank holds 223.20 million shares and the proportion of equity interest remains 20% of the total shares of Bank of Jiujiang after it expanded its share capital. On 14 December 2011, Bank of Jiujiang increased its registered capital by RMB 400 million, none of which was subscribed by the Bank, and the proportion of equity interest of the Bank was diluted to 14.72% after the capital increase. On 17 March 2017, Bank of Jiujiang issued 484 million shares through private placement. The Bank subscribed 71.2 million shares at the price of RMB 6.87 per share. After the acquisition, the Bank holds 294.40 million shares and the proportion of equity interest remains 14.72% of the total shares of Bank of Jiujiang after it expanded its share capital. The equity investment is accounted for using the equity method due to the director sent by the Bank to the Board of Directors of Bank of Jiujiang, which has significant influence over its business.

(2) There are no restrictions of the investees' capacities of capital transferring to the Group and the Bank on 30 June 2018.

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

14. GOODWILL

The Group

Investee	01/01/2018	Additions	Deductions	30/06/2018	Provision at 30/06/2018
	RMB Million	RMB Million	RMB Million	RMB Million (Unaudited)	RMB Million (Unaudited)
China Industrial International Trust Limited	532	—	—	532	—

Goodwill arose from acquisition of China Industrial International Trust Limited in February 2011, and the overweight of China Industrial Future Limited by China Industrial International Trust Limited in March 2015.

At the end of the period, the Group performed impairment tests on goodwill based on expected future cash flow of the investee, meanwhile, calculated the expected present value of future cash flow of the investee by applying an appropriate discount rate to determine recoverable amount. No evidence shows that the recoverable amount of goodwill is less than the carrying amount, therefore no impairment is recognized.

15. DEFERRED TAX ASSET AND DEFERRED TAX LIABILITY

(1) Recognized deferred tax assets and liabilities

	The Group				The Bank			
	30/06/2018 (Unaudited)		31/12/2017		30/06/2018 (Unaudited)		31/12/2017	
	Deductible (taxable) temporary differences	Deferred tax assets(liabilities)	Deductible (taxable) temporary differences	Deferred tax assets(liabilities)	Deductible (taxable) temporary differences	Deferred tax assets(liabilities)	Deductible (taxable) temporary differences	Deferred tax assets(liabilities)
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Deferred tax assets								
Impairment losses on assets	100,103	25,026	92,601	23,150	97,098	24,274	89,601	22,400
Fair value changes of financial assets at fair value through profit or loss	1,522	381	643	161	1,522	381	643	161
Fair value changes of financial liabilities at fair value through profit or loss	12	3	20	5	—	—	2	1
Fair value changes of precious metals	62	16	—	—	62	16	—	—
Fair value changes of derivative financial instruments	—	—	1,277	319	—	—	1,277	319
Accrued but not paid employee benefits	9,893	2,473	12,014	3,004	8,903	2,226	10,977	2,744
Fair value changes of available-for-sale financial assets	1,566	392	2,558	640	1,422	356	2,446	612
Others	3,013	752	885	221	741	185	769	192
Deferred tax assets before offset	116,171	29,043	109,998	27,500	109,748	27,438	105,715	26,429
Deferred tax liabilities								
Differences of fixed assets depreciation	(535)	(134)	(324)	(81)	(535)	(134)	(324)	(81)
Fair value changes of available-for-sale financial assets	(21)	(5)	(27)	(7)	—	—	—	—
Fair value changes of precious metals	—	—	(458)	(115)	—	—	(458)	(115)
Fair value changes of derivative financial instruments	(4,455)	(1,114)	—	—	(4,453)	(1,114)	—	—
Fair value changes of financial assets at fair value through profit or loss	(24)	(6)	—	—	—	—	—	—
Fair value changes of financial liabilities at fair value through profit or loss	(2)	(1)	—	—	(2)	(1)	—	—
Deferred tax liabilities before offset	(5,037)	(1,260)	(809)	(203)	(4,990)	(1,249)	(782)	(196)
Net amount after offset	111,134	27,783	109,189	27,297	104,758	26,189	104,933	26,233

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

15. DEFERRED TAX ASSET AND DEFERRED TAX LIABILITY - continued

(1) Recognized deferred tax assets and liabilities - continued

The tax payment of domestic branches of the Bank can be aggregated in the way that the deferred tax assets and deferred tax liabilities are presented at the net amount after offset; overseas branches are individual taxable entities, and the deferred tax assets and deferred tax liabilities of the same entity can be presented at the net amount after offset. When there are net deferred tax assets/ liabilities in overseas branches, they are not offset against those in domestic branches. The subsidiaries of the Bank are individual taxable entities, and the deferred tax assets and deferred tax liabilities of the same entity can be presented at the net amount after offset.

	The Group	The Bank
	Six months ended 30 June 2018	Six months ended 30 June 2018
	RMB Million (Unaudited)	RMB Million (Unaudited)
Opening balance of net value	27,297	26,233
- Deferred tax assets	27,500	26,429
- Deferred tax liabilities	(203)	(196)
Net changes of deferred tax recognized in income tax expenses	732	212
Net changes of deferred tax recognized in other comprehensive income	(246)	(256)
Closing balance of net value	27,783	26,189
- Deferred tax assets	29,043	27,438
- Deferred tax liabilities	(1,260)	(1,249)

(2) According to the Group's future profit forecast, the Group believes that it is highly possible that sufficient taxable profits will be available in future periods to offset the deductible temporary differences and deductible losses. Therefore, the Group can recognize the deferred tax assets.

16. OTHER ASSETS

	The Group		The Bank	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
	RMB Million (Unaudited)	RMB Million	RMB Million (Unaudited)	RMB Million
Other receivables (1)	22,168	15,496	10,676	7,289
Prepaid purchase cost of lease assets	1,534	15,753	—	—
Foreclosed assets (2)	821	463	821	463
Continuously-involved assets	4,079	2,101	4,079	2,101
Items in the process of clearance and settlement	3,179	170	3,179	170
Long term prepaid expenses (3)	1,223	1,463	1,166	1,409
Net assets of defined benefit plan (Note VI, 45.2)	1,343	1,412	1,343	1,412
Total	34,347	36,858	21,264	12,844

(1) Other receivables

Listed by aging:

Account age	The Group				The Bank			
	30/06/2018 (Unaudited)		31/12/2017		30/06/2018 (Unaudited)		31/12/2017	
	Amount	Proportion	Amount	Proportion	Amount	Proportion	Amount	Proportion
	RMB Million	(%)	RMB Million	(%)	RMB Million	(%)	RMB Million	(%)
Within 1 year	20,799	87.28	14,035	82.39	9,307	75.43	5,849	66.26
1-2 years	567	2.38	421	2.47	567	4.60	400	4.53
2-3 years	2,188	9.18	2,169	12.73	2,188	17.73	2,169	24.57
Over 3 years	277	1.16	409	2.41	277	2.24	409	4.64
Subtotal	23,831	100.00	17,034	100.00	12,339	100.00	8,827	100.00
Less: Provision for bad debts	(1,663)		(1,538)		(1,663)		(1,538)	
Net value	22,168		15,496		10,676		7,289	

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

16. OTHER ASSETS - continued

(2) Foreclosed assets

Analysed by category of the foreclosed assets:

The Group and the Bank

	30/06/2018 RMB Million (Unaudited)	31/12/2017 RMB Million
Buildings	749	392
Land use rights	85	85
Others	3	3
Subtotal of cost	837	480
Less: Provision for losses	(16)	(17)
Net value	821	463

(3) Long term prepaid expenses

The Group

	01/01/2018 RMB Million	Changes RMB Million	Amortization RMB Million	30/06/2018 RMB Million (Unaudited)
Leasehold improvements	1,370	82	(311)	1,141
Others	93	1	(12)	82
Total	1,463	83	(323)	1,223

The Bank

	01/01/2018 RMB Million	Changes RMB Million	Amortization RMB Million	30/06/2018 RMB Million (Unaudited)
Leasehold improvements	1,316	65	(297)	1,084
Others	93	1	(12)	82
Total	1,409	66	(309)	1,166

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

17. PROVISION FOR IMPAIRMENT LOSSES OF ASSETS

The Group

	Six months ended 30 June 2018 (Unaudited)					
	01/01/2018	Charge/(Reversal)	Transfer in/(out)	Write-off	Exchange rate influence	30/06/2018
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Provision for impairment of amount due from banks and other financial institutions	16	—	—	—	—	16
Provision for impairment of placement with banks and other financial institutions	60	—	—	—	—	60
Provision for impairment of loans and advances to customers	81,864	14,574	1,778	(8,931)	23	89,308
Provision for impairment of held-to-maturity investments	131	—	—	—	1	132
Provision for impairment of available-for-sale financial assets	2,168	354	—	—	—	2,522
Provision for impairment of debt securities classified as receivables	16,966	1,212	—	(100)	—	18,078
Provision for impairment of finance lease receivables	3,422	628	—	—	—	4,050
Provision for impairment of fixed assets	3	—	—	—	—	3
Provision for impairment of foreclosed assets	17	(1)	—	—	—	16
Provision for impairment of prepaid purchase cost of lease assets	471	(447)	—	—	—	24
Provision for impairment of other assets	1,538	591	22	(488)	—	1,663
Total	106,656	16,911	1,800	(9,519)	24	115,872

The Bank

	Six months ended 30 June 2018 (Unaudited)					
	01/01/2018	Charge/(Reversal)	Transfer in/(out)	Write-off	Exchange rate influence	30/06/2018
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Provision for impairment of amount due from banks and other financial institutions	16	—	—	—	—	16
Provision for impairment of placement with banks and other financial institutions	60	—	—	—	—	60
Provision for impairment of loans and advances to customers	81,498	14,296	1,778	(8,822)	23	88,773
Provision for impairment of held-to-maturity investments	131	—	—	—	1	132
Provision for impairment of available-for-sale financial assets	2,148	350	—	—	—	2,498
Provision for impairment of debt securities classified as receivables	16,912	1,172	—	(100)	—	17,984
Provision for impairment of fixed assets	3	—	—	—	—	3
Provision for impairment of foreclosed assets	17	(1)	—	—	—	16
Provision for impairment of other assets	1,538	591	22	(488)	—	1,663
Total	102,323	16,408	1,800	(9,410)	24	111,145

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

18. AMOUNT DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group		The Bank	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
	RMB Million (Unaudited)	RMB Million	RMB Million (Unaudited)	RMB Million
Amount due to banks:				
Domestic banks	343,685	315,782	343,685	315,782
Oversea banks	74,548	80,864	74,548	80,864
Deposits from other financial institutions:				
Other domestic financial institutions	1,136,133	1,049,413	1,140,212	1,052,407
Other oversea financial institutions	24	—	24	—
Total	1,554,390	1,446,059	1,558,469	1,449,053

19. PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group		The Bank	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
	RMB Million (Unaudited)	RMB Million	RMB Million (Unaudited)	RMB Million
Domestic banks	187,710	139,711	86,811	39,100
Other domestic financial institutions	6,468	2,731	3,518	2,731
Oversea banks	55,167	45,487	55,167	43,318
Total	249,345	187,929	145,496	85,149

20. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group		The Bank	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
	RMB Million (Unaudited)	RMB Million	RMB Million (Unaudited)	RMB Million
Trading financial liabilities:				
Sold financing bonds	20	873	20	873
Others	132	123	132	123
Subtotal	152	996	152	996
Financial liabilities assigned as at fair value through profit or loss	4,302	5,567	2,637	4,729
Total	4,454	6,563	2,789	5,725

21. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	The Group		The Bank	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
	RMB Million (Unaudited)	RMB Million	RMB Million (Unaudited)	RMB Million
Bonds	126,373	209,658	118,942	203,749
Bills	40,258	20,136	40,258	20,136
Total	166,631	229,794	159,200	223,885

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

22. AMOUNT DUE TO CUSTOMERS

The Group

	30/06/2018 RMB Million (Unaudited)	31/12/2017 RMB Million
Demand deposits		
Corporate	1,012,356	1,083,505
Personal	255,573	227,134
Subtotal	1,267,929	1,310,639
Term deposits (including call deposits)		
Corporate	1,383,959	1,373,402
Personal	230,778	194,172
Subtotal	1,614,737	1,567,574
Guaranteed and margin deposits	216,151	205,923
Others	4,612	2,757
Total	3,103,429	3,086,893

Guaranteed and margin deposits are presented as follows by items:

	30/06/2018 RMB Million (Unaudited)	31/12/2017 RMB Million
Bank acceptances	104,630	107,853
Letters of credit	16,435	14,486
Guarantee	10,570	14,124
Others	84,516	69,460
Total	216,151	205,923

The Bank

	30/06/2018 RMB Million (Unaudited)	31/12/2017 RMB Million
Demand deposits		
Corporate	1,012,957	1,084,291
Personal	255,573	227,134
Subtotal	1,268,530	1,311,425
Term deposits (including call deposits)		
Corporate	1,383,959	1,373,642
Personal	230,778	194,172
Subtotal	1,614,737	1,567,814
Guaranteed and margin deposits	216,151	205,923
Others	4,612	2,757
Total	3,104,030	3,087,919

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

22. AMOUNT DUE TO CUSTOMERS - continued

The Bank - continued

Guaranteed and margin deposits are presented as follows by items:

	30/06/2018	31/12/2017
	RMB Million (Unaudited)	RMB Million
Bank acceptances	104,630	107,853
Letters of credit	16,435	14,486
Guarantee	10,570	14,124
Others	84,516	69,460
Total	216,151	205,923

23. EMPLOYEE BENEFITS PAYABLE

	The Group				The Bank			
	01/01/2018	Increase	Decrease	30/06/2018	01/01/2018	Increase	Decrease	30/06/2018
	RMB million	RMB million	RMB million	RMB million (Unaudited)	RMB million	RMB million	RMB million	RMB million (Unaudited)
Salaries and bonus	12,207	7,933	(10,185)	9,955	10,941	7,281	(9,473)	8,749
Labour union expenditure and staff educational funds	1,575	297	(200)	1,672	1,530	277	(182)	1,625
Social insurance	104	839	(852)	91	82	760	(753)	89
Housing funds	44	487	(464)	67	40	457	(434)	63
Defined contribution plans	107	1,314	(1,244)	177	91	1,260	(1,212)	139
Total	14,037	10,870	(12,945)	11,962	12,684	10,035	(12,054)	10,665

The salaries, bonus, retirement benefits and other social insurance of employee benefits payable are granted or paid according to time limit set by relevant laws, regulations and the Group's policies. See defined contribution pension plans in Note VI, 45.1.

24. TAX PAYABLE

	The Group		The Bank	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
	RMB million (Unaudited)	RMB million	RMB million (Unaudited)	RMB million
Enterprise income tax	2,764	6,160	2,427	5,643
Value added tax	1,693	1,399	1,671	1,401
City maintenance and construction tax	180	82	176	72
Others	492	487	432	311
Total	5,129	8,128	4,706	7,427

25. INTEREST PAYABLE

	The Group		The Bank	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
	RMB million (Unaudited)	RMB million	RMB million (Unaudited)	RMB million
Interest due to Central Bank	4,123	3,581	4,123	3,581
Interest due to banks and other financial institutions	8,970	7,589	8,986	7,599
Interest of placements from banks and other financial institutions	1,770	1,416	795	356
Interest of debt securities issued	2,418	4,505	2,052	4,237
Interest of financial assets sold under repurchase agreements	241	386	241	386
Interest due to customers	25,815	23,352	25,815	23,352
Others	666	464	637	434
Total	44,003	41,293	42,649	39,945

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

26. BONDS PAYABLE

	The Group		The Bank	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
	RMB million (Unaudited)	RMB million	RMB million (Unaudited)	RMB million
Long term subordinated bonds	20,960	20,953	20,960	20,953
Financial bonds	79,911	97,530	67,405	86,471
Secondary capital bonds	51,941	51,930	49,941	49,930
Interbank certificates of deposit	489,621	471,058	489,621	471,058
Certificates of deposit	14,651	19,620	14,651	19,620
Asset-backed securities	1,167	1,867	—	—
Total	658,251	662,958	642,578	648,032

Note: Debt securities issued by the Group include long-term subordinated bonds, financial bonds, secondary capital bonds, interbank certificates of deposit, certificates of deposit and asset-backed securities. The secondary capital bonds are issued by commercial banks and their subsidiaries to supply the secondary capital. The secondary capital bonds and the long term subordinated bonds are in the same liquidation sequence.

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

26. BONDS PAYABLE - continued

Details of debt securities issued are as follows:

Category of bonds	Issuing date	Interest payment frequency	The Group	The Bank
			30/06/2018	30/06/2018
			RMB million (Unaudited)	RMB million (Unaudited)
Long-term subordinate bonds				
09 CIB 02 [(1)]	2009-09-09	Yearly	7,995	7,995
10 CIB bank debt [(2)]	2010-03-29	Yearly	3,000	3,000
11 CIB subordinated debt [(3)]	2011-06-28	Yearly	10,000	10,000
Less: unamortized issuance cost			(35)	(35)
Subtotal			20,960	20,960
Financial bonds				
15 CIB leasing debt 02 [(4)]	2015-10-20	Yearly	3,000	—
16 CIB green financial bond 01[(5)]	2016-01-18	Yearly	10,000	10,000
16 CIB green financial bond 02 [(5)]	2016-07-14	Yearly	20,000	20,000
16 CIB green financial bond 03 [(5)]	2016-11-15	Yearly	20,000	20,000
USD medium-term notes [(6)]	2016-09-21	Semi-annually	4,631	4,631
USD medium-term notes [(6)]	2016-09-21	Semi-annually	1,985	1,985
17 CIB leasing debt 01 [(7)]	2017-03-08	Yearly	400	—
17 CIB leasing debt 02 [(7)]	2017-05-19	Yearly	2,000	—
17 CIB leasing debt 03 [(7)]	2017-08-10	Yearly	3,680	—
USD medium-term notes [(6)]	2018-03-05	Semi-annually	3,970	3,970
USD medium-term notes [(6)]	2018-03-05	Semi-annually	1,655	1,655
USD medium-term notes [(6)]	2018-03-05	Quarterly	3,308	3,308
EURO medium-term notes [(6)]	2018-03-05	Quarterly	1,913	1,913
18 CIB leasing debt 01[(8)]	2018-06-07	Yearly	3,450	—
Less: unamortized issuance cost			(81)	(57)
Subtotal			79,911	67,405
Secondary capital bonds				
14 CIB secondary [(9)]	2014-06-18	Yearly	20,000	20,000
16 CIB secondary [(10)]	2016-04-11	Yearly	30,000	30,000
17 CIB leasing secondary [(11)]	2017-09-15	Yearly	2,000	—
Less: unamortized issuance cost			(59)	(59)
Subtotal			51,941	49,941
Interbank certificates of deposit				
Book value of interbank certificates of deposit [(12)]			495,608	495,608
Less: unamortized issuance cost			(5,987)	(5,987)
Subtotal			489,621	489,621
Certificates of deposit				
Book value of certificates of deposit [(13)]			14,643	14,643
Accrued interest			95	95
Less: unamortized issuance cost			(87)	(87)
Subtotal			14,651	14,651
Asset-backed securities				
Jinxin 2017 Series 1 leasing asset-backed security [(14)]			1,153	—
CIB trust•Xingxin series 1 asset-backed special plan [(15)]			14	—
Subtotal			1,167	—
Total			658,251	642,578

(1) In September 2009, the Group issued RMB 7,995 million subordinated bonds with a 15-year maturity, a fixed interest rate and a redemption option in the end of the tenth year. The annual coupon rate in first ten interest-bearing years is 5.17%, and the rate in last five years is 8.17% since the eleventh interest-bearing year to maturity of the bonds if the issuer does not exercise the option of redemption.

(2) In March 2010, the Group issued RMB 3 billion subordinated bond with a 15-year maturity, a fixed interest rate and a redemption right in the end of the tenth year. The annual coupon rate in first ten interest-bearing years is 4.80%, and the rate in last five years is 7.80% since the eleventh interest-bearing year to maturity of the bonds if the issuer does not exercise the option of redemption.

(3) In June 2011, the Group issued RMB 10 billion subordinated bond with a 15-year maturity, a fixed interest rate and a redemption right in the end of the tenth year. The annual coupon rate is 5.75% consistently.

(4) The Group's subsidiary, Industrial Bank Financial Leasing Co., Ltd., issued RMB 3 billion of 3-year fixed interest rate RMB financial bonds in October 2015. The annual interest rate is 3.75% respectively.

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

26. BONDS PAYABLE - continued

(5) In January 2016, July 2016 and November 2016, the Group issued green financial bonds of 3-year bonds amounting RMB 10 billion, 3-year bonds amounting RMB 20 billion and 5-year bonds amounting RMB 20 billion with fixed annual interest rate of 2.95%, 3.20% and 3.40%, respectively.

(6) In September 2016, the Group set the medium-term notes issuance plan with limit of USD 5 billion at The Stock Exchange of Hong Kong Ltd. (hereinafter referred to as "Hong Kong Stock Exchange"). According to the plan, the Bank's Hong Kong branch initially issued 3-year medium-term notes amounting USD 700 million and 5-year medium-term notes amounting USD 300 million at fixed annual rate of 2.00% and 2.375%, respectively. The annual rate will keep constant within the bond term. In March 2018, according to the plan, the Bank's Hong Kong branch issued 3-year medium-term notes amounting USD 600 million, 5-year medium-term notes amounting USD 250 million, 5-year medium-term notes amounting USD 500 million and 3-year medium-term notes amounting EURO 250 million at fixed annual rate of 3.50% and 3.750%. Three-month Libor rate increases by 105 basis points and three-month European interbank rate increases by 75 basis points, respectively.

(7) The Group's subsidiary, Industrial Bank Financial Leasing Co., Ltd., issued 3-year fixed interest rate RMB financial bonds amounting RMB 500 million in March 2017, RMB 2 billion in May 2017 and RMB 4 billion in August 2017, with the annual interest rate of 4.5%, 5% and 4.7%, respectively. As at 30 June 2018, the Bank held RMB 100 million of "17 CIB leasing debt 01" and RMB 320 million of "17 CIB leasing debt 03" issued by Industrial Bank Financial Leasing Co., Ltd. in March 2017 and August 2017.

(8) The Group's subsidiary, Industrial Bank Financial Leasing Co., Ltd., issued 3-year fixed interest rate RMB financial bonds amounting RMB 3.5 billion in June 2018, with the annual interest rate of 4.88%. As at 30 June 2018, the Bank held RMB 50 million of "18 CIB leasing debt 01" issued by Industrial Bank Financial Leasing Co., Ltd. in June 2018.

(9) In June 2014, the Group issued RMB 20 billion secondary capital bonds with a 10-year maturity, a fixed interest rate and a redemption right at the end of the fifth year. The annual coupon rate is 6.15% consistently.

(10) In April 2016, the Group issued RMB 30 billion secondary capital bonds with a 10-year maturity, a fixed interest rate and a redemption right at the end of the fifth year. The annual coupon rate is 3.74% consistently.

(11) In September 2017, the Group's subsidiary, Industrial Bank Financial Leasing Co., Ltd., issued RMB 2 billion secondary capital bonds with a 10-year maturity, a fixed interest rate and a redemption right at the end of the fifth year. The annual coupon rate is 5.15% consistently.

(12) As at 30 June 2018, the Bank had 299 unpaid interbank deposits with total amount of RMB 495,608 million, including 2 USD interbank deposits, of which the issued par value was USD 30 million (RMB 198 million equivalent) and the terms are less than 1 year; 297 RMB interbank deposits, of which the issued par value is RMB 495,410 million, with RMB 475,610 million due within 1 year and the rest due in 2 to 3 years. The annual interest rate ranged from 3.70% to 5.13%. Except for interest of 39 interest-bearing debts being paid quarterly, the interest of the rest is paid upon maturity.

(13) Hong Kong branch owned 31 unpaid certificates of deposit as at 30 June 2018, of which the amount was RMB 14,643 million and terms within 1 year. The amount of 12 HKD certificates was HKD 5,850 million (RMB 4,932 million equivalent); the amount of 12 USD certificates was USD 1,080 million (RMB 7,146 million equivalent); the amount of 2 GBP certificates was GBP 100 million (RMB 865 million equivalent); 5 RMB certificates with issued par value of RMB 1,700 million. The annual interest rate ranged from 1.12% to 4.50%. The interest of all certificates is paid upon maturity.

(14) The Group's subsidiary, Industrial Bank Financial Leasing Co., Ltd., issued "Jin Xin 2017 Series 1 leasing asset-backed security" amounting RMB 4,721 million in May 2017. As at 30 June 2018, the remaining balance of "Jin Xin 2017 Series 1 leasing asset-backed security" is RMB 2,017 million, including RMB 801 million held by the initiator, Industrial Bank Financial Leasing Co., Ltd. and RMB 63 million held by the Bank. The amount held by the initiator and the bank has been offset in the consolidated financial statements.

(15) The Group's subsidiary, China Industrial International Trust Limited, issued "CIB trust• Xingxin Series 1 asset-backed special plan" amounting RMB 1,424 million in December 2016. As at 30 June 2018, the remaining balance of "CIB trust• Xingxin Series 1 asset-backed special plan" is RMB 620 million, including RMB 71 million held by the initiator, China Industrial International Trust Limited and RMB 535 million held by the Bank. The amount held by the initiator and the bank has been offset in the consolidated financial statements.

27. OTHER LIABILITIES

	The Group		The Bank	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
	RMB million (Unaudited)	RMB million	RMB million (Unaudited)	RMB million
Bank promissory notes	25	119	25	119
Items in the process of clearance and settlement	2,998	2,111	2,998	2,111
Dividend payables	110	1	110	1
Wealth management and entrusted investment fund	22	74	22	74
Deferred income	3,571	3,488	1,259	1,348
Continuously-involved liabilities	4,079	2,101	4,079	2,101
Other payables	26,488	28,028	6,707	10,981
Total	37,293	35,922	15,200	16,735

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

28. SHARE CAPITAL

The Group and the Bank

	01/01/2018	Change for the period	30/06/2018
	RMB million	RMB million	RMB million (Unaudited)
Shares without limited sales restrictions			
RMB ordinary shares (A shares)	19,052	—	19,052
Shares with limited sales restrictions			
RMB ordinary shares (A shares)	1,722	—	1,722
Total shares	20,774	—	20,774

As at 30 June 2018, the share capital of the Bank is RMB 20,774 million (31 December 2017: RMB 20,774 million) with par value of RMB 1 per share.

29. OTHER EQUITY INSTRUMENTS

The Bank was approved by the CSRC to non-publicly issue domestic preferred share no further than RMB 26 billion on 24 November 2014, in which RMB 13 billion was initially issued with par value of RMB 100 per share and completed in December 2014, which was verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP. In June 2015, the Bank issued the second term of non-public domestic preferred share for RMB 13 billion, with par value of RMB 100 per share, which was verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP. The Bank completed the issuance of 26 billion domestic preferred shares, approved in November 2014 and completed in June 2015.

Outstanding preferred shares in the end of the period are as follows:

The Group and the Bank

Outstanding financial Instrument	Time	Classification	Rate	Price	Quantity	Amount	Maturity Date	Transfer requirement	Condition
				RMB/Share	RMB Million Share	RMB million			
Preferred share	12/2014	Equity instrument	Note 1	100	130	13,000	N/A	Note 3	N/A
Preferred share	06/2015	Equity instrument	Note 2	100	130	13,000	N/A	Note 3	N/A

Note 1: For the initial issuance of the preferred share, every five year was an interest-bearing cycle starting from the payment deadline (i.e. 8 December 2014). The dividend rate was the same in every interest-bearing cycle. The dividend rate of first cycle was determined as 6.00% through inquiry by the Board of Directors authorized by shareholders' meeting and was in accordance with factors such as national policy, market conditions, specific circumstances of the Bank and requirements from investors at that time. The dividend rate of preferred share of this issuance was not higher than the annual weighted average ROE of ordinary shareholders over the last two fiscal years. The dividend rate of preferred share of this issuance was the sum of benchmark interest rate and basic interest rate. The benchmark interest rate of the first interest-bearing cycle (i.e. 3.45%, rounded to 0.01%) was determined by calculating the arithmetic mean of 20 trading days (before 8 December 2014) of the YTM regarding treasury bonds, with 5-year remaining terms. The data was obtained from the inter-bank fixed-rate treasury bond yield curve published by China Bond Information Website (or any other websites approved by Central Securities Depository Trust and Clearing Corporation Limited). The benchmark interest rate was adjusted every 5 years from the deadline for payment of preferred share issued. The basic spread was the dividend rate of first cycle deducting the benchmark interest rate, i.e. 2.55%. The basic spread would no longer be adjusted after the issuance. The subsequent coupon interest rate was determined by the current benchmark interest rate plus the basis spread. The benchmark interest rate of current interest-bearing cycle was determined by calculating the arithmetic mean of 20 trading days (before the benchmark interest adjustment date) of the YTM regarding treasury bonds, with 5-year remaining terms. If the YTM of 5-year treasury bonds is not available on the benchmark interest adjustment day, the benchmark interest rate or its principle will be determined under negotiations between the Bank and investors required by the regulator.

Note 2: For the second issuance of the preferred share, every five year was an interest-bearing cycle starting from the payment deadline (i.e. 24 June 2015). The dividend rate was the same in every interest-bearing cycle. The dividend rate of first cycle was determined as 5.40% through inquiry by the Board of Directors authorized by shareholders' meeting and was in accordance with factors such as national policy, market conditions, specific circumstances of the Bank and requirements from investors at that time. The dividend rate of preferred share of this issuance was not higher than the annual weighted average ROE of ordinary shareholders over the last two fiscal years. The dividend rate of preferred share of this issuance was the sum of benchmark interest rate and basic interest rate. The benchmark interest rate of the first interest-bearing cycle, i.e. 3.25%, was determined by calculating the arithmetic mean of 20 trading days (before 24 June 2015) of the YTM regarding treasury bonds, with 5-year remaining terms. The data was obtained from the inter-bank fixed-rate treasury bond yield curve published by China Bond Information Website (or any other websites approved by Central Securities Depository Trust and Clearing Corporation Limited).

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

29. OTHER EQUITY INSTRUMENTS - continued

The Group and the Bank - continued

The benchmark interest rate was adjusted every 5 years from the deadline for payment of preferred share issued. The basic spread was the dividend rate of first cycle deducting the benchmark interest rate, i.e. 2.15%. The basic spread would no longer be adjusted after the issuance. The subsequent coupon interest rate was determined by the current benchmark interest rate plus the basis spread. The benchmark interest rate of current interest-bearing cycle was determined by calculating the arithmetic mean of 20 trading days (before the benchmark interest adjustment date) of the YTM regarding treasury bonds, with 5-year remaining terms. If the YTM of 5-year treasury bonds is not available on the benchmark interest adjustment day, the benchmark interest rate or its principle will be determined under negotiations between the Bank and investors required by the regulator.

Note 3: (1) When the Bank's core tier one capital adequacy ratio falls to 5.125%, the preferred shares issued this time will be completely converted to A shares of ordinary shares with the mandatory price after the examination and determination made by CBRC in accordance with the relevant requirements of CBRC. The conversion is irrevocable.

(2) When triggered events of the secondary capital instruments issued by the Bank occur, the preferred shares issued this time will be completely converted to A shares of ordinary shares with the mandatory price after the examination and determination made by CBRC in accordance with the relevant requirements of CBRC. The conversion is irrevocable. The secondary capital instruments triggering event is the earlier of the following two situations: ① CBRC considers the Bank unable to survive without conversion or written-off; ② Relevant departments considers the Bank unable to survive without the contribution from public departments or the same effect of support provided.

The principal terms of disclosure (applicable to first and second issuance of domestic preferred share):

The Bank will pay preferred share dividends in cash. The preferred share of this issuance uses a non-cumulative dividend payment, which means dividend that is not paid in full to preferred shareholders will not accumulate to the next interest-bearing year. After the preferred shareholders obtain distribution in accordance with the agreed dividend rate, they can no longer participate in the distribution of remaining profits with ordinary shareholders.

Under the premise of ensuring the capital adequacy ratio to satisfy the regulatory requirements, if there still is retained earnings in the Bank's financial statements calibre after covering losses, extracting statutory reserve and general reserve, the Bank could allocate dividends to preferred shareholders. The priority of preferred shareholders is higher than ordinary shareholders in dividend distribution. Payment of preferred share dividends is neither linked to ratings of the Bank, nor adjusted with the rating changes. The Bank can cancel payment of preferred share dividends in any case, which does not constitute an event of default. The Bank is entitled to arrange cancelled payment of preferred share dividends as repayment of other matured debts. Cancelling payment of dividends shall not constitute any further restrictions on the Bank except restrictions on profit distribution of ordinary shares. When the Bank exercises the aforesaid rights, it will take full account of the interests of preferred shareholders. If payment of preferred share dividend is wholly or partly cancelled, the Bank shall not pay ordinary share dividend for the fiscal year.

The right of redemption for preferred shares of this issuance belongs to the Bank. The Bank may exercise the right of redemption under the premise of obtaining CBRC's approval. The Bank's preferred shareholders do not have the right to request redemption of preferred shares and should not expect that the preferred shares will be redeemed.

The initial mandatory conversion price of the preferred share of this issuance is the arithmetic mean of 20 trading days of the Bank's A shares of ordinary shares before issuance of Board resolution which passed the issuance of the preferred share, i.e. RMB 9.86 / share. Since the issuance plan of the preferred share is passed by the Bank's Board of Directors, when the Bank's shares change with the delivery of stock dividend, transferring of reserve to share capital, issuance of new shares (not including any share capital from conversion of financing instruments with terms that they could be converted to ordinary shares) or the allotment of shares, the mandatory conversion price of the preferred share will be accumulatively adjusted in turn in accordance with the established formula, and disclose relevant information in accordance with the provisions.

The Bank's preferred shareholders are entitled with priority over ordinary shareholders of the remaining property distribution. The amount paid off is the sum of the neither cancelled nor paid dividends and the notional amount of the preferred share; if it cannot be paid in full, the remaining property will be distributed in proportion to preferred shares.

As of 30 June 2015, the Bank's net proceeds of RMB 25,905 million have been all used to supplement the tier one capital.

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

29. OTHER EQUITY INSTRUMENTS - continued

Changes of outstanding preferred shares are as follows:

The Group and the Bank

	01/01/2018		Addition		Less		30/06/2018 (Unaudited)	
	Quant	Book value	Quantity	Book value	Quantity	Book value	Quantity	Book value
	Million	RMB Million	Million	RMB Million	Million	RMB Million	Million	RMB Million
Preferred Shares	260	26,000	—	—	—	—	260	26,000
Fees		(95)		—		—		(95)
Total	260	25,905	—	—	—	—	260	25,905

Attribution to holders of equity instrument:

The Group

	30/06/2018	31/12/2017
	RMB Million (Unaudited)	RMB Million
Equities attributable to shareholders of the Bank		
Equities attributable to ordinary shareholders of the Bank	409,288	390,990
Equities attributable to preferred shareholders of the Bank	25,905	25,905
Net profit	1,482	1,482
Total comprehensive income	1,482	1,482
Distributed dividend of the period/ year	(1,482)	(1,482)
Accumulated retained dividend	—	—
Equities attributable to minority shareholders	5,854	5,857

30. CAPITAL RESERVE

	The Group				The Bank			
	01/01/2018	Increase	Decrease	30/06/2018	01/01/2018	Increase	Decrease	30/06/2018
	RMB million	RMB million	RMB million	RMB million (Unaudited)	RMB million	RMB million	RMB million	RMB million (Unaudited)
Share premium	74,978	—	—	74,978	75,227	—	—	75,227
Others	33	—	—	33	33	—	—	33
Total	75,011	—	—	75,011	75,260	—	—	75,260

31. SURPLUS RESERVE

The Group and the Bank

	30/06/2018	31/12/2017
	RMB Million (Unaudited)	RMB Million
Statutory surplus reserve	10,387	10,387
Discretionary surplus reserve	297	297
Total	10,684	10,684

32. GENERAL RISK RESERVE

	The Group		The Bank	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
	RMB Million (Unaudited)	RMB Million	RMB Million (Unaudited)	RMB Million
General and regulatory reserve	71,095	70,611	67,888	67,888

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

32. GENERAL RISK RESERVE - continued

Pursuant to (CJ[2012] No. 20) *Measures on General Provision for Bad and Doubtful Debts for Financial Institutions* promulgated by the MOF, the Bank is required to transfer certain percentage of its net profit to establish and maintain a general reserve within shareholders' equity, through the appropriation of profit to address unidentified potential impairment losses. In principle, the general risk reserve, accounted as profit distribution, should not be lower than 1.5% of the closing balance of gross risk-bearing assets since it is a part of shareholders' equity. Gross risk-bearing assets, include loans and advances to customers, available-for-sale financial assets, held-to-maturity investments, debt securities classified as receivables, long-term equity investments, amount due from banks and other financial institutions, placements with banks and other financial institutions, foreclosed assets and other receivables and so forth. The subsidiaries of the Bank determine their own general risk reserve according to the regulation.

33. RETAINED EARNINGS

	The Group		The Bank	
	Six months ended 30 June 2018	2017	Six months ended 30 June 2018	2017
	RMB million (Unaudited)	RMB million	RMB million (Unaudited)	RMB million
Opening balance	214,977	173,524	204,005	165,156
Net profit	33,657	57,200	31,926	54,007
Appropriations to statutory surplus reserve	—	(860)	—	(860)
Appropriations to general risk reserve	(484)	(733)	—	(144)
Dividends distribution of ordinary shares	(13,503)	(12,672)	(13,503)	(12,672)
Dividends distribution of preferred shares	(1,482)	(1,482)	(1,482)	(1,482)
Closing balance	233,165	214,977	220,946	204,005

(1) "2017 Profit Distribution Proposal of the Bank" was approved by the Annual General Meeting on 25 May 2018 and by the Board of Directors on 24 April 2018, and the detailed plan is as follows:

(i) Appropriations to statutory surplus reserve of RMB 860 million on the basis of RMB 54,007 million from the Bank's net profit of 2017. As at 31 December 2017, the recommended transfer of statutory surplus reserve has been included in the surplus reserve.

(ii) Transfer RMB 144 million to general risk reserve. As at 31 December 2017, the recommended transfer of general risk reserve has been included in the general risk reserve.

(iii) Distribute a cash dividend of RMB 6.50 per 10 shares (tax inclusive) on the basis of 20,774,190,751 ordinary shares of the Bank at the end of 2017.

(iv) The interest period of preferred share issued in 2014 is from 1 January 2017 to 31 December 2017 (the annual dividend rate is 6%), the interest period of preferred share issued in 2015 is from 1 January 2017 to 31 December 2017 (the annual dividend rate is 5.4%), the preferred share dividends payable is RMB 1,482 million in total.

As at 30 June 2018, the above-mentioned dividend distribution scheme has been completed.

(2) "2016 Profit Distribution Proposal of the Bank" was approved by the Annual General Meeting on 26 May 2017 and by the Board of Directors on 27 April 2017, and the detailed plan is as follows:

(i) Transfer RMB 8,527 million to general risk reserve. As at 31 December 2016, the recommended transfer of general risk reserve has been included in the general risk reserve.

(ii) Distribute a cash dividend of RMB 6.1, per 10 shares (tax inclusive) on the basis of 20,774,190,751 ordinary shares of the Bank on 27 April 2017.

(iii) The interest period of preferred share issued in 2014 is from 1 January 2016 to 31 December 2016 (the annual dividend rate is 6%), the interest period of preferred share issued in 2015 is from 24 June 2016 to 31 December 2016 (the annual dividend rate is 5.4%), the preferred share dividends payable is RMB 1,482 million in total.

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

33. RETAINED EARNINGS - continued

As at 30 June 2017, the above-mentioned dividend distribution scheme has been completed.

(3) Surplus reserves appropriated by subsidiaries

As at 30 June 2018, the balance of the Group's retained earnings contained surplus reserves appropriated by subsidiaries: RMB 1,360 million (31 December 2017: RMB 1,360 million).

34. NET INTEREST INCOME

	The Group		The Bank	
	Six months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
	RMB million (Unaudited)	RMB million (Unaudited)	RMB million (Unaudited)	RMB million (Unaudited)
Interest income				
Balances with Central Bank	3,279	3,282	3,279	3,282
Amount due from banks and other financial institutions	1,854	950	1,686	705
Placements with banks and other financial institutions	837	543	1,065	666
Financial assets held under resale agreements	1,725	1,259	1,481	1,042
Loans and advances to customers	58,223	50,568	57,263	50,044
Including: Corporate	36,391	32,148	36,489	32,148
Personal	20,591	17,916	19,533	17,392
Bill discount	1,241	504	1,241	504
Bonds and other investment	65,503	62,338	64,410	61,301
Finance lease	2,946	2,641	—	—
Others	916	291	736	290
Subtotal	135,283	121,872	129,920	117,330
Interest expense:				
Amount due to Central Bank	(4,098)	(3,286)	(4,098)	(3,286)
Amount due to banks and other financial institutions	(32,401)	(31,494)	(32,455)	(31,556)
Placements from banks and other financial institutions	(4,180)	(2,640)	(1,548)	(823)
Financial assets sold under repurchase agreements	(1,853)	(1,478)	(1,741)	(1,446)
Amount due to customers	(31,763)	(25,627)	(31,769)	(25,627)
Debt securities issued	(15,302)	(13,236)	(14,956)	(13,089)
Others	(87)	(108)	(81)	(31)
Subtotal	(89,684)	(77,869)	(86,648)	(75,858)
Net interest income	45,599	44,003	43,272	41,472
Including: Interest income accrued on impaired financial assets	615	637	615	637

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

35. NET FEE AND COMMISSION INCOME

	The Group		The Bank	
	Six months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
	RMB million (Unaudited)	RMB million (Unaudited)	RMB million (Unaudited)	RMB million (Unaudited)
Fee and commission income Settlement and clearing fee	813	539	813	539
Bank card fee	9,458	5,676	9,458	5,676
Agency commissions	1,163	1,817	1,133	1,786
Guarantee and commitment commissions	733	1,042	733	1,042
Transactional service fee	526	357	526	357
Custodian fee	1,749	2,064	1,749	2,064
Consultancy and advisory fee	5,828	6,504	5,213	6,028
Trust service fee	842	747	—	—
Lease service fee	552	488	—	—
Others	347	497	261	318
Subtotal	22,011	19,731	19,886	17,810
Fee and commission expense	(1,894)	(1,421)	(1,695)	(1,457)
Net fee and commission income	20,117	18,310	18,191	16,353

36. INVESTMENT INCOME

	The Group		The Bank	
	Six months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
	RMB million (Unaudited)	RMB million (Unaudited)	RMB million (Unaudited)	RMB million (Unaudited)
Precious metal	(144)	256	(144)	256
Financial assets at fair value through profit or loss	5,603	4,180	5,212	4,785
Derivative financial instruments	93	(2,382)	92	(2,382)
Available-for-sale financial assets	1,486	1,015	2,381	995
Long-term equity investment (equity method)	207	153	207	135
Dividend declared by investee (cost method)	—	—	—	20
Financial liabilities at fair value through profit or loss	(13)	(32)	(13)	(32)
Others	75	—	75	—
Total	7,307	3,190	7,810	3,777

37. GAINS (LOSSES) FROM CHANGES IN FAIR VALUE

	The Group		The Bank	
	Six months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
	RMB million (Unaudited)	RMB million (Unaudited)	RMB million (Unaudited)	RMB million (Unaudited)
Precious metals	(520)	278	(520)	278
Financial assets at fair value through profit or loss	(734)	(376)	(879)	(118)
Derivative financial instruments	5,732	(806)	5,730	(806)
Financial liabilities at fair value through profit or loss	(61)	(75)	4	(1)
Total	4,417	(979)	4,335	(647)

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

38. TAXES AND LEVIES

	The Group		The Bank	
	Six months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
	RMB million (Unaudited)	RMB million (Unaudited)	RMB million (Unaudited)	RMB million (Unaudited)
City maintenance and construction tax	339	284	317	272
Education surcharge	235	199	220	190
Others	123	141	112	122
Total	697	624	649	584

39. GENERAL AND ADMINISTRATIVE EXPENSES

	The Group		The Bank	
	Six months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
	RMB million (Unaudited)	RMB million (Unaudited)	RMB million (Unaudited)	RMB million (Unaudited)
Employee benefits	10,870	9,885	10,035	9,196
Depreciation and amortization	1,008	1,015	961	977
Lease expenses	1,485	1,581	1,404	1,512
Others	4,070	3,748	3,847	3,514
Total	17,433	16,229	16,247	15,199

40. IMPAIRMENT LOSSES OF ASSETS

	The Group		The Bank	
	Six months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
	RMB million (Unaudited)	RMB million (Unaudited)	RMB million (Unaudited)	RMB million (Unaudited)
Loans and advances to customers	14,574	11,028	14,296	10,940
Debt securities classified as receivables	1,212	2,947	1,172	2,923
Available-for-sale financial assets	354	(334)	350	(332)
Finance lease receivables	628	280	—	—
Others	143	332	590	352
Total	16,911	14,253	16,408	13,883

41. INCOME TAX EXPENSES

	The Group		The Bank	
	Six months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
	RMB million (Unaudited)	RMB million (Unaudited)	RMB million (Unaudited)	RMB million (Unaudited)
Current income tax	4,979	4,505	3,806	3,867
Deferred income tax	(732)	748	(212)	717
Adjustment income tax for previous year	56	(12)	54	(12)
Total	4,303	5,241	3,648	4,572

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

41. INCOME TAX EXPENSES - continued

The tax charges can be reconciled to the profit as follows:

	The Group		The Bank	
	Six months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
	RMB million (Unaudited)	RMB million (Unaudited)	RMB million (Unaudited)	RMB million (Unaudited)
Accounting profit	38,141	37,080	35,574	34,421
Tax calculated at applicable statutory tax rate of 25%	9,535	9,270	8,894	8,605
Adjustments on income tax:				
Income not taxable for tax purpose	(5,418)	(4,101)	(5,404)	(4,096)
Expenses not deductible for tax purpose	130	84	104	75
Adjustment on income tax for previous year	56	(12)	54	(12)
Total	4,303	5,241	3,648	4,572

42. EARNINGS PER SHARE

The Group

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Current net profit attributable to ordinary shareholders of the Bank (RMB million)	32,175	30,119
Weighted average ordinary shares issued by the Bank (shares in million)	20,774	19,913
Basic and diluted earnings per share (RMB)	1.55	1.51

Amount of RMB 26 billion preferred shares of the Bank approved in November 2014 were successfully issued in June 2015. When calculating the earnings per share, the current net profit attributed to ordinary shareholders did not include preferred share dividends distributed. In addition, there were no other factors that would have an influence on basic and diluted earnings per share in the first half year of 2018 and 2017.

43. OTHER COMPREHENSIVE INCOME

The Group

		2018					
	31/12/2017	Before tax	Other comprehensive income transferred to profit or loss	Income tax expense	Attributable to shareholders of the Bank after tax	Attributable to minority interests after tax	30/06/2018
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million (Unaudited)
Items that will not be reclassified subsequently to profit or loss							
Including: The movement of net asset or liability arising from re-measurement of defined benefit plan	822	62	—	—	62	—	884
Subtotal	822	62	—	—	62	—	884
Items that will be reclassified subsequently to profit or loss							
Including: Available-for-sale financial assets profit or loss due to changes in fair value	(1,885)	(32,417)	31,809	(246)	(450)	(404)	(2,335)
Translation differences of financial statements denominated in foreign currencies	—	14	—	—	14	—	14
Shares of investee after reclassifying the other comprehensive income to profit or loss under equity method	(4)	—	—	—	—	—	(4)
Subtotal	(1,889)	(32,403)	31,809	(246)	(436)	(404)	(2,325)
Total	(1,067)	(32,341)	31,809	(246)	(374)	(404)	(1,441)

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

43. OTHER COMPREHENSIVE INCOME - continued

The Bank

	31/12/2017	2018 Before tax	2018 Other comprehensive income transferred to profit or loss	2018 Income tax expense	30/06/2018
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million (Unaudited)
Items that will not be reclassified subsequently to profit or loss					
Including: The movement of net asset or liability arising from re-measurement of defined benefit plan	822	62	—	—	884
Subtotal	822	62	—	—	884
Items that will be reclassified subsequently to profit or loss					
Including: Available-for-sale financial assets profit or loss due to changes in fair value	(1,835)	(30,785)	31,809	(256)	(1,067)
Shares of investee after reclassifying the other comprehensive income to profit or loss under equity method	(4)	—	—	—	(4)
Subtotal	(1,839)	(30,785)	31,809	(256)	(1,071)
Total	(1,017)	(30,723)	31,809	(256)	(187)

44. SUPPLEMENTARY INFORMATION TO THE CASH FLOW STATEMENT

(1) Supplementary information to the cash flow statement

	The Group		The Bank	
	Six months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
	RMB million (Unaudited)	RMB million (Unaudited)	RMB million (Unaudited)	RMB million (Unaudited)
1. Reconciliation of net profit to cash flows from operating activities				
Net profit	33,838	31,839	31,926	29,849
Add: Provision for impairment losses of assets	16,911	14,253	16,408	13,883
Depreciation of fixed assets	629	757	605	603
Amortization of intangible assets	54	50	47	43
Amortization of long-term prepaid expenses	325	337	309	331
Gains from disposal of fixed assets, intangible assets and other long-term assets	(8)	(29)	(8)	(29)
Interest income of bonds and other investments	(65,503)	(62,338)	(64,410)	(61,301)
Interest income of impaired financial assets	(615)	(637)	(615)	(637)
(Gains) losses from changes in fair value	(4,417)	979	(4,335)	647
Investment income	(7,307)	(3,190)	(7,810)	(3,777)
Interest expense for debt securities issued	15,302	13,236	14,956	13,089
(Increase) decrease in deferred tax assets	(1,791)	819	(1,265)	790
Decrease in deferred tax liabilities	1,059	(71)	1,053	(73)
Increase in receivables of operating activities	(275,474)	(268,524)	(274,662)	(250,642)
Increase in payables of operating activities	127,745	230,476	127,714	209,868
Net cash flow from operating activities	(159,252)	(42,043)	(160,087)	(47,356)
2. Net changes in cash and cash equivalents				
Closing balance of cash and cash equivalents	467,100	478,079	462,322	488,513
Less: opening balance of cash and cash equivalents	470,321	433,063	480,627	465,783
Net (decrease) increase of cash and cash equivalents	(3,221)	45,016	(18,305)	22,730

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

44. SUPPLEMENTARY INFORMATION TO THE CASH FLOW STATEMENT - continued

(2) Composition of cash and cash equivalents

	The Group		The Bank	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
	RMB million (Unaudited)	RMB million	RMB million (Unaudited)	RMB million
Cash on hand	4,985	5,535	4,985	5,535
Balances with Central Bank that can be withdrawn on demand	58,209	13,989	58,207	13,987
Amount due from banks and other financial institutions with original maturity less than three months	65,482	65,883	62,567	58,978
Placements with banks and other financial institutions with original maturity less than three months	28,151	20,921	28,151	20,921
Financial assets held under resale agreements with original	52,725	88,202	51,084	85,362
Bonds investment with original maturity less than three months	257,548	275,791	257,328	295,844
Closing balance of cash and cash equivalents	467,100	470,321	462,322	480,627

45. POST-EMPLOYMENT COMPENSATION

45.1 Defined contribution plans

The Group participates in the endowment insurance, unemployment insurance plans established by the government and the annuity plan established by the Group. According to these plans, the employees' salaries are paid to the plans proportionally each month. Except the expenses above, the Group undertakes no further payment duties. Certain expenses are charged in profit or loss of the period.

Expense recognized in profit or loss for the period:

	The Group		The Bank	
	Six months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
	RMB million (Unaudited)	RMB million (Unaudited)	RMB million (Unaudited)	RMB million (Unaudited)
Defined contribution plans	1,314	1,132	1,260	1,099

Amount of payable in the period-end:

	The Group		The Bank	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
	RMB million (Unaudited)	RMB million	RMB million (Unaudited)	RMB million
Defined contribution plans	177	107	139	91

45.2 Defined benefit plans

The Group offers complementary retiring benefit plans to employees who start their service before 31 December 2007. The Group invited Tower Watson Consulting Group (Shanghai) to estimate the present value by actuary means based on expected cumulative benefits unit method. The project estimates the future cash outflow based on rate of inflation and rate of death, and recognizes its present value by discount rate. Discount rate is measured by the corresponding yield of the treasury bond which matches the period of defined benefit plans and currency on balance sheet date. The Group recognizes assets of this plan based on actuary results, related actuarial gains or losses recognized into other comprehensive income. Past service costs will be charged in profit or loss in the period of revising the plans. The interest net value is recognized by the defined benefit plans net liabilities or assets multiplying by appropriate discount rate.

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

45. POST-EMPLOYMENT COMPENSATION - continued

45.2 Defined benefit plans - continued

The profit or loss charged by related influence from defined benefit plans is RMB 131 million. Actuary gains charging to other comprehensive income are RMB 62 million. Net assets of defined benefit plans are decreased by RMB 69 million for the period, and the balance at the end of the period is RMB 1,343 million, which is the net value of present value of defined benefit plans duties and fair value of defined benefit plans assets, and should be charged to other assets (Note VI, 16).

On 30 June 2018, the Group's defined benefit plans' average benefit obligation period was about 7 to 8 years (31 December 2017: about 10 to 11 years).

Defined benefit plan makes the Group face the actuarial risks that include interest rate risk and longevity risk. The decrease of the yield of government bond will lead to an increase in the present value of defined benefit plan obligations. The present value of defined benefit plan obligations is calculated based on the best estimate of the mortality rate of the employees participating in the scheme, and the increase in life expectancy will lead to an increase in plan liabilities.

Discount rate and mortality rate are the key actuarial factors in determining the present value of the defined benefit plan obligations. The discount rate is 3.50% as at 30 June 2018 (31 December 2017: 4.00%). Mortality assumptions are based on Male Pension Service Form and Female Pension Service Form of China Experience Life Table of Life Insurance (2010-2013) released by Chinese Insurance Regulatory Commission. The male workers retired at the age of 60 and female workers retired at the age of 55 are expected to have an average residual life of 25.34 years and 34.03 years respectively.

The following sensitivity analysis is based on the corresponding hypothesis with reasonable possible changes occurred at the end of the reporting period (assuming all other assumptions remain unchanged):

If the discount rate increases (decreases) by 25 basis points, then the present value of defined benefit plan obligations will be decreased by RMB 43 million (increased by RMB 45 million).

As part of hypothesis may have correlation and a hypothesis cannot be changed in an isolate way, the sensitivity analysis may not reflect the actual changes in the fair value of the defined benefit plan obligations.

In the aforesaid sensitivity analysis, the calculation method in determining the defined benefit plan obligations is the same as the recognition of the relevant liabilities in the balance sheet at the end of the reporting period.

Compared with the previous year, the method for sensitivity analysis and the hypothesis didn't change.

46. STRUCTURED ENTITIES

46.1 Consolidated structured entities

The consolidated structured entities of the Group are fund products, asset-backed securities, trust plans and asset management plans. As the manager/initiator of the fund products, asset-backed securities, trust plans and asset management plans, the Group considers whether it has control over the structured entities, and determine whether the consolidation is necessary based on the scope of asset manager's decision, power of trust holder, reward from management service offering and the risk exposure of variable profit. In the first half year of 2018, the Group didn't offer financial support to the consolidated structured entities.

46.2 Unconsolidated structured entities

46.2.1 Unconsolidated Structured entities managed by the Group

The Group initiates and establishes structured entities which offer specific investment opportunities. The Group invests in the structured entities issued by the Group or the independent third party, which offer specific investment opportunities. Such structured entities conduct financing and investing through issuing products. The Group enjoys no control over such structured entities. Therefore, such structured entities are unconsolidated. Up to 30 June 2018, the consolidated entities issued by the Group mainly include wealth management products, funds, asset-backed securities, capital trust plans and asset management plans. And the Group earns commission income mainly from offering management service to the investors of these structured entities.

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

46. STRUCTURED ENTITIES - continued

46.2 Unconsolidated structured entities - continued

46.2.1 Unconsolidated Structured entities managed by the Group - continued

In the first half year of 2018 and in 2017, the Group did not offer financial support to other structured entities excluded from the consolidation scope.

Up to 30 June 2018 and 31 December 2017, the information of unconsolidated structured entities initiated by the Group is listed below:

The Group

	Scale 30/06/2018	Scale 31/12/2017	Type
	RMB million (Unaudited)	RMB million	
Wealth management products	1,049,901	1,152,282	Commission income
Funds	326,259	283,388	Commission income
Asset-backed securities	10,540	29,081	Commission income
Capital trust plans	911,322	915,867	Commission income
Asset management plans	245,813	293,106	Commission income
Total	2,543,835	2,673,724	

In the first half year of 2018, the commission income earned from offering management service to the investors of these structured entities by the Group is RMB 5,651 million (the first half year of 2017: RMB 6,376 million).

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

46. STRUCTURED ENTITIES - continued

46.2 Unconsolidated structured entities - continued

46.2.2 Equity enjoyed by the Group in unconsolidated structured entities

To utilize the capital better, the unconsolidated structured entities whose equity is enjoyed by the Group in 30 June 2018 mainly includes wealth management products, funds, asset-backed securities, capital trust plans and asset management plans issued or managed by the Group or individual third parties. The Group earns interest income and investment income mainly through holding these structured entities equities. The Group does not consolidate these structured entities because the Group does not control them.

The Group did not offer financial support to the structured entities above in the first half year of 2018 and in 2017.

Up to 30 June 2018 and 31 December 2017, the information of unconsolidated structured entities whose equity is enjoyed by the Group is listed below:

The Group

	30/06/2018 (Unaudited) (RMB million)							
	Financial assets held under resale agreement	Financial asset at fair value through profit or loss	Available-for-sale financial assets	Hold-to-maturity investment	Debt securities classified as receivables	Book value	Maximum risk exposure (Note 1)	Type
Funds	—	226,542	118,389	—	—	344,931	344,931	Investment income
Wealth management products	—	540	2,103	—	19,822	22,465	22,465	Investment income, Interest income
Capital trust plans	800	594	28,485	—	766,260	796,139	796,139	Investment income, Interest income
Asset management plans	—	4,515	16,975	—	327,669	349,159	349,159	Investment income, Interest income
Asset-backed securities	—	807	36,569	—	180,749	218,125	218,125	Investment income, Interest income
Total	800	232,998	202,521	—	1,294,500	1,730,819	1,730,819	

VI. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

46. STRUCTURED ENTITIES - continued

46.2 Unconsolidated structured entities - continued

46.2.2 Equity enjoyed by the Group in unconsolidated structured entities - continued

The Group - continued

	30/06/2017 (Unaudited) (RMB million)							
	Financial assets held under resale agreement	Financial asset at fair value through profit or loss	Available-for-sale financial assets	Hold-to-maturity investment	Debt securities classified as receivables	Book value	Maximum risk exposure (Note 1)	Type
Funds	—	216,511	81,489	—	—	298,000	298,000	Investment income
Wealth management products	—	3	2,848	—	84,614	87,465	87,465	Investment income, Interest income
Capital trust plans	800	162	9,832	—	805,441	816,235	816,235	Investment income, Interest income
Asset management plans	3,302	3,784	14,541	—	315,458	337,085	337,085	Investment income, Interest income
Asset-backed securities	—	2,635	29,335	4	242,125	274,099	274,099	Investment income, Interest income
Total	4,102	223,095	138,045	4	1,447,638	1,812,884	1,812,884	

Note 1: Maximum loss exposure to funds, wealth management products, capital trust plans, asset management plans and asset-backed securities is the amortized cost or fair value recognized in the balance sheet on the reporting date.

VII. SEGMENT REPORTING

Senior management of the Group evaluates the operations of the Group in accordance with their economic areas of the respective branches and subsidiaries. Each branch serves its local customers and few customers in other regions. The Group does not deeply depend on one single external customer. Through the review of internal reports, the management of the Group conducts performance evaluation and determines the allocation of resources. Segment reporting is presented in a manner consistent with the Group's internal management and reports.

Segment accounting policies are consistent with the accounting policies of the consolidated financial statements. Inter-segment transfer transactions are measured at the actual transaction prices.

The Group includes the head office (including the head office and the operating institutions of the head office), Fujian, Beijing, Shanghai, Guangdong, Zhejiang, Jiangsu, northeast and other regions, western region, central region, a total of ten segments, of which branches within the northeast and other regions, western region, central region are presented in a consolidated manner.

Among them, the northeast and other regions includes: Harbin branch, Changchun branch, Shenyang branch, Dalian branch, Tianjin branch, Jinan branch, Qingdao branch Haikou branch, Hong Kong branch and Industrial Bank Financial Leasing Co., Ltd;

Western region includes: Chengdu branch, Chongqing branch, Guiyang branch, Xi'an branch, Kunming branch, Nanning branch, Urumqi branch, Lanzhou branch, Xining branch and Yinchuan branch.

Central region includes: Hohhot branch, Shijiazhuang branch, Zhengzhou branch, Taiyuan branch, Hefei branch, Changsha branch, Wuhan branch and Nanchang branch.

The Group

	Six months ended 30 June 2018 (Unaudited)										RMB million
	Head office	Fujian	Beijing	Shanghai	Guangdong	Zhejiang	Jiangsu	Northeast and other regions	Western region	Central region	Total
Operating income	31,071	8,737	3,649	3,287	4,609	1,174	2,305	6,374	5,752	6,427	73,385
Net interest income	12,015	6,273	3,283	2,815	3,944	900	1,971	3,946	5,072	5,380	45,599
Including: Net inter-segment interest income	(31,972)	3,342	4,738	4,669	6,076	724	420	2,833	4,809	4,361	—
Net fee and commission income	13,239	1,947	352	424	609	267	313	1,366	610	990	20,117
Other income	5,817	517	14	48	56	7	21	1,062	70	57	7,669
Operating expenses	(12,203)	(5,045)	(1,201)	(1,235)	(2,453)	(1,194)	(1,340)	(4,560)	(3,025)	(3,028)	(35,284)
Operating profit	18,868	3,692	2,448	2,052	2,156	(20)	965	1,814	2,727	3,399	38,101

	Six months ended 30 June 2017 (Unaudited)										RMB million
	Head office	Fujian	Beijing	Shanghai	Guangdong	Zhejiang	Jiangsu	Northeast and other regions	Western region	Central region	Total
Operating income	27,299	7,736	3,621	4,025	4,264	850	1,579	7,964	4,174	6,845	68,357
Net interest income	14,163	5,598	3,016	3,055	3,351	362	780	4,665	3,183	5,830	44,003
Including: Net inter-segment interest income	(29,870)	3,453	5,673	4,564	4,383	501	102	3,082	3,495	4,617	—
Net fee and commission income	9,163	1,825	578	951	888	478	782	1,685	974	986	18,310
Other income	3,973	313	27	19	25	10	17	1,614	17	29	6,044
Operating expenses	(9,935)	(3,795)	(1,136)	(984)	(1,698)	(1,287)	(1,287)	(3,958)	(3,551)	(3,735)	(31,366)
Operating profit	17,364	3,941	2,485	3,041	2,566	(437)	292	4,006	623	3,110	36,991

VIII. RELATED PARTY RELATIONSHIP AND TRANSACTIONS

1. Related Party Relationship

The Group

Related parties with no controlling interest

(1) Shareholders holding more than 5% (inclusive) of the Bank's shares

Name	Economic nature	Place of registration	Registered capital	Principal activities	Legal representative
			RMB Hundred Million		
The Finance Bureau of Fujian Province	Legal entity of government agencies	Fuzhou	—	Administration of Fujian provincial fiscal and tax policy	—
People's Insurance Company of China(1)	Incorporated Company	Beijing	148.29	Insurance services	Liao, Jianmin
China Life Insurance Company(1)	Incorporated Company	Beijing	257.61	Insurance services	Liao, Jianmin
China National Tobacco Corporation(1)	Owned by the whole people	Beijing	570	Production, and sales of tobacco products	Ling Chengxing
Haisheng Investment Management Company of Fujian Tobacco(1)	Limited Company	Xiamen	26.47	Investment management	Lu, Xiaodong
China Tobacco Hunan Investment Management Company(1)	Limited Company	Changsha	2	Investment management	Deng, Yongzhi
The People's Insurance Company (Group) of China Limited(1)	Incorporated Company	Beijing	424.24	Investment management and insurance services	Liao, Jianmin
China National Tobacco Fujian Corporation(1)	Owned by the whole people	Fuzhou	1.37	Sales of tobacco products	Zhang Yongjun
China National Tobacco Guangdong Corporation(1)	Owned by the whole people	Guanghzou	1.40	Production, and sales of tobacco products	Liu Yiping

Number of shares held by Shareholders holding more than 5% (inclusive) of the Bank's shares:

Name	30/06/2018 (Unaudited)		31/12/2017	
	Shares	Proportion	Shares	Proportion
	Million Shares	(%)	Million Shares	(%)
The Finance Bureau of Fujian Province	3,902	18.78	3,902	18.78
China Life Insurance Company(1)	1,276	6.14	1,276	6.14
People's Insurance Company of China(1)	1,229	5.91	1,229	5.91
China National Tobacco Corporation(1)	1,110	5.34	1,110	5.34
Haisheng Investment Management Company of Fujian Tobacco(1)	441	2.13	441	2.13
China Tobacco Hunan Investment Management Company(1)	226	1.09	226	1.09
The people's Insurance Company (Group) of China Limited(1)	174	0.84	174	0.84
China National Tobacco Fujian Corporation(1)	132	0.64	132	0.64
China National Tobacco Guangdong Corporation(1)	99	0.48	99	0.48
Total	8,589	41.35	8,589	41.35

VIII. RELATED PARTY RELATIONSHIP AND TRANSACTIONS - continued

1. Related Party Relationship - continued

The Group - continued

Related parties with no controlling interest - continued

(1) Shareholders holding more than 5% (inclusive) of the Bank's shares - continued

Note: (1) Relationship between related parties: People's Insurance Company of China and China Life Insurance Company are both subsidiaries of The People's Insurance Company (Group) of China Limited. The aggregate proportion is 12.89%. Haisheng Investment Management Company of Fujian Tobacco, China Tobacco Hunan Investment Management Company, China National Tobacco Fujian Corporation and China National Tobacco Guangdong Corporation are subsidiaries of China National Tobacco Corporation. The aggregate proportion is 9.68%.

(2) Associates

Details of general information and related information of associates are set out in Note VI, 13.

(3) Other related parties

Other related parties include key management personnel (director, supervisor, senior management of head office) and their close families, as well as other enterprises over which the key management personnel or their close families have control, common control or significant influence.

2. Related party transactions

The conditions and prices of related party transactions between the Group and the Bank are determined according to the Group's contract, and are examined and approved in accordance with the transaction type and content of transaction by corresponding decision-making authority.

1. Interest income

Related party	Six months ended 30 June 2018	Six months ended 30 June 2017
	RMB million (Unaudited)	RMB million (Unaudited)
The People's Insurance Company and its subsidiaries	29	66
China National Tobacco Corporation and its subsidiaries	—	21
Associates	100	—
Other related parties	212	23
Total	341	110

2. Interest expense

Related party	Six months ended 30 June 2018	Six months ended 30 June 2017
	RMB million (Unaudited)	RMB million (Unaudited)
The Finance Bureau of Fujian Province and its subsidiaries	203	154
The People's Insurance Company and its subsidiaries	208	283
China National Tobacco Corporation and its subsidiaries	688	440
Associates	3	2
Other related parties	44	16
Total	1,146	895

VIII. RELATED PARTY RELATIONSHIP AND TRANSACTIONS - continued

2. Related party transactions - continued

3. Fee and commission income

Related party	Six months ended 30 June 2018 RMB million (Unaudited)	Six months ended 30 June 2017 RMB million (Unaudited)
The Finance Bureau of Fujian Province and its subsidiaries	—	11
The People's Insurance Company and its subsidiaries	8	10
Other related parties	30	3
Total	38	24

4. Fee and commission expense

Related party	Six months ended 30 June 2018 RMB million (Unaudited)	Six months ended 30 June 2017 RMB million (Unaudited)
The People's Insurance Company and its subsidiaries	11	22

5. General and administrative expenses-premium

Related party	Six months ended 30 June 2018 RMB million (Unaudited)	Six months ended 30 June 2017 RMB million (Unaudited)
The People's Insurance Company and its subsidiaries	9	2

In the first half year of 2018, the Bank was paid RMB 4 million in compensation from People's Insurance Company of China (the first half year of 2017: RMB 7 million).

6. General and administrative expenses-rental expense

Related party	Six months ended 30 June 2018 RMB million (Unaudited)	Six months ended 30 June 2017 RMB million (Unaudited)
China National Tobacco Corporation and its subsidiaries	13	12

3. Unsettled amount of related party transactions

1. Amount due from banks

Related party	30/06/2018 RMB million (Unaudited)	31/12/2017 RMB million
Other related parties	4	307

2. Derivative financial instruments

Related party	Transaction type	30/06/2018 (Unaudited) Notional amount RMB million	30/06/2018 (Unaudited) Assets/Liabilities RMB million	31/12/2017 Notional amount RMB million	31/12/2017 Assets/Liabilities RMB million
The People's Insurance Company and its subsidiaries	Interest Rate Derivative	50	—	730	—
Other related parties	Interest Rate Derivative	50	—	—	—
Other related parties	Exchange Rate Derivative	3,758	(50)	4,988	41
Total		3,858	(50)	5,718	41

VIII. RELATED PARTY RELATIONSHIP AND TRANSACTIONS - continued

3. Unsettled amount of related party transactions - continued

3. Interest receivable

Related party	30/06/2018 RMB million (Unaudited)	31/12/2017 RMB million
The People's Insurance Company and its subsidiaries	33	52
Associates	72	26
Other related parties	66	69
Total	171	147

4. Available-for-sale financial assets

Related party	30/06/2018 RMB million (Unaudited)	31/12/2017 RMB million
Other related parties	89	379

5. Debt securities classified as receivables

Related party	30/06/2018 RMB million (Unaudited)	31/12/2017 RMB million
The People's Insurance Company and its subsidiaries	800	2,400
Associates	4,906	5,330
Other related parties	5,583	4,488
Total	11,289	12,218

6. Held-for-trading financial assets

Related party	30/06/2018 RMB million (Unaudited)	31/12/2017 RMB million
Other related parties	435	1,366

7. Loans and advances to customers

Related party	30/06/2018 RMB million (Unaudited)	31/12/2017 RMB million
The People's Insurance Company and its subsidiaries	70	—
Other related parties	3,389	3,084
Total	3,459	3,084

8. Amount due to banks and other financial institutions

Related party	30/06/2018 RMB million (Unaudited)	31/12/2017 RMB million
Associates	620	213
Other related parties	73	534
Total	693	747

VIII. RELATED PARTY RELATIONSHIP AND TRANSACTIONS - continued

3. Unsettled amount of related party transactions - continued

9. Amount due to customers

Related party	30/06/2018 RMB million (Unaudited)	31/12/2017 RMB million
The Finance Bureau of Fujian Province and its subsidiaries	18,576	13,409
The People's Insurance Company and its subsidiaries	14,220	11,286
China National Tobacco Corporation and its subsidiaries	48,666	35,512
Associates	190	246
Other related parties	7,146	6,063
Total	88,798	66,516

10. Interest payable

Related party	30/06/2018 RMB million (Unaudited)	31/12/2017 RMB million
The Finance Bureau of Fujian Province and its subsidiaries	371	201
The People's Insurance Company and its subsidiaries	333	470
China National Tobacco Corporation and its subsidiaries	937	589
Other related parties	13	21
Total	1,654	1,281

11. Credit facility

Related party	30/06/2018 RMB million (Unaudited)	31/12/2017 RMB million
The People's Insurance Company and its subsidiaries	54,000	54,000
China National Tobacco Corporation and its subsidiaries	15,000	15,000
Other related parties	40,300	29,500
Total	109,300	98,500

12. Off-balance sheet items

At the end of the period, the amount of letter of credit and Bank acceptances held by the subsidiaries of China National Tobacco Corporation is RMB 500 million (31 December 2017: RMB 2,501 million) and RMB 516 million (31 December 2017: RMB 500 million) respectively; the bank acceptances and the amount of letters of guarantee held by other related parties is RMB 150 million (31 December 2017: RMB 270 million) and RMB 285 million (31 December 2017: RMB 725 million) respectively.

IX. CONTINGENCIES AND COMMITMENTS

1. Pending Litigations

As of the balance sheet date, the Group's management considers that there is no pending litigation which has a significant impact on the financial statements that needs to be disclosed.

IX. CONTINGENCIES AND COMMITMENTS - continued

2. Off-balance sheet items

The Group and the Bank

	Contractual amount	
	30/06/2018	31/12/2017
	RMB million (Unaudited)	RMB million
Credit card commitments	245,466	208,127
Letter of credit	100,111	85,144
Letters of guarantee	125,182	120,259
Bank acceptances	395,694	384,247
Non-cancellable loan commitments	43,451	41,500
Total	909,904	839,277

3. Capital commitments

	The Group		The Bank	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
	RMB million (Unaudited)	RMB million	RMB million (Unaudited)	RMB million
Approved but not contracted	—	1	—	1
Contracted but not paid for	525	258	508	243
Total	525	259	508	244

4. Operating lease commitments

As a tenant, according to the non-cancellable lease contracts, the required minimum lease payments by the Group and the Bank are as follows:

	The Group		The Bank	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
	RMB million (Unaudited)	RMB million	RMB million (Unaudited)	RMB million
Within one year	658	1,945	603	1,826
One to five years	4,685	4,727	4,525	4,591
Over five years	1,356	1,076	1,350	1,066
Total	6,699	7,748	6,478	7,483

5. Collateral

5.1 Assets pledged

(i) The carrying amount of assets pledged as collateral under repurchase agreements is as follows:

	The Group		The Bank	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
	RMB million (Unaudited)	RMB million	RMB million (Unaudited)	RMB million
Bonds	133,027	214,353	126,341	208,444
Bills	40,258	20,136	40,258	20,136
Total	173,285	234,489	166,599	228,580

As at 30 June 2018, none of the Group's and the Bank's bills held under resale agreement are used for carrying out business of sales under repurchase agreement (31 December 2017: Nil).

(ii) On 30 June 2018, the Group and the Bank pledged RMB 1,533 million to credit derivative transaction (31 December 2017：RMB 2,031 million).

IX. CONTINGENCIES AND COMMITMENTS - continued

5. Collateral - continued

5.2 Collateral obtained

In the resale agreement, if the counterparty of the transaction has not violated the contractual terms, the Group can sell some of the pledged assets or transfer the pledged assets in other transactions. The fair value of the pledged assets available for sale and available for pledge on 30 June 2018 is RMB 3,944 million. (31 December 2017: Nil).

6. Redemption commitment of certificate government bonds and saving government bonds

(1) The Group entrusted by the MOF as its agent issues certificate government bonds and saving government bonds. Holders of certificate government bonds and saving government bonds can require advance redemption, and the Group has the obligation to execute the redemption responsibility. Redemption amount for the certificate government bonds and saving government bonds includes principal and interest payable till redemption date.

As of 30 June 2018 and 31 December 2017, the cumulative principal balances of the certificate government bonds and saving government bonds which are issued by the Group under trust prior to maturity and not been paid are as follows:

The Group and the Bank

	Contractual amount	
	30/06/2018	31/12/2017
	RMB million (Unaudited)	RMB million
Certificate government bonds and saving government bonds	2,838	3,180

The Group believes the Group's redemption amount of these certificate government bonds and saving government bonds is not significant before their maturity.

(2) On 30 June 2018, the amount of the Group's announced but unissued bonds underwriting is 7,400 million (31 December 2017: 500 million).

7. Fiduciary Business

The Group and the Bank

	30/06/2018	31/12/2017
	RMB million (Unaudited)	RMB million
Fiduciary deposits and loans	498,004	564,990
Fiduciary wealth management	1,049,901	1,152,282
Fiduciary investment	6,546	4,123

Fiduciary deposits and loans are deposits and loans that depositor designated specific third party as the loan party, and related credit risk of the loan is borne by depositors who designated borrowers.

Fiduciary wealth management refers to a kind of service that the entrusted Group is responsible for the operation and management of customer assets. The investment risk of fiduciary wealth management is borne by the client.

Fiduciary investment refers to a kind of service that the entrusted Group engaged in capital operation, investment management, investment advisory and other investment services based on the principal-agent relationship. The investment risk of fiduciary investment is borne by the client.

X. OTHER SIGNIFICANT EVENTS

1. Financial assets and financial liabilities measured at fair value

The Group

	Six months ended 30 June 2018 (Unaudited)				
	Opening Balance	Profit or loss arising from changes in fair value for the period	Changes in fair value recognised in equity	Provision (reversal) for impairment losses for the period	Closing Balance
	RMB million	RMB million	RMB million	RMB million	RMB million
Financial assets at fair value through profit or loss	362,072	(734)	—	—	355,000
Derivative financial assets	28,396	10,567	—	—	38,963
Available-for-sale financial assets	502,381	—	(3,139)	354	555,091
Total financial assets	892,849	9,833	(3,139)	354	949,054
Financial liabilities (1)	(36,077)	(4,896)	—	—	(38,241)

The Bank

	Six months ended 30 June 2018 (Unaudited)				
	Opening Balance	Profit or loss arising from changes in fair value for the period	Changes in fair value recognised in equity	Provision (reversal) for impairment losses for the period	Closing Balance
	RMB million	RMB million	RMB million	RMB million	RMB million
Financial assets at fair value through profit or loss	337,965	(879)	—	—	314,852
Derivative financial assets	28,396	10,567	—	—	38,963
Available-for-sale financial assets	515,712	—	(1,422)	350	572,944
Total financial assets	882,073	9,688	(1,422)	350	926,759
Financial liabilities (1)	(35,239)	(4,833)	—	—	(36,576)

(1) Financial liabilities include financial liabilities at fair value through profit or loss and derivative financial liabilities.

(2) The items of assets and liabilities listed on the above tables have no inevitable relationship.

X. OTHER SIGNIFICANT EVENTS - continued

2. Financial assets and financial liabilities denominated in foreign currencies

The Group

	Six months ended 30 June 2018 (Unaudited)				
	Opening Balance	Profit or loss arising from changes in fair value for the period	Changes in fair value recognised in equity	Provision (reversal) for impairment losses for the period	Closing Balance
	RMB million	RMB million	RMB million	RMB million	RMB million
Cash and balances with Central Bank	17,104	—	—	—	13,136
Amount due from banks and other financial institutions	15,632	—	—	—	16,661
Placements with banks and other financial institutions	13,789	—	—	—	24,213
Financial assets at fair value through profit or loss	41,418	(1,537)	—	—	30,027
Derivative financial assets	1,502	1,763	—	—	3,265
Financial assets purchased under resale agreement	—	—	—	—	24
Loans and advances to customers	145,478	—	—	(1,453)	149,415
Available-for-sale financial assets	105,884	—	(1,243)	(14)	97,657
Debt securities classified as receivables	23,708	—	—	(2)	17,102
Held-to-maturity investments	12,047	—	—	—	7,295
Finance lease receivables	1,227	—	—	—	1,158
Other financial assets	2,295	—	—	—	3,768
Total of financial assets	380,084	226	(1,243)	(1,469)	363,721
Financial liabilities [(1)]	463,562	(1,999)	—	—	508,241

The Bank

	Six months ended 30 June 2018 (Unaudited)				
	Opening Balance	Profit or loss arising from changes in fair value for the period	Changes in fair value recognised in equity	Provision (reversal) for impairment losses for the period	Closing Balance
	RMB million	RMB million	RMB million	RMB million	RMB million
Cash and balances with Central Bank	17,104	—	—	—	13,136
Amount due from banks and other financial institutions	15,632	—	—	—	16,463
Placements with banks and other financial institutions	14,351	—	—	—	23,650
Financial assets at fair value through profit or loss	41,418	(1,537)	—	—	30,027
Derivative financial assets	1,502	1,763	—	—	3,265
Financial assets purchased under resale agreement	—	—	—	—	24
Loans and advances to customers	145,478	—	—	(1,453)	149,415
Available-for-sale financial assets	105,884	—	(1,243)	(14)	97,657
Debt securities classified as receivables	23,708	—	—	(2)	17,102
Held-to-maturity investments	12,047	—	—	—	7,295
Other financial assets	2,295	—	—	—	3,768
Total of financial assets	379,419	226	(1,243)	(1,469)	361,802
Financial liabilities [(1)]	463,562	(1,999)	—	—	506,100

(1) Financial liabilities include amount due to Central Bank, amount due to banks and other financial institutions, placements from banks and other financial institutions, financial liabilities at fair value through profit or loss, financial assets sold under repurchase agreements, derivative financial liabilities, amount due to customers and debt securities issued, etc.

(2) The items of assets and liabilities listed on the above tables have no inevitable relationship.

X. OTHER SIGNIFICANT EVENTS - continued

3. Transfer of Financial Assets

3.1 Assets-securitized

The Group conducts asset-backed securities transactions during normal operations. The Group sells part of its financial assets to the special purpose trust established by the Group as an originating institution and then the special purpose trust issues asset-backed securities to investors. The Group determines whether it combines the special purpose trust based on whether it has power over such special purpose trust and whether it is involved in related activities of the special purpose trust to enjoy variable returns, and whether the Group has the ability to use its power over the special purpose trust to affect its returns.

Once a special purpose trust is established, it shall be distinguished from other property for which the Group has not set up a trust. According to the relevant transaction documents, the trust property is not a liquidation property when the Group dissolves or is liquidated according to law, or is declared bankrupt.

In the course of the transfer of the aforesaid financial assets, the Group has not recognized the gains or losses since the transferring consideration is same as the book value of the transferred financial assets. Subsequently, the Group as a financial asset service institution will charge a certain service fee.

The Group analyses and judges if the relevant financial assets transferred to be derecognised based on the degree of transfer of risk and return:

- When the Group transfers substantially all the risks (including credit risk, early repayment risk and interest rate risk of the transferred assets) and rewards of ownership of the financial assets to other investors in the course of the transfer of the underlying financial assets, the Group derecognises the transferred financial assets. The Group has no securitized financial assets at the first half year of 2018 (the first half year of 2017: RMB 13,733 million). Meanwhile, the Group subscribed for a certain percentage of asset-backed securities. As at 30 June 2018, the above asset-backed securities held by the Group amounted to RMB 12,260 million (31 December 2017: RMB 17,565 million).
- The Group did not transfer substantially all the risks (including credit risk, early repayment risk and interest rate risk of the transferred assets) and rewards of ownership of the financial assets to other investors in the process of transferring related financial assets, and the Group did not derecognise of the transferred financial assets. The Group has no the aforesaid non- derecognized finance assets in the first half year of 2018 (In the first half year of 2017: RMB 4,721 million). As at 30 June 2018, the aforesaid non-derecognized finance lease receivables held by the Group are RMB 2,017 million (31 December 2017: RMB 2,939 million), the aforesaid non-derecognized debt securities classified as receivables held by the Group are RMB 620 million (31 December 2017: RMB 924 million), and the consideration received from the transfer of financial assets amounting to RMB 1,167 million (31 December 2017: RMB 1,867 million) is presented as “debt securities issued”.
- In the first half of 2018, the Group’s transferred assets include financial assets with carrying amount of RMB 22,612 million (31 December 2017: RMB 14,600 million), where the Group neither transferred nor retained substantially all the risks (mainly include the credit risk, early repayment risk and interest rate risk of the transferred assets) and rewards of the ownership, and retained the control and has continuing involvement in these financial assets. At 30 June 2018, the Group continued to recognize the financial assets with carrying amount of RMB 4,079 million (31 December 2017: RMB 2,101 million) based on its extent of continuing involvement in the assets, and recognized assets and liabilities with continuing involvement as other assets and other liabilities.

3.2 Repurchase agreements

Repurchase agreements refer to agreements made by the Group and the counter-parities that financial assets (or financial assets that share the same substance) are settled a fixed price of repurchasing when they are sold at a fixed date. Due to the fixed repurchasing price, the Group shoulders almost all the credit and market risks and benefit of the assets. The sold financial assets (cannot be used within the period) should not be recognized in the financial statement, but should be regarded as guarantees because the Group retains all the risks and returns. Besides, the Group recognizes the financial liabilities by the price received. In these trading, the counter-parties’ right to the Group is not limited within the transferred financial assets.

X. OTHER SIGNIFICANT EVENTS - continued

3. Transfer of Financial Assets - continued

3.2 Repurchase agreements - continued

At 30 June 2018 and 31 December 2017, the Group conducted trading of bonds and bills under repurchase agreements. The price of selling these financial assets is called financial assets sold under repurchase agreements price (Note VI, 21).

Included in the repurchase agreement, the book value of the financial assets which had been transferred but continued to be recognized by the Group and relevant liabilities are as follows:

The Group

Item	30/06/2018		31/12/2017	
	RMB Million (Unaudited)		RMB Million	
	Bonds	Bills	Bonds	Bills
Assets book value	133,027	40,258	214,353	20,136
Liabilities book value	126,373	40,258	209,658	20,136

3.3 Transfer of Non-performing Loans

In the first half year of 2018, the Group disposed non-performing loans of the carrying amount amounting to RMB 2,446 million (the first half year of 2017: RMB 1,698 million) by way of transfer to third parties. The Group has transferred substantially all the risks and rewards of ownership of the above non-performing loans, and the loans are therefore derecognized.

XI. FINANCIAL RISK MANAGEMENT

1. Overview

The Group is exposed to various types of risks due to its financing businesses including banking business. The Group identifies, assesses and monitors various risks on an on-going basis. The most significant types of risk to which the Group is exposed are credit risk, market risk, liquidity risk and operation risk. Market risk includes interest rate risk, exchange rate risk and other price risk.

The Group's risk management objectives are to achieve a proper balance between risks and benefits and run business safely and prudently under reasonable level of risk.

2. Risk management framework

Risk management is the basic safeguard of survival and development of commercial banks. The Group has taken risk management as one of its core competitiveness, formulated development strategy focus on business operation as well as risk management, established pre-during-post events risk control system with a core of risk asset management, and improved the risk management and operation instructions for various businesses; completed the mechanism of risk responsibilities and punishment, implemented credit business operation responsibilities, established risk fund for credit post personnel, enhanced risk constraints; including credit risk, market risk, liquidity risk, operational risk and other risks undertaken in or by various business and customers into the scope of risk management and continuously improve the risk management mechanism to wholly-owned and holding subsidiaries; Further defined the specific responsibilities of board of directors, board of supervisors, senior management and operation executives in respect of risk management, formed a defined, clear and effective overall risk management system. In daily risk management work, the Group's business sector, risk management department and internal audit department build up the "three defences"; they perform their respective functions and work together to achieve the objective of risk management. Among them, operation institutions and business sector form the first line of defences to conduct risk management according to the risk management rules and policies. Operation institutions take precautions against all the business and operating risk, while business sector is in charge of making its risk management policy, evaluating the effectiveness of risk management regularly and taking corrective actions if necessary. The risk management department is the second line of defences, which is

XI. FINANCIAL RISK MANAGEMENT - continued

2. Risk management framework - continued

responsible for the constitution of the Group's risk management strategy, policy, regulations and process, and supervision of the execution. Meanwhile, the risk management department is responsible for the identification, evaluation and supervision of the risk that the Group faces, assessing the Group's risk condition periodically, taking measures for continuously improvement, pushing forward the outspread of overall risk management work. The internal audit department is the third line of defences. It provides independent, objective supervision, evaluation and consultation to the Group's risk management, provides post-event risk management assessment and feedback adjustment.

3. Credit risk

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligation. Credit risk can also arise from operational failures that result in an unauthorised or inappropriate advance, commitment or investment of funds. The Group's major credit risks come from loans and receivables (enterprises and personal credit loans), treasury operations (including debt investment) and off-balance sheet related credit risk exposures. The Group manages and controls credit risk according to the following processes: customer investigation before granting of credit limits, credit review and approval and post-disbursement loan monitoring and collection.

The Group establish the risk management department, which is responsible for organizing, implementing the credit risk management strategies and policies of the Group, it is also responsible for making basic rules for the Group risk management affairs, in addition, it is also professionally managing, evaluating, guiding the general operation of the Group risk management together with inspecting and supervising the activities mentioned above. As the leading party, the risk management department formulates unified standards, responsible for the credit management on the whole. All the actions taken are to ensure the overall credit risk under control. The Group set up risk management department and professional risk management desk in all the three major lines called enterprise financial line, retail financial line and investment banking and financial markets line. Each of the risk departments is responsible for the credit management in its own line or professional operating department, and it is also responsible for making detailed regulation and operating rules and approving projects within the approving authority. The Group also sets up several specialized committees such as Credit Approval Committee and Credit Accountability Committee. The first one is responsible for the examination and approval of the loans within the authority. The other one is responsible for determining the responsibility of related loans.

The Group has formulated a whole set of credit policies on approval process and management procedure, and implemented throughout the Group. The credit management procedure for corporate and personal loans can be classified as credit investigation, credit examination, credit approval, credit disbursement, and post disbursement monitoring and recovery process. In addition, the Group issued *Due Diligence of Credit approval* to clarify the duties of different positions, to effectively control the credit risk, and to strengthen compliance of credit business.

In accordance with the discriminative credit policy of "protecting, controlling, and compressing", the Group set up detailed rules for the implementation of credit policy, which has intensified the credit support for the real economy and optimized credit resources allocation. The Group preferentially develops credit businesses for industries which comply with national policy orientation, develop rapidly and have broad market prospects (including infrastructures, people's livelihood, strategic emerging industries and modern agriculture); actively practices green credit principle, preferentially supports green and environment friendly industry with obvious social benefits, mature technology application and commercial operation; supports short-term cycle and people's livelihood consumption industry like medical care, education, tourism and communication.

The Group has established a customer credit rating system which comprehensively and systematically investigated various factors and variation trends that influence customer solvency in future; disclosed and evaluated customers' credit risks and capabilities based on qualitative and quantitative analysis. Credit rating results become an important foundation to draw up credit service polices, adjust and optimize client structure, as well as identify credit service of individual customer. According to new Basel Capital Accord and relevant guides of CBRC, the Group developed and established customer internal rating system and has been continuously optimizing the model and system. The internal rating model system optimization has

XI. FINANCIAL RISK MANAGEMENT - continued

3. Credit risk - continued

started in 2017, meanwhile, the related results of internal rating has continuously entered into various risk management areas including authorization management, industry access, limit management and loan pricing. Since January 2014 when the credit risk weighted assets ("CRWA") measurement system was completed and launched, the Group had the capacity to measure CRWA using internal rating method. As the new capital accords related projects were completed successively, the Group got promoted in capacity of identification, measurement and control of credit risk.

The Group developed risk warning system (Stage I), applying big data technology to fully integrate both internal and external risk information and analysing as per certain rules so as to form a warning indicator. With customers' potential risks disclosed in time by monitoring the indicator, the active push, tracking, feedback and report generating by level of warning indicator can be achieved and the timeliness and accuracy of risk warning can be improved effectively. The risk warning system (Stage I) realized the online posting of warning information and carried out system hard control over processes including warning adjustment, cancellation etc. and provided basic guarantee for credit management.

The Group accurately identified risks conditions of credit asset, reasonably reflected the income after risk adjustment to guide capital allocation optimization in operation institutions and allocation of credit resources to strengthen risk awareness in operation institutions. Therefore, *Credit Asset Risks Classification Implementation Method* and *Credit Asset Risks Classification Implementation Standards* and others have been established to make sure branches adjust credit asset risks classification according to real conditions of projects. Based on 5 levels classified by CBRC, the Group has classified its credit asset risks into nine levels as level one(normal), level 2(normal), level 3(normal), level 4(attention), level 5(attention), level 6(attention), sublevel, doubtful and loss. The Group has various management policies to each level.

Risks arising from credit commitments are similar to risks of loans and advances to customers in substance. Therefore, requirements for application, post-loan management and pledge and guarantees are the same with those in loans and advances to customers. According to substance-over-form principle, the Group includes the non-standard credit loans in the comprehensive risk management system and manages them by comparing to traditional loans. The Group provides uniform credit, carries out general control on risks, executes uniform credit policy in nationwide, carries out whole-process responsibilities management by comparing to traditional loans, implements risk classification and provides risk reserves.

3.1 Concentration of credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio of financial instrument is diversified along geographic, industry and product sectors.

The Group operates the lending business in the PRC mainland only. Since there are different economic development characteristics in the different regions in China, the characteristics of credit risks are also different.

For the geographical and industrial concentration of the loans and advances to customers please refer to Note VI, 8.

3.2 Maximum exposure to credit risk

Despite any usable guarantee or pledge, and other credit enhancement measures, the maximum credit risk exposure that the Group and the Bank can afford on balance sheet date is the related financial assets (including derivative instrument and deducted equity instrument) plus the amount of off-balance sheet book value in Note IX, 2. Up to 30 June 2018, the maximum credit risk exposure: the Group: RMB 7,038,010 million (31 December 2017: RMB 6,815,370 million), the Bank: RMB 6,828,728 million (31 December 2017: RMB 6,609,727 million).

XI. FINANCIAL RISK MANAGEMENT - continued

3. Credit risk - continued

3.3 Analysis of exposure to credit risk of the Group and the Bank about loans and advances to customers, inter-bank placement, investment and finance lease receivables

The Group

	30/06/2018 (Unaudited)				
	Loans and advances to customers	Inter-bank placement(1)	Investment(2)	Finance lease receivables	Total
	RMB million	RMB million	RMB million	RMB million	RMB million
Impaired:					
Individual assessment					
Total assets	35,096	76	18,216	2,389	55,777
Provision for impairment	(17,067)	(76)	(9,183)	(687)	(27,013)
Net value of assets	18,029	—	9,033	1,702	28,764
Collective assessment					
Total assets	7,523	—	—	—	7,523
Provision for impairment	(5,407)	—	—	—	(5,407)
Net value of assets	2,116	—	—	—	2,116
Past due but not impaired:					
Total assets	21,016	1,133	758	2,110	25,017
Including:					
Within 90 days	20,333	—	758	46	21,137
90 to 360 days	683	—	—	—	683
360 days to 3 years	—	1,133	—	2,064	3,197
Provision for impairment	(4,467)	—	(114)	(248)	(4,829)
Net value of assets	16,549	1,133	644	1,862	20,188
Neither past due nor impaired:					
Total assets	2,610,974	229,256	2,634,604	116,183	5,591,017
Provision for impairment	(62,367)	—	(11,433)	(3,115)	(76,915)
Net value of assets	2,548,607	229,256	2,623,171	113,068	5,514,102
Total of net value of assets	2,585,301	230,389	2,632,848	116,632	5,565,170

XI. FINANCIAL RISK MANAGEMENT - continued

3. Credit risk - continued

3.3 Analysis of exposure to credit risk of the Group and the Bank about loans and advances to customers, inter-bank placement, investment and finance lease receivables - continued

The Group - continued

	31/12/2017				
	Loans and advances to customers	Inter-bank placement[1]	Investment[2]	Finance lease receivables	Total
	RMB million	RMB million	RMB million	RMB million	RMB million
Impaired:					
Individual assessment					
Total assets	31,346	76	15,268	1,573	48,263
Provision for impairment	(16,378)	(76)	(8,083)	(355)	(24,892)
Net value of assets	14,968	—	7,185	1,218	23,371
Collective assessment					
Total assets	7,308	—	—	—	7,308
Provision for impairment	(5,154)	—	—	—	(5,154)
Net value of assets	2,154	—	—	—	2,154
Past due but not impaired:					
Total assets	9,031	1,133	1,913	3,303	15,380
Including:					
Within 90 days	8,951	—	1,328	789	11,068
90 to 360 days	80	—	480	1,239	1,799
360 days to 3 years	—	1,133	105	1,275	2,513
Provision for impairment	(1,805)	—	(126)	(365)	(2,296)
Net value of assets	7,226	1,133	1,787	2,938	13,084
Neither past due nor impaired:					
Total assets	2,383,010	200,723	2,810,890	102,041	5,496,664
Provision for impairment	(58,527)	—	(11,054)	(2,702)	(72,283)
Net value of assets	2,324,483	200,723	2,799,836	99,339	5,424,381
Total of net value of assets	2,348,831	201,856	2,808,808	103,495	5,462,990

(1) Inter-bank placement includes amount due from banks and other financial institutions, placements with banks and other financial institutions and financial assets sold under repurchase agreements.

(2) Investment includes debt investment recognized as financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments or debt securities classified as receivables.

3.4 Collateral and other credit enhancements

The amount and type of collateral required depend on the assessment of the credit risk of the counterparty. The pledge rate depends on the credit information, operation and management, and financial position of pledgers, the condition of collateral, the market price, the pledged periods, and the convertibility of collateral. In addition, the Collateral Guideline of the Group set an upper limit of the pledged rate. Furthermore, the Group classifies and manages collateral by the difficulty of appraisal and management, the stability of market price and the convertibility of collateral. Following are the main types of collateral:

- For reverse repurchase agreements, collateral mainly includes bills, loans and securities
- For commercial loans, collateral mainly includes land, properties, equipment and shares, etc.
- For retail loans, collateral mainly includes properties

The management will monitor the market value of the collateral, ask the borrowers to increase collateral if necessary according to the agreements and monitor the change in the market value of the collateral when reviewing the adequacy of impairment.

XI. FINANCIAL RISK MANAGEMENT - continued

3.5 Analysis of collateral value

3.5.1 The Group evaluates the fair value of collateral periodically

1) As at 30 June 2018, the fair value of collateral that related to loans past due but not impaired amounted to RMB 31,919 million (31 December 2017: RMB 12,139 million). The collateral includes land, properties, equipment, certificates of deposit and share assets etc.

2) As at 30 June 2018, the fair value of collateral that related to loans individually assessed to be impaired amounted to RMB 29,436 million (31 December 2017: RMB 26,517 million). The collateral includes land, properties, equipment and shares assets.

3.5.2 The book value of foreclosed assets the Group obtained for the six months ended 30 June 2018 amounted to RMB 386 million (2017: RMB 115 million).

3.6 Rescheduled loans

Rescheduled loans refer to the loan projects generated by the Group to re-determine the terms of the loan at the discretion of the borrower who is unable to repay the loan according to the original loan terms. If conditions permit, the Group will seek to reschedule the loan instead of obtaining ownership of the collateral. The Group assessed the rescheduled loans as impaired loans in an individual manner when rescheduling. On 30 June 2018, the carrying amount of the Group's rescheduled loans was RMB 6,110 million.

4. Market risk

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk arises from both the Group's proprietary and customer driven business. The Group's market risk management objective is to control the market risk within a reasonable scope in order to achieve the optimal risk adjusted benefit.

According to the Group's market risk management structure, market risk management is critical for the management of the Group's assets and liabilities. Any major events should be reported to the Asset and Liability Management Committee for review and then authorized by President of the Bank. The planning and financial department is responsible for implementing the Group's asset and liability management policy, analysing and monitoring the implementation status of each type of indicators.

For daily control and management of treasury business, the risk management department of the treasure centre built up mid-stage risk control system to carry out an implanting risk management and report to the risk management department of the Group.

4.1 Interest rate risk

The interest rate risk of the Group includes repricing risk, yield curve risk, benchmark risk and optional risk, among which repricing risk is the main risk. It is the risk arising from the mismatch between the agreed maturity date (fixed interest rate day) and the repricing date (floating interest rate) of interest bearing assets and interest payment liabilities. Currently, the Group has fully carried out the internal capital transfer pricing. The Group determined the transfer pricing by different products and terms, and gradually centralized the interest rate risk to the Head Office, so as to improve the efficiency of management and control the interest rate risk.

For the interest risk management of bank accounts, the Group mainly evaluates the interest rate risk of balance sheet through gap analysis. The Group dynamically monitors and controls the interest rate sensitive gap of balance sheet through information systems like assets-liabilities management system, and simply calculates the interest rate sensitivity affected by revenue and economic value on the basis of gap analysis. The revenue analysis emphasizes on the effect of the interest rate fluctuation on short-term income, while the economic value analysis emphasizes on the effect of the interest rate fluctuation on present value of net cash flow.

XI. FINANCIAL RISK MANAGEMENT - continued

4. Market risk - continued

4.1 Interest rate risk - continued

For the interest risk management of transaction accounts, the Group mainly achieves the real-time monitoring of the interest rate risk of the trading accounts through the quota system, the use of financial transactions and analysis system and the scientific exposure measurement models. According to regulatory requirement, the Group has strengthened the management of market risk measurement models, standardized the developing, testing and commissioning process, and built on regular evaluation mechanisms to ensure the accuracy of measurement models. The Group applies the on-line trading and analysis system to timely measure and control the interest rate risk exposure of transaction accounts, which provides effective technical support to control the interest rate risk of transaction accounts.

At the balance sheet date, an analysis of contractual reprising date or maturity date, whichever is earlier, of the financial assets and financial liabilities are as follows:

The Group

	30/06/2018 (Unaudited)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Financial assets:						
Cash and balances with Central Bank	445,834	—	—	—	16,368	462,202
Amount due from banks and other financial institutions	82,385	37,029	—	—	—	119,414
Placements with banks and other financial institutions	31,585	22,369	599	—	—	54,553
Financial assets at fair value through profit or loss	22,439	44,324	50,826	10,477	226,934	355,000
Derivative financial assets	—	—	—	—	38,963	38,963
Financial assets held under resale agreements	56,422	—	—	—	—	56,422
Loans and advances to customers	2,027,242	512,947	38,043	7,069	—	2,585,301
Available-for-sale financial assets	65,260	118,750	182,681	65,491	124,876	557,058
Debt securities classified as receivables	359,114	462,580	662,294	228,987	—	1,712,975
Finance lease receivables	70,262	45,708	514	148	—	116,632
Held-to-maturity investments	12,250	37,565	150,025	159,785	—	359,625
Other assets	7,988	1,031	—	—	57,737	66,756
Total financial assets	3,180,781	1,282,303	1,084,982	471,957	464,878	6,484,901
Financial liabilities:						
Amount due to Central Bank	41,000	212,500	—	—	—	253,500
Amount due to banks and other financial institutions	1,233,873	320,517	—	—	—	1,554,390
Placements from banks and other financial institutions	156,067	80,032	12,045	1,201	—	249,345
Financial liabilities at fair value through profit or loss	1,752	665	371	—	1,666	4,454
Derivative financial liabilities	—	—	—	—	33,787	33,787
Financial assets sold under repurchase agreements	157,214	9,417	—	—	—	166,631
Amount due to customers	2,103,685	606,156	389,522	2	4,064	3,103,429
Debt securities issued	327,950	190,470	66,931	72,900	—	658,251
Other liabilities	—	—	—	—	77,725	77,725
Total financial liabilities	4,021,541	1,419,757	468,869	74,103	117,242	6,101,512
Net position	(840,760)	(137,454)	616,113	397,854	347,636	383,389

XI. FINANCIAL RISK MANAGEMENT - continued

4. Market risk - continued

4.1 Interest rate risk - continued

The Group - continued

	31/12/2017					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Financial assets:						
Cash and balances with Central Bank	444,872	—	—	—	21,531	466,403
Amount due from banks and other financial institutions	71,995	5,564	—	—	—	77,559
Placements with banks and other financial institutions	24,238	6,940	—	—	—	31,178
Financial assets at fair value through profit or loss	34,292	36,186	64,385	10,170	217,039	362,072
Derivative financial assets	—	—	—	—	28,396	28,396
Financial assets held under resale agreements	89,817	3,302	—	—	—	93,119
Loans and advances to customers	1,809,718	488,679	43,072	7,362	—	2,348,831
Available-for-sale financial assets	56,731	120,365	190,414	45,400	91,311	504,221
Debt securities classified as receivables	459,926	581,934	602,819	268,703	—	1,913,382
Finance lease receivables	100,370	2,395	593	137	—	103,495
Held-to-maturity investments	10,681	27,181	161,432	138,189	—	337,483
Other assets	17,540	1,890	166	321	43,320	63,237
Total financial assets	3,120,180	1,274,436	1,062,881	470,282	401,597	6,329,376
Financial liabilities:						
Amount due to Central Bank	35,500	209,500	—	—	—	245,000
Amount due to banks and other financial institutions	1,140,642	305,417	—	—	—	1,446,059
Placements from banks and other financial institutions	171,287	16,642	—	—	—	187,929
Financial liabilities at fair value through profit or loss	3,685	2,040	—	—	838	6,563
Derivative financial liabilities	—	—	—	—	29,514	29,514
Financial assets sold under repurchase agreements	220,845	8,949	—	—	—	229,794
Amount due to customers	2,168,179	560,115	356,148	6	2,445	3,086,893
Debt securities issued	316,718	209,369	63,988	72,883	—	662,958
Other liabilities	—	—	—	—	71,626	71,626
Total financial liabilities	4,056,856	1,312,032	420,136	72,889	104,423	5,966,336
Net position	(936,676)	(37,596)	642,745	397,393	297,174	363,040

The following tables illustrate the potential impact of a parallel upward or downward shift of 100 basis points in all currencies' yield curves on the Group's net interest income and other comprehensive income, based on the Group's positions of financial assets and financial liabilities at the balance sheet date.

	30/06/2018 (Unaudited)		31/12/2017	
	Net interest income	Other comprehensive income	Net interest income	Other comprehensive income
	increase (decrease) RMB million	increase (decrease) RMB million	increase (decrease) RMB million	increase (decrease) RMB million
+100 basis points	3,222	(7,545)	2,446	(5,244)
- 100 basis points	(3,222)	7,953	(2,446)	5,522

XI. FINANCIAL RISK MANAGEMENT - continued

4. Market risk - continued

4.1 Interest rate risk - continued

The Group - continued

The sensitivity analysis on net interest income is based on reasonably possible changes in interest rates with the assumption that the structure of financial assets and financial liabilities held at the period end remains unchanged.

The sensitivity analysis on other comprehensive income is the effect on changes of fixed rate available-for-sale financial assets at the period end after adjusting in accordance with the reasonably possible changes in interest rates.

The above prediction assumes that all yield curves of assets and liabilities, except demand deposit, shift upward or downward parallel. Therefore it does not reflect the potential impact of non-parallel shift in yield curves. The prediction also assumes that all positions are held to maturity. The Group anticipates that the amount of sensitivity analysis is insignificant if a position is not held to maturity.

The assumption does not represent the Group's capital and interest rate risk management policy. Therefore the above analysis may differ from the actual situation.

In addition, the impact of interest rate fluctuation is only for illustrating purpose, showing the anticipated net interest income and other comprehensive income of the Group under the current interest rate risk situation, and such impact has not taken into account the potential interest rate risk control activities carried out by the management.

4.2 Foreign currency risk

The Group conducts its businesses mainly in RMB, with certain businesses denominated in USD or other currencies. RMB is the functional currency. The exchange rate for RMB converting to USD or other foreign currencies is regulated by the PBOC.

The Group is mainly exposed to currency risk resulting from currency mismatches of assets and liabilities, foreign currency transactions and foreign currency capital, etc.

The financial market department of the Bank centrally manages the currency risk. The currency risk that arises from all types of foreign exchange transactions at the branch level should be centralized to head office to manage the risk exposure and squares positions through the core business system.

The currency risk exposure between foreign currencies is managed on the basis of "overnight position limit" and "day time self-trading positions". The positions are centralized to the financial market department in a timely way and managed centrally. This kind of position is relatively small compared to the Group's asset scale and is controllable.

Regarding the currency risk exposure between RMB and foreign currencies, the Group is mainly exposed to currency risk resulting from the comprehensive positions of the RMB market maker and the position of the foreign currency capital. As an active RMB market maker, the Group controls the position limit properly. The comprehensive positions of the market maker are managed close to zero and the overnight positions are kept at low level.

XI. FINANCIAL RISK MANAGEMENT - continued

4. Market risk - continued

4.2 Foreign currency risk - continued

The following tables are the structure analysis of the relevant financial assets and financial liabilities by currency.

The Group

	30/06/2018 (Unaudited)			
	RMB	USD equivalent to RMB	Other currencies equivalent to RMB	Total
	RMB million	RMB million	RMB million	RMB million
Financial assets:				
Cash and balances with Central Bank	449,066	12,169	967	462,202
Amount due from banks and other financial institutions	102,753	12,087	4,574	119,414
Placements with banks and other financial institutions	30,340	9,553	14,660	54,553
Financial assets at fair value through profit or loss	324,973	29,116	911	355,000
Derivative financial assets	35,698	3,235	30	38,963
Financial assets held under resale agreements	56,398	24	—	56,422
Loans and advances to customers	2,435,886	83,359	66,056	2,585,301
Available-for-sale financial assets	459,401	94,879	2,778	557,058
Debt securities classified as receivables	1,695,873	16,813	289	1,712,975
Finance lease receivables	115,474	1,158	—	116,632
Held-to-maturity investments	352,330	2,075	5,220	359,625
Other assets	62,988	3,185	583	66,756
Total financial assets	6,121,180	267,653	96,068	6,484,901
Financial liabilities:				
Amount due to Central Bank	253,500	—	—	253,500
Amount due to banks and other financial institutions	1,470,289	73,007	11,094	1,554,390
Placements from banks and other financial institutions	132,431	102,804	14,110	249,345
Financial liabilities at fair value through profit or loss	1,817	2,637	—	4,454
Derivative financial liabilities	31,416	2,370	1	33,787
Financial assets sold under repurchase agreements	134,752	31,433	446	166,631
Amount due to customers	2,866,927	177,762	58,740	3,103,429
Debt securities issued	627,708	22,816	7,727	658,251
Other liabilities	74,431	3,038	256	77,725
Total financial liabilities	5,593,271	415,867	92,374	6,101,512
Net position	527,909	(148,214)	3,694	383,389

XI. FINANCIAL RISK MANAGEMENT - continued

4. Market risk - continued

4.2 Foreign currency risk - continued

The Group - continued

	31/12/2017			
	RMB	USD equivalent to RMB	Other currencies equivalent to RMB	Total
	RMB million	RMB million	RMB million	RMB million
Financial assets:				
Cash and balances with Central Bank	449,299	16,716	388	466,403
Amount due from banks and other financial institutions	61,927	11,686	3,946	77,559
Placements with banks and other financial institutions	17,389	10,551	3,238	31,178
Financial assets at fair value through profit or loss	320,654	40,282	1,136	362,072
Derivative financial assets	26,894	980	522	28,396
Financial assets held under resale agreements	93,119	—	—	93,119
Loans and advances to customers	2,203,353	145,224	254	2,348,831
Available-for-sale financial assets	398,337	99,562	6,322	504,221
Debt securities classified as receivables	1,889,674	19,354	4,354	1,913,382
Finance lease receivables	102,268	1,227	—	103,495
Held-to-maturity investments	325,436	7,679	4,368	337,483
Other assets	60,942	2,049	246	63,237
Total financial assets	5,949,292	355,310	24,774	6,329,376
Financial liabilities:				
Amount due to Central Bank	245,000	—	—	245,000
Amount due to banks and other financial institutions	1,360,795	74,865	10,399	1,446,059
Placements from banks and other financial institutions	117,683	59,913	10,333	187,929
Financial liabilities at fair value through profit or loss	1,834	4,729	—	6,563
Derivative financial liabilities	5,938	23,224	352	29,514
Financial assets sold under repurchase agreements	210,219	18,743	832	229,794
Amount due to customers	2,853,772	183,614	49,507	3,086,893
Debt securities issued	638,985	16,759	7,214	662,958
Other liabilities	68,548	2,757	321	71,626
Total financial liabilities	5,502,774	384,604	78,958	5,966,336
Net position	446,518	(29,294)	(54,184)	363,040

The table below indicates the potential effect of an appreciation or depreciation of RMB spot and forward exchange rate against all other currencies by 5% on the foreign exchange gains or losses:

The Group

	30/06/2018	31/12/2017
	Foreign exchange increase/(decrease)	Foreign exchange increase/(decrease)
	RMB million (Unaudited)	RMB million
5% appreciation	(958)	(235)
5% depreciation	958	235

The above sensitivity analysis is measured on the basis that all assets and liabilities have a static currency risk structure. The relevant assumptions are:

(1) The exchange rate sensitivity represents the exchange gains or losses arisen from a 5% change of the closing exchange rates (middle price) of the different foreign currencies against RMB at the balance sheet date;

XI. FINANCIAL RISK MANAGEMENT - continued

4. Market risk - continued

4.2 Foreign currency risk - continued

The Group - continued

(2) The exchange rate changes of different foreign currencies against RMB move in the same direction simultaneously.

The aforesaid effect on foreign exchange gains or loss is based on the assumption that the Group's net positions of foreign exchange sensitivity and foreign exchange derivative instruments at the end of the reporting period remain unchanged. The Group mitigates its foreign currency risk through active management of its foreign currency exposures and appropriate use of derivative instruments, based on the management expectation of future foreign currency movements, and therefore the above sensitivity analysis may differ from the actual situation.

4.3 Other price risk

Other price risk mainly derives from equity investment, held-for-trading precious metals investment and other bonds and derivatives linked to commodity price.

The Group considers that the market risk of commodity price or stock price from portfolio is insignificant.

5. Liquidity risk

Liquidity risk refers to the risk of being unable to acquire sufficient funds in time or failing to acquire sufficient funds at a reasonable cost to meet repayment obligations for asset growth or other business. The Group's liquidity risk mainly derives from advanced or concentrated withdrawal, principal-guaranteed wealth management products redemption, deferred loan repayment and mismatches of assets and liabilities.

The assets and liabilities management committee of the Group monitors and manages the liquidity risk of the Group. The committee will determine the liquidity risk management strategy, the monitoring indicators and the alarming index, regularly analyse and discuss the liquidity risk assessment report submitted, and determine the liquidity risk management measures.

The financial planning department is responsible for: (1) drafting liquidity risk management policies and measures; (2) monitoring different types of liquidity ratios and exposure indicators. The planning and financial department monitors the liquidity risk ratios monthly by reviewing the assets' and liabilities' structure. If there are any ratios close to or over the alarming limits, the department has to investigate the reasons and make recommendations to adjust the assets' and liabilities' structure accordingly; (3) analysing the liquidity risk and reporting to the assets and liability management committee regularly; and (4) daily operation of liquidity management, establishment of a cash position forecast system at the Bank level in order to meet the cash payment needs and assure the liquidity for the business development requirements.

The Group regularly monitors the surplus reserve ratio, liquidity ratio, loan-to-deposit ratio and sets alarming and tolerance limits for each ratio. The Group also prepares general liquidity analysis report based on liquidity indicators recorded and net cash flow position of assets and liabilities, incorporating the consideration of macro economy and interbank liquidity status. The report is submitted to the assets and liabilities management committee for assessment. The assessment report will be submitted together with credit risk, liquidity risk and market risk to the risk management committee for the analysis of the Group's overall risk assessment to determine the management strategy accordingly.

XI. FINANCIAL RISK MANAGEMENT - continued

5. Liquidity risk - continued

5.1 Undiscounted contractual cash flows classified by the maturity date of contracts

The following tables are the structure analysis of non-derivative financial assets and financial liabilities by contractual maturities at the balance sheet date. The amounts disclosed in each term are the undiscounted contractual cash flows.

The Group

	30/06/2018 (Unaudited)							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Past due/ undated	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Non-derivative financial assets:								
Cash and balances with Central Bank	64,352	—	—	—	—	—	398,032	462,384
Amount due from banks and other financial institutions	63,906	9,945	8,837	38,766	—	—	16	121,470
Placements with banks and other financial institutions	—	30,103	1,756	23,069	511	—	60	55,499
Financial assets at fair value through profit or loss	226,543	10,871	7,004	45,224	72,608	20,806	995	384,051
Financial assets held under resale agreements	—	54,604	722	—	—	—	1,133	56,459
Loans and advances to customers	—	310,184	185,360	788,545	742,113	1,246,575	57,151	3,329,928
Available-for-sale financial assets	115,876	12,353	20,111	132,404	261,072	94,336	4,818	640,970
Debt securities classified as receivables	—	74,068	117,448	444,470	977,510	374,107	15,448	2,003,051
Financial lease receivables	—	3,142	7,147	28,043	80,857	13,681	3,435	136,305
Held-to-maturity investments	—	8,544	28,416	55,229	198,283	200,972	132	491,576
Other non-derivative financial assets	11,250	6,797	1,927	2,066	9,015	1,114	166	32,335
Total non-derivative financial assets:	481,927	520,611	378,728	1,557,816	2,341,969	1,951,591	481,386	7,714,028
Non-derivative financial liabilities:								
Amount due to Central Bank	—	10,313	31,859	215,429	—	—	—	257,601
Amount due to banks and other financial institutions	519,237	323,320	399,495	331,160	—	—	—	1,573,212
Placements from banks and other financial institutions	—	94,800	62,351	82,443	13,141	1,601	—	254,336
Financial liabilities at fair value through profit or loss	1,590	924	866	682	458	—	—	4,520
Financial assets sold under repurchase agreements	—	140,273	17,304	9,537	—	—	—	167,114
Amount due to customers	1,381,587	455,945	287,476	624,509	443,955	2	—	3,193,474
Debt securities issued	—	53,562	262,708	202,449	100,578	80,977	—	700,274
Other non-derivative financial liabilities	22,504	620	394	2,462	5,006	2,169	567	33,722
Total non-derivative financial liabilities	1,924,918	1,079,757	1,062,453	1,468,671	563,138	84,749	567	6,184,253
Net position	(1,442,991)	(559,146)	(683,725)	89,145	1,778,831	1,866,842	480,819	1,529,775

XI. FINANCIAL RISK MANAGEMENT - continued

5. Liquidity risk - continued

5.1 Undiscounted contractual cash flows classified by the maturity date of contracts - continued

The Group - continued

	31/12/2017							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Past due/ undated	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Non-derivative financial assets:								
Cash and balances with Central Bank	22,311	—	—	—	—	—	444,313	466,624
Amount due from banks and other financial institutions	53,703	17,504	907	6,708	—	—	16	78,838
Placements with banks and other financial institutions	—	18,207	6,202	7,113	—	—	60	31,582
Financial assets at fair value through profit or loss	216,630	13,293	16,055	38,291	80,958	25,664	986	391,877
Financial assets held under resale agreements	—	88,494	315	3,430	—	—	1,133	93,372
Loans and advances to customers	—	246,365	168,339	789,211	668,488	1,088,414	38,930	2,999,747
Available-for-sale financial assets	82,210	14,135	19,701	134,007	240,051	76,121	4,689	570,914
Debt securities classified as receivables	—	59,411	141,161	540,040	1,040,426	434,119	13,891	2,229,048
Financial lease receivables	—	2,290	6,409	26,036	71,470	10,419	3,446	120,070
Held-to-maturity investments	—	243	12,477	37,529	199,430	178,594	131	428,404
Other non-derivative financial assets	8,654	2,430	1,890	2,406	15,015	2,112	324	32,831
Total non-derivative financial assets:	383,508	462,372	373,456	1,584,771	2,315,838	1,815,443	507,919	7,443,307
Non-derivative financial liabilities:								
Amount due to Central Bank	—	5,154	31,476	216,322	—	—	—	252,952
Amount due to banks and other financial institutions	464,357	431,095	253,602	314,982	—	—	—	1,464,036
Placements from banks and other financial institutions	—	139,203	32,445	16,992	—	—	—	188,640
Financial liabilities at fair value through profit or loss	756	1,673	2,066	2,082	81	—	—	6,658
Financial assets sold under repurchase agreements	—	208,957	12,841	9,026	—	—	—	230,824
Amount due to customers	1,436,517	453,409	295,874	576,424	406,982	7	—	3,169,213
Debt securities issued	—	112,841	186,118	224,346	101,603	84,060	—	708,968
Other non-derivative financial liabilities	19,981	563	749	2,379	4,332	1,890	439	30,333
Total non-derivative financial liabilities	1,921,611	1,352,895	815,171	1,362,553	512,998	85,957	439	6,051,624
Net position	(1,538,103)	(890,523)	(441,715)	222,218	1,802,840	1,729,486	507,480	1,391,683

Assets available to meet all of the liabilities and outstanding loan commitments include cash and balances with Central Bank, due from banks and other financial institutions, placements with banks and other financial institutions and financial assets at fair value through profit or loss, etc.. In the normal course of business, the majority of customer deposits repayable on demand are expected to be revolved. In addition, the Group is able to sell the available-for-sale financial assets to repay the matured liabilities if necessary.

XI. FINANCIAL RISK MANAGEMENT - continued

5. Liquidity risk - continued

5.2 Liquidity risk analysis of derivative instruments

(i) Derivatives settled on a net basis

Derivatives that were settled on a net basis by the Group include: interest rate derivatives, exchange rate derivatives and credit derivatives, etc. The tables below set forth the Group's net derivative financial instruments positions by remaining contractual maturities at the balance sheet date. The amounts disclosed in the tables are the undiscounted contractual cash flows:

The Group

	30/06/2018 (Unaudited)					
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Interest rate derivatives	35	95	397	767	79	1,373
Exchange rate derivatives	2,234	246	1,575	16	—	4,071
Other derivatives	222	22	(193)	194	—	245
Total	2,491	363	1,779	977	79	5,689

	31/12/2017					
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Interest rate derivatives	23	30	209	591	3	856
Exchange rate derivatives	(661)	(1,217)	(1,744)	16	—	(3,606)
Other derivatives	—	223	17	31	(2)	269
Total	(638)	(964)	(1,518)	638	1	(2,481)

(ii) Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis refer to exchange rate derivatives and precious metals derivatives. The tables below set forth the Group's positions by remaining contractual maturities at the balance sheet date. The amounts disclosed in the tables are the undiscounted contractual cash flows:

The Group

	30/06/2018 (Unaudited)					
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Exchange rate derivatives						
- Cash inflow	401,986	283,878	338,796	35,382	—	1,060,042
- Cash outflow	(402,688)	(282,597)	(339,173)	(36,031)	—	(1,060,489)
Precious metal derivatives						
- Cash inflow	8,644	3,978	12,615	557	—	25,794
- Cash outflow	(4,841)	(118)	(370)	—	—	(5,329)
Total	3,101	5,141	11,868	(92)	—	20,018

	31/12/2017					
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Exchange rate derivatives						
- Cash inflow	327,630	226,750	378,064	19,935	—	952,379
- Cash outflow	(327,003)	(225,744)	(377,231)	(20,122)	—	(950,100)
Other derivatives						
- Cash inflow	3,659	18,053	26,794	726	—	49,232
- Cash outflow	(2,995)	(14,428)	(6,204)	—	—	(23,627)
Total	1,291	4,631	21,423	539	—	27,884

XI. FINANCIAL RISK MANAGEMENT - continued

5. Liquidity risk - continued

5.3 Off-balance sheet items

The Group's off-balance sheet items mainly include credit card commitments, letter of credit, letter of guarantee and bank acceptances. The tables below set forth the liquidity of the off-balance sheet items:

The Group

	30/06/2018 (Unaudited)				31/12/2017			
	Less than 1 year	1-5 years	Over 5 years	Total	Less than 1 year	1-5 years	Over 5 years	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Credit card commitments	245,466	—	—	245,466	208,127	—	—	208,127
Letter of credit	99,774	337	—	100,111	85,048	96	—	85,144
Letter of guarantee	51,344	43,820	30,018	125,182	42,822	44,408	33,029	120,259
Bank acceptances	395,533	161	—	395,694	384,247	—	—	384,247
Irrevocable loan commitments	1,259	6,471	35,721	43,451	2,193	3,941	35,366	41,500
Total	793,376	50,789	65,739	909,904	722,437	48,445	68,395	839,277

6. Capital Management

During the reporting period, the Group had conscientiously implemented the capital management policy according to the regulations of China Banking Regulatory Commission *Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)*. From the perspective of business strategy, risk conditions and regulatory requirements, the Group will achieve healthy, sustainable and rapid development in order to ensure capital adequacy ratio and the overall strategic development match with risk preference and risk management capabilities. The Group had also developed the 2018-2020 medium-term capital planning of Industrial Bank Co., Ltd to have a reasonable planning of the target capital ratio and external capital supplement for the future three years.

In the first half year of 2018, the Group implemented capital intensive operation and management to continuously improve and optimize risk-weighted asset amount allocation and governing system: oriented by risk-weighted asset yields, the Group makes overall arrangements in operation institutions, risk-weighted assets scale of business lines to reasonably adjust industry structure and promote capital allocation.

According to related guidelines of CBRC, "*Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)*" and other regulations, the Group monitors its capital adequacy and capital application in real time. As at 30 June 2018, the Group's net core tier one capital, net tier one capital and net capital are RMB 411,279 million, RMB 437,227 million and RMB 545,547 million, respectively.

7. Fair value of financial instruments

7.1 Method of fair value recognition

Part of the financial assets and financial liabilities of the Group is measured at fair value. Fair value are measured through appropriate method and parameters, and regularly reviewed by the Board of Directors to keep its applicability.

When recognizing the fair value of the financial instrument, to those financial instruments which can obtain unadjusted price of same assets and liabilities in the active market, the Group regards the unadjusted price in the active market as the best evidence of fair value. And then the Group recognizes the fair value and classifies it to level 1.

If the parameters of the estimation are observable and acquirable in the active market, such financial instruments (including equity instrument and derivative financial instrument) should be classified to level 2. The Group uses internal or external professionals to estimate the value with techniques aimed at the model and Black-Scholes non-derivative financial instrument and part of the derivative financial instrument (including interest swaps, forward foreign exchange etc.) which cannot obtain prices in the active market. The main parameters used in the discounted cash flow model include the recent trading price, the relevant

XI. FINANCIAL RISK MANAGEMENT - continued

7. Fair value of financial instruments - continued

7.1 Method of fair value recognition - continued

yield curve, exchange rates, prepayment rates and counterparty credit spreads, the main parameters of Black-Scholes option pricing model used include relevant yield curve, exchange rates, fluctuation ratio and counterparty credit spreads, etc.

To loans and advances, part of debt securities classified as receivables and available-for-sale financial assets, their fair value is based on cash flow discount model, and confirmed by unobservable discount rate which reflect credit risk. Such financial instruments are classified to level 3.

To unlisted equity (private equity) owned by the Group, the measure of fair value may adopt the unobservable input parameters which has significant influence over the estimation. Therefore, such financial instruments are classified to level 3. The management estimates the financial instruments fair value of level 3 by a series of method, including unobservable parameters such as discount rate which lacks market liquidity. If one or more unobservable parameters change based on reasonably possible alternative hypothesis, the fair value of such financial instruments will changed accordingly. The Group has established related internal control process in order to supervise the exposure of the financial instrument.

7.2 Financial assets and financial liabilities at fair value on recurring basis

For financial assets and financial liabilities at fair value on recurring basis, three levels of fair value measurement are analysed as follows:

The Group

	30/06/2018 (Unaudited)				31/12/2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Financial assets:								
Financial assets at fair value through profit or loss	157,094	192,649	5,257	355,000	216,627	141,880	3,565	362,072
Derivative financial assets	—	38,963	—	38,963	—	28,396	—	28,396
Available-for-sale financial assets	39,067	472,354	43,670	555,091	82,287	398,742	21,352	502,381
Total	196,161	703,966	48,927	949,054	298,914	569,018	24,917	892,849
Financial liabilities:								
Financial liabilities at fair value through profit or loss	1,590	2,864	—	4,454	756	5,807	—	6,563
Derivative financial liabilities	—	33,787	—	33,787	—	29,514	—	29,514
Total	1,590	36,651	—	38,241	756	35,321	—	36,077

There are no transfers from Level 1 and Level 2 to Level 3, and no transfers between Level 1 and Level 2 for the fair value measurements of the Group’s financial instruments in the first half year of 2018 and in 2017.

XI. FINANCIAL RISK MANAGEMENT - continued

7. Fair value of financial instruments - continued

7.2 Financial assets and financial liabilities at fair value on recurring basis - continued

Information of Level 2:

The Group

Items	Fair value on 30/06/2018	Fair value on 31/12/2017	Tech	Input
	RMB million (Unaudited)	RMB million		
Financial assets:				
Debt instrument investment	513,854	537,026	Discounted cash flow method	Yield rate of bonds
Equity instrument investment	151,149	3,596	Marketing method	Recent transaction price
Derivative financial instrument	38,963	28,396	Discounted cash flow method, Option pricing model	Credit risk of counter-party discount rate, fluctuation ratio
Total	703,966	569,018		
Financial liabilities:				
Debt instrument investment	2,864	5,807	Discounted cash flow method	Yield rate of bonds
Derivative financial instrument	33,787	29,514	Discounted cash flow method, Option pricing model	Credit risk of counter-party discount rate, fluctuation ratio
Total	36,651	35,321		

Information of Level 3:

The Group

Items	Fair value on 30/06/2018	Fair value on 31/12/2017	Tech
	RMB million (Unaudited)	RMB million	
Debt instrument investment	46,394	20,917	Discounted cash flow method
Equity instrument investment	2,533	4,000	By reference to market quotations and discounted subject to the lack of market liquidity
Total	48,927	24,917	

These debt instrument investments are valued by discounted cash flow model, in which the main significant unobservable input is the discount rate. On 30 June 2018, the weighted average is 4.97%, which is inversely proportional to the fair value.

As for these equity instrument investments are determined by reference to the market quotation and adjusted subject to the lack of market liquidity. The main significant unobservable inputs is the liquidity discount. As at 30 June 2018, the liquidity discount is 12.11%, and the significant unobservable inputs are inversely proportional to the fair value.

XI. FINANCIAL RISK MANAGEMENT - continued

7. Fair value of financial instruments - continued

7.2 Financial assets and financial liabilities at fair value on recurring basis - continued

Adjustment of financial assets and financial liabilities in level 3 at fair value:

The Group

	Financial assets at fair value through profit or loss		Available-for-sale financial assets	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
	RMB million (Unaudited)	RMB million	RMB million (Unaudited)	RMB million
Opening balances	3,565	599	21,352	157,458
Total profit or loss				
-Recognized in other comprehensive income	—	—	(1,467)	
Bought/(sale)	1,692	2,966	49,568	(36,802)
Settle	—	—	(25,783)	(99,304)
Closing balances	5,257	3,565	43,670	21,352
Unimplemented profit or loss	—	—	—	—

7.3 Financial assets and financial liabilities measured not at fair value

The table below shows the carrying value of financial assets and financial liabilities measured not at fair value and the corresponding fair value on the balance sheet date. Financial assets and financial liabilities whose book value approximates fair value, such as deposits with Central Bank, amount due from banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements, amount due to Central Bank, placements from banks and other financial institutions, financial assets sold under repurchase agreements, are not included in the table below.

The Group

	30/06/2018		31/12/2017	
	Book value	Fair value	Book value	Fair value
	RMB million (Unaudited)	RMB million (Unaudited)	RMB million	RMB million
Financial assets:				
Loans and advances to customers	2,585,301	2,585,564	2,348,831	2,349,228
Held-to-maturity investments	359,625	359,242	337,483	335,885
Debt securities classified as receivables	1,712,975	1,692,575	1,913,382	1,899,068
Total	4,657,901	4,637,381	4,599,696	4,584,181
Financial liabilities:				
Amount due to customers	3,103,429	3,120,577	3,086,893	3,099,828
Debt securities issued	658,251	654,508	662,958	655,928
Total	3,761,680	3,775,085	3,749,851	3,755,756

XI. FINANCIAL RISK MANAGEMENT - continued

7. Fair value of financial instruments - continued

7.3 Financial assets and financial liabilities measured not at fair value - continued

Level of financial assets and financial liabilities measured not at fair value on balance sheet date:

The Group

	30/06/2018 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	RMB million	RMB million	RMB million	RMB million
Financial assets:				
Loans and advances to customers	—	—	2,585,564	2,585,564
Held-to-maturity investments	—	359,242	—	359,242
Debt securities classified as receivables	—	411,245	1,281,330	1,692,575
Total	—	770,487	3,866,894	4,637,381
Financial liabilities:				
Amount due to customers	—	3,120,577	—	3,120,577
Debt securities issued	—	654,508	—	654,508
Total	—	3,775,085	—	3,775,085

	31/12/2017			
	Level 1	Level 2	Level 3	Total
	RMB million	RMB million	RMB million	RMB million
Financial assets:				
Loans and advances to customers	—	—	2,349,228	2,349,228
Held-to-maturity investments	—	335,885	—	335,885
Debt securities classified as receivables	—	468,806	1,430,262	1,899,068
Total	—	804,691	3,779,490	4,584,181
Financial liabilities:				
Amount due to customers	—	3,099,828	—	3,099,828
Debt securities issued	—	655,928	—	655,928
Total	—	3,755,756	—	3,755,756

Quantitative information of level 2, 3 at fair value:

The Group

Items	Fair value on 30/06/2018	Fair value on 31/12/2017	Tech	Input
	RMB million (Unaudited)	RMB million		
Loans and advances to customers	2,585,564	2,349,228	Discounted cash flow method	Default rate, loss given default, discount rate
Held-to-maturity investments	359,242	335,885	Discounted cash flow method	Yield rate of bonds Evaluation results from www.chinabond.com.cn
Debt securities classified as receivables	1,692,575	1,899,068	Discounted cash flow method	Default rate, loss given default, discount rate
Amount due to customers	3,120,577	3,099,828	Discounted cash flow method	Market deposit interest rate
Debt securities issued	654,508	655,928	Discounted cash flow method	Yield rate of bonds
Total	8,412,466	8,339,937		

All of the above-mentioned assumptions and methods provide a consistent basis for the calculation of the fair values of the Group's assets and liabilities. However, other institutions may use different assumptions and methods. Therefore, the fair values disclosed by different financial institutions may not be entirely comparable.

XII. COMPARATIVE FIGURES

Certain comparative figures have been re-presented by the Group to meet the presentation of the interim financial reporting.

XIII. Non-adjusting events after the balance sheet date

On 10 July 2018, Bank of Jiujiang officially listed in Hong Kong Stock Exchange. The shareholding ratio of the Bank was diluted to 12.23% then.

The Bank received the Approval of Opening of Industrial Bank Co., Ltd. Lhasa Branch (Zang Yin Jian Fu[2018]No. 34) issued by China Banking Regulatory Commission Tibet Supervision Bureau for granting commencement of its business of Lhasa Branch.

XIV. INTERIM FINANCIAL STATEMENTS APPROVED

The interim financial statements were approved by the Board of Directors of the Bank on 28 August 2018.

*** END OF FINANCIAL STATEMENTS***

1. Breakdown of non-recurring profit or loss

The following table is in accordance with the requirement of *Information Disclosure and Presentation Rules for Companies Making Public Offering of Securities No. 1—Non-recurring Profit or Loss (2008)* (ZJHGG [2008] No.43) issued by China Securities Regulatory Commission.

The Group

	Six months ended 30 June	
	2018	2017
	RMB million (Unaudited)	RMB million (Unaudited)
Gains and losses on the disposal of non-current assets	8	29
Government grants recognised in profit or loss	259	226
Recovery of assets written-off in previous years	2,393	922
Net non-operating income and expense in addition to the above	27	83
Subtotal	2,687	1,260
Impact on income tax expenses	(691)	(320)
Total	1,996	940
Total non-recurring profit or loss attributable to shareholders of the Bank	1,992	935
Total non-recurring profit or loss attributable to minority interests	4	5
Net profit attributable to shareholders of the Bank, after deduction of non-recurring profit or loss	30,183	29,184

Non-recurring profit or loss refers to the profit or loss not related to normal business or the profit or loss which is related to normal business but affects the user of financial statements to make correct judgement for the company's financial position and financial performance because of its distinctiveness and non-recurring. Considering the nature of its normal business, Industrial Bank Co., Ltd. (hereinafter referred to as "the Bank") does not include "investment income from financial assets designated as at fair value through profit or loss, financial liabilities designated as at fair value through profit or loss and available-for-sale financial assets" in non-recurring profit or loss.

2. Return on net assets and earnings per share ("EPS")

The related data is calculated in accordance with the provisions in the Rule *No.9 for the Preparation of Information Disclosure of Companies with Public Offering – the Calculation and Disclosure of ROE and EPS (revised in 2010)*. In the related period, basic EPS is calculated by dividing net profit by weighted average ordinary shares issued.

The Group

For the six months ended 30 June 2018 (Unaudited)

	Weighted average ROE (%)	EPS/Basic EPS (RMB Yuan per share)
	(%)	
Net profit attributable to shareholders of the Bank	7.95	1.55
Net profit attributable to shareholders of the Bank, after deduction of non-recurring profit or loss	7.46	1.45

For the six months ended 30 June 2017 (Unaudited)

	Weighted average ROE (%)	EPS/Basic EPS (RMB Yuan per share)
	(%)	
Net profit attributable to shareholders of the Bank	8.61	1.51
Net profit attributable to shareholders of the Bank, after deduction of non-recurring profit or loss	8.34	1.47

2. Return on net assets and earnings per share ("EPS") - continued

Amount of RMB 26 billion preferred shares of the Bank approved in November 2014 were successfully issued in June 2015. When calculating the earnings per share, the current net profit attributed to ordinary shareholders did not include preferred share dividends distributed. In addition, there was no influence on basic and diluted earnings per share in the first half year of 2018 and 2017.

AUDITORS' REPORT

De Shi Bao (Shen) Zi (18) No. P03234

TO THE SHAREHOLDERS OF INDUSTRIAL BANK CO., LTD.

I. Opinion

We have audited the financial statements of Industrial Bank Co., Ltd. (the "Bank"), which comprise the consolidated and bank's balance sheets as at 31 December 2017, and the consolidated and bank's income statements, the consolidated and bank's cash flow statements, the consolidated and bank's statement of changes in equity for the year then ended, and notes to the financial statements.

In our opinion, the financial statements of the Bank present fairly, in all material respects, the Bank's financial position as at 31 December 2017, and the results of its operations and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

II. Basis for the Opinion

We conducted our audit in accordance with China Standard on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the China Code of Ethics for Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the following matters as the key audit matters that need to be communicated in our report:

1. Provision for impairment of loans and advances to customers and investments classified as receivables

Description of the matter:

At 31 December 2017, as stated in Note VIII, 8 to the financial statements, the loans and advances to customers comprise of loans and advances to enterprises and individuals, totalling RMB 2,430,695 million, with an impairment provision of RMB 81,864 million; as stated in Note VIII, 11, the investments classified as receivables totals RMB 1,930,348 million, with an impairment provision of RMB 16,966 million.

The major accounting policies and significant accounting estimates and judgements used to determine the provision for impairment of loans and advances to customers and investments classified as receivables are set out in Note IV, 8 and Note V, 1 to the financial statements.

The determination of the recoverability of loans and advances to customers and investments classified as receivables requires significant judgements on the factors which mainly include the financial position of the borrower and guarantor, risks associated with collaterals and specific transaction.

In view of the significance of the total amount of loans and advances to customers and investments classified as receivables to the financial statements and the fact that the provision for impairment of loans and advances to customers and investments classified as receivables involves significant management judgement, we identified the provision for impairment of loans and advances to customers and investments classified as receivables as a key audit matter.

Audit response:

Our procedures on provision for impairment of loans and advances to customers and investments classified as receivables include:

(1) We understood and tested the design and operating effectiveness of the internal controls related to the impairment provision. These controls include both manual and automatic controls to identify the

III. Key Audit Matters - continued

1. Provision for impairment of loans and advances to customers and investments classified as receivables - continued

Audit response: - continued

impairment of loans and advances to customers and investments classified as receivables in a timely manner, as well as the controls over impairment calculation model, including the data input and calculation of impairment provision.

(2) For loans and advances to customers and investments classified as receivables, we selected samples to perform credit review so as to assess whether an impairment has incurred and whether the Bank has identified such impairment in a proper and timely manner.

(3) For loans and advances to customers and investments classified as receivables that are assessed individually, we tested the management's forecast on future cash flows of the borrower, including the estimated recoverable amount from collaterals, and re-calculated the amount of impairment provision and compared it with the impairment provision assessed by the management, so as to assess whether a material misstatement exists.

(4) For loans and advances to customers and investments classified as receivables that are assessed collectively, we referred to industrial experience and market practices, and reviewed the applicability of the impairment model adopted by the management, and sampled and examined the historical data and the accuracy of the results of calculation.

2. Consolidation of structured entities

Description of the matter:

As stated in Note VIII, 50 to the financial statements, the structured entities include the financial products, fund, asset-backed securities, trust investment programs and assets management programs etc. that are issued, managed and/or invested by the Bank.

The management determines whether the Group is required to include the structured entities in the scope of the consolidated financial statements by assessing the Group's power to direct the decisions on structured entities, and the Group's exposure to variable returns in the structured entities as well as its ability to use its power to affect such variable returns. The Group determines whether it is acting as a principal or agent and whether the structured entities should be consolidated on the basis of the factors including scope of decision of the manager of the structured entities, the power of other parties, the rewards from rendering management service and the risk exposures of variable returns etc.

The major accounting policies and significant accounting estimates and judgements used to determine the whether to include the structured entities in the scope of consolidated financial statements or not are set out in Note IV, 5 and Note V, 7 to the financial statements.

In view of that the determination on whether the structured entities need to be included in the scope of the consolidated financial statements involves significant management judgement and has significant influence on the consolidated financial statements, we have identified the consolidation of structured entities as a key audit matter.

Audit response:

Our procedures on consolidation of structured entities include:

(1) We understood and assessed the internal controls related to the Bank's determination of the scope of consolidation of structured entities.

(2) We obtained the list of structured entities, and sampling checked related contracts, and assessed whether the Bank has control over the structured entities by performing the following audit procedures:

a. Analysed the contract terms and business structure, so as to understand the purpose of establishing the structured entities and the Bank's extent of involvement in the structured entities, and assessed the management judgement on whether the Bank has power over the structured entities;

b. Examined the terms in the structured entities' contracts that involve variable returns, including rate of management fee, expected rate of return etc., and checked them with relevant information used in

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III. Key Audit Matters - continued

2. Consolidation of structured entities - continued

Audit response: - continued

management assessment; re-calculated the magnitude and variability of the Bank's variable returns in the structured entities based on the contract terms on variable returns.

c. Analysed the Bank's scope of decision, level of remuneration obtained for rendering management service to the structured entities, risk of variable returns for holding other interests in the structured entities and other parties' substantive rights, assessed whether the Bank is acting as a principal or agent in exercising the decision-making right, and compared the results of assessment with the results of management's assessment.

3. Derecognition of financial assets

Description of the matter:

As stated in Note XII,3.1 and Note XII,3.2 to the financial statements, the Bank had various types of financial assets transfer transactions, including asset securitization and transfer of non-performing loan.

The management analyse the contractual rights and obligations agreed in the financial assets transfer transactions so as to assess whether the financial assets transfer transactions meet the criteria of transfer of financial assets in relevant accounting standards, and assess whether the Bank has transferred substantially all the risks and rewards of the ownership of the financial assets, determine whether the criteria of derecognition of financial assets are satisfied; under the circumstance that the Bank neither transferred nor retained substantially all the risks and rewards of the ownership, analyse whether the Bank has lost the control over the financial assets, so as to determine whether the criteria of derecognition are satisfied.

The major accounting policies and significant accounting estimates and judgements used to determine the derecognition of financial assets are set out in Note IV, 8 and Note V, 8 to the financial statements.

In view of the management's significant judgement on whether the transferred financial assets can be derecognized, and the significant amount of related financial assets, we have identified the derecognition of financial assets as a key audit matter.

Audit response:

Our procedures on derecognition of financial assets include:

1. We understood and tested the design and operating effectiveness of management's internal controls over transfer of financial assets, including the design of transaction structure and review and approval of the terms of contract, approval of the model, key parameters and assumptions adopted to test the transfer of risks and rewards of the ownership, as well as the review and approval of the result of assessment of accounting treatment.
2. We obtained the list of transferred assets from the management, sampling checked the specific terms of financial assets transfer agreement and other related legal documents, so as to assess whether the Bank has transferred the right to receive the contractual cash flow of financial assets to another party, or whether the arrangement that the Bank receives the contractual cash flow and makes payment to another party satisfies the requirements of "pass-through test".
3. Based on the industrial experience and practice, we performed sampling check and assessed the key assumptions and parameters used by the management in the risks and rewards transfer model, including future cash flow forecast and discount rate under multiple economic scenarios. Meanwhile, we tested the accuracy of the data calculation of the model.
4. For financial assets that have been transferred and the Bank neither transferred nor retained substantially all the risks and rewards of the ownership, we sampling analysed the contractual terms, so as to assess whether the Bank has retained control over the transferred financial assets, and determine whether it has continuing involvement in the transferred financial assets.

IV. Other information

The Bank's management is responsible for other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditors' report thereon.

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

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

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

V. Responsibilities of the Management and Those Charged With Governance for the Financial Statements

The Bank's management is responsible for the preparation and fair presentation of the financial statements in accordance with Accounting Standards for Business Enterprises, and designing, implementing and maintaining internal control that is necessary to enable the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

VI. Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with China Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

(1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

(3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

(4) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to express

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VI. Auditor's Responsibilities for the Audit of the Financial Statements - continued

modified opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

(5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

(6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Deloitte Touche Tohmatsu CPA LLP
Shanghai, China

Chinese Certified Public Accountant
(Engagement Partner)

Chinese Certified Public Accountant

24 April 2018

The auditors' report and the accompanying financial statements are English translations of the Chinese auditors' report and statutory financial statements prepared under accounting principles and practices generally accepted in the People's Republic of China. These financial statements are not intended to present the financial position and results of operations in accordance with accounting principles and practices generally accepted in other countries and jurisdictions. In case the English version does not conform to the Chinese version, the Chinese version prevails.

THE CONSOLIDATED AND BANK'S BALANCE SHEETS
AT 31 DECEMBER 2017 UNIT: RMB IN MILLION

	Note VIII	The Group 31/12/2017	The Group 31/12/2016	The Bank 31/12/2017	The Bank 31/12/2016
Assets					
Cash and balances with Central Bank	1	466,403	457,654	466,392	457,626
Deposits with banks and other financial institutions	2	77,559	56,206	67,478	43,273
Precious metals		30,053	17,431	30,053	17,431
Placements with banks and other financial institutions	3	31,178	16,851	36,412	22,109
Financial assets at fair value through profit or loss	4	362,072	354,595	337,965	357,893
Derivative financial assets	5	28,396	16,137	28,396	16,137
Financial assets purchased under resale agreements	6	93,119	27,937	89,464	25,330
Interest receivable	7	30,406	23,899	29,258	23,152
Loans and advances to customers	8	2,348,831	2,007,366	2,341,397	2,002,037
Available-for-sale financial assets	9	504,221	584,850	516,016	590,277
Held-to-maturity investments	10	337,483	249,828	337,483	249,828
Investments classified as receivables	11	1,913,382	2,102,801	1,899,969	2,095,593
Finance lease receivables	12	103,495	89,839	—	—
Long-term equity investments	13	3,008	2,418	16,964	14,106
Fixed assets	14	14,874	15,581	10,607	10,673
Construction in progress	15	7,124	6,390	7,122	6,388
Intangible assets		551	556	514	526
Goodwill	16	532	532	—	—
Deferred tax assets	17	27,297	23,456	26,233	22,576
Other assets	18	36,858	31,568	12,844	10,472
Total assets		6,416,842	6,085,895	6,254,567	5,965,427

(Continued)

THE CONSOLIDATED AND BANK'S BALANCE SHEETS - continued
AT 31 DECEMBER 2017 UNIT: RMB IN MILLION

		The Group		The Bank	
	Note VIII	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Liabilities					
Borrowing from Central Bank		245,000	198,000	245,000	198,000
Deposits from banks and other financial institutions	20	1,446,059	1,721,008	1,449,053	1,728,699
Placements from banks and other financial institutions	21	187,929	130,004	85,149	42,597
Financial liabilities at fair value through profit or loss	22	6,563	494	5,725	459
Derivative financial liabilities	5	29,514	16,479	29,514	16,479
Financial assets sold under repurchase agreements	23	229,794	167,477	223,885	165,691
Due to customers	24	3,086,893	2,694,751	3,087,919	2,694,843
Employee benefits payable	25	14,037	13,916	12,684	12,732
Tax payable	26	8,128	11,488	7,427	10,809
Interest payable	27	41,293	35,900	39,945	35,295
Debt securities issued	28	662,958	713,966	648,032	708,224
Other liabilities	29	35,922	28,002	16,735	11,732
Total liabilities		5,994,090	5,731,485	5,851,068	5,625,560
Equity					
Share capital	30	20,774	19,052	20,774	19,052
Other equity instruments	31	25,905	25,905	25,905	25,905
Including: preference shares		25,905	25,905	25,905	25,905
Capital reserve	32	75,011	50,861	75,260	51,081
Other comprehensive income	47	(1,067)	1,085	(1,017)	1,105
Surplus reserve	33	10,684	9,824	10,684	9,824
General and regulatory reserve	34	70,611	69,878	67,888	67,744
Retained earnings	35	214,977	173,524	204,005	165,156
Equity attributable to equity holders of the Bank		416,895	350,129	403,499	339,867
Non-controlling interests in equity		5,857	4,281	—	—
Total equity		422,752	354,410	403,499	339,867
Total liabilities and equity		6,416,842	6,085,895	6,254,567	5,965,427

The accompanying notes form part of the financial statements.

The financial statements on pages 3 to 154 were signed by the following:

Gao Jian Ping	Tao Yi Ping	Li Jian
Chairman of the Board Legal Representative	President Financial Director	Person in Charge of the Accounting Body

THE CONSOLIDATED AND BANK'S INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 UNIT: RMB IN MILLION

		The Group		The Bank	
	Note VIII	2017	2016	2017	2016
1. Operating income		139,975	157,087	131,577	149,822
Net interest income	36	88,451	112,319	84,134	107,671
Interest income	36	252,644	236,279	243,275	228,382
Interest expense	36	(164,193)	(123,960)	(159,141)	(120,711)
Net fee and commission income	37	38,739	36,552	34,790	32,539
Fee and commission income	37	42,027	38,682	37,980	34,775
Fee and commission expense	37	(3,288)	(2,130)	(3,190)	(2,236)
Investment income	38	4,514	11,836	5,273	12,619
Including: income from investments in an associate		292	246	272	238
Losses from changes in fair values	39	(622)	(3,756)	(70)	(3,301)
Foreign exchange gains (losses)		7,386	(105)	7,068	79
Income from disposal of assets		69	27	28	26
Other income		257	—	43	—
Other operating income		1,181	214	311	189
2. Operating expenses		(75,162)	(93,678)	(71,630)	(90,597)
Business taxes and surcharges	40	(975)	(5,667)	(886)	(5,400)
General and administrative expenses	41	(38,130)	(36,401)	(35,733)	(34,353)
Impairment losses on assets	42	(35,507)	(51,276)	(34,767)	(50,510)
Other operating expenses		(550)	(334)	(244)	(334)
3. Operating profit		64,813	63,409	59,947	59,225
Add: Non-operating income	43	373	631	285	377
Less: Non-operating expenses	44	(433)	(115)	(431)	(110)
4. Total profit		64,753	63,925	59,801	59,492
Less: Income tax expenses	45	(7,018)	(9,598)	(5,794)	(8,518)
5. Net profit		57,735	54,327	54,007	50,974
(I) Categorized by the nature of continuing operation:					
1. Net profit from continuing operations		57,735	54,327	54,007	50,974
2. Net profit from discontinued operations		—	—	—	
(II) Categorized by ownership:					
1. Net profit attributable to equity holders of the Bank		57,200	53,850	54,007	50,974
2. Non-controlling interests		535	477	—	—
6. Earnings per share:					
Basic earnings per share (RMB Yuan)	46	2.74	2.77	—	—
Diluted earnings per share (RMB Yuan)	46	2.74	2.77	—	—
7. Other comprehensive income	47	(2,167)	(4,628)	(2,122)	(4,518)
Other comprehensive income attributable to:					
Equity holders of the Bank		(2,152)	(4,600)	(2,122)	(4,518)
(1) Items that may be reclassified subsequently to profit or loss:					
Fair value (losses) gains on available-for-sale financial assets		(3,004)	(4,627)	(2,974)	(4,545)
(2) Items that will not be reclassified subsequently to profit or loss:					
Actuarial (losses) profits on defined benefit plans		852	27	852	27
Other comprehensive income attributable to non-controlling interests		(15)	(28)	—	—
8. Total comprehensive income		55,568	49,699	51,885	46,456
Total comprehensive income attributable to:					
Equity holders of the Bank		55,048	49,250	51,885	46,456
Non-controlling interests		520	449	—	—

The accompanying notes form part of the financial statements.

The financial statements on pages 3 to 154 were signed by the following:

Gao Jian Ping	Tao Yi Ping	Li Jian
Chairman of the Board Legal Representative	President Financial Director	Person in Charge of the Accounting Body

THE CONSOLIDATED AND BANK'S CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 UNIT: RMB IN MILLION

	Note VIII	The Group 2017	The Group 2016	The Bank 2017	The Bank 2016
Cash flows from operating activities:					
Net increase in due to customers and deposits from banks and other financial institutions		117,193	166,123	113,430	171,028
Net increase in borrowing from banks and other financial institutions and financial assets sold under repurchase agreements		120,242	145,793	100,746	140,004
Net decrease in placements with banks and other financial institutions and financial assets purchased under resale agreements		8,314	138,496	9,053	137,554
Net increase in borrowing from Central Bank		47,000	130,300	47,000	130,300
Cash receipts from interest, fee and commission		164,915	152,359	153,873	143,557
Other cash receipts relating to operating activities		34,149	26,041	11,103	3,747
Sub-total of cash inflows from operating activities		491,813	759,112	435,205	726,190
Net increase in loans and advances to customers		370,643	328,950	370,109	325,975
Net increase in finance leases		16,602	15,693	—	—
Net increase in balances with Central Bank and deposits with banks and other financial institutions		60,437	24,907	63,740	18,465
Cash payments to interest, fee and commission		132,525	121,075	128,300	117,906
Cash payments to and on behalf of employees		23,666	19,930	21,943	18,886
Cash payments of various types of taxes		22,266	27,429	19,912	25,612
Other cash payments relating to operating activities		28,316	18,111	3,162	8,457
Sub-total of cash outflows from operating activities		654,455	556,095	607,166	515,301
Net cash flow from operating activities	48	(162,642)	203,017	(171,961)	210,889
Cash flows from investing activities					
Cash receipts from disposal/redemption of investments		6,063,282	4,141,695	5,908,643	3,957,618
Cash receipts from returns on investment income		123,980	115,688	121,951	116,168
Cash receipts from disposals of fixed assets, intangible assets and other long-term assets		5,280	283	586	283
Other cash receipts relating to investing activities		6,566	459	6,566	458
Sub-total of cash inflows from investing activities		6,199,108	4,258,125	6,037,746	4,074,527

(Continued)

THE CONSOLIDATED AND BANK'S CASH FLOW STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2017 UNIT: RMB IN MILLION

	Note VIII	The Group 2017	The Group 2016	The Bank 2017	The Bank 2016
Cash payments for investments		5,923,105	4,617,498	5,767,370	4,409,078
Cash payments for purchasing fixed assets, intangible assets and other long-term assets		6,400	6,758	3,156	2,184
Other cash payments relating to investing activities		1,342	—	1,302	—
Sub-total of cash outflows from investing activities		5,930,847	4,624,256	5,771,828	4,411,262
Net cash flow from investing activities		268,261	(366,131)	265,918	(336,735)
Cash flows from financing activities:					
Proceeds from capital contributions		27,118	103	26,000	—
Including: proceeds from capital contributions from non-controlling shareholders of subsidiary		1,118	103	—	—
Proceeds from issuance of bonds		1,459,687	1,049,126	1,447,826	1,047,211
Other proceeds relating to financing activities		1,609	117	—	—
Sub-total of cash inflows from financing activities		1,488,414	1,049,346	1,473,826	1,047,211
Cash repayments of borrowings		1,512,900	734,521	1,509,470	733,550
Cash payments for distribution of dividends, profits or settlement of interest expenses		42,430	32,557	42,084	33,611
Including: payments for distribution of dividends to non-controlling shareholders of subsidiary		10	—	—	—
Other cash payments relating to financing activities		151	—	99	—
Sub-total of cash outflows from financing activities		1,555,481	767,078	1,551,653	767,161
Net cash flow from financing activities		(67,067)	282,268	(77,827)	280,050
Effect of foreign exchange rate changes on cash and cash equivalents		(1,294)	1,557	(1,286)	1,553
Net increase in cash and cash equivalents	48	37,258	120,711	14,844	155,757
Add: Opening balance of cash and cash equivalents		433,063	312,352	465,783	310,026
Closing balance of cash and cash equivalents	48	470,321	433,063	480,627	465,783

The accompanying notes form part of the financial statements.

The financial statements on pages 3 to 154 were signed by the following:

Gao Jian Ping	Tao Yi Ping	Li Jian
Chairman of the Board Legal Representative	President Financial Director	Person in Charge of the Accounting Body

THE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

UNIT: RMB IN MILLION

		2017								
		Attributable to equity holders of the Bank								
	Note VIII	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General and regulatory reserve	Retained earnings	Non-controlling interests	Total
I. As at 1 January 2017		19,052	25,905	50,861	1,085	9,824	69,878	173,524	4,281	354,410
II. Changes for the year										
(I) Net profit		—	—	—	—	—	—	57,200	535	57,735
(II) Other comprehensive income	47	—	—	—	(2,152)	—	—	—	(15)	(2,167)
Subtotal of (I) and (II)		—	—	—	(2,152)	—	—	57,200	520	55,568
(III) Capital contribution from shareholders		1,722	—	24,150	—	—	—	—	1,066	26,938
1. Contribution from shareholders		1,722	—	24,179	—	—	—	—	1,118	27,019
2. Others		—	—	(29)	—	—	—	—	(52)	(81)
(IV) Profit distribution		—	—	—	—	860	733	(15,747)	(10)	(14,164)
1. Appropriation to general and regulatory reserve		—	—	—	—	—	733	(733)	—	—
2. Dividends paid to ordinary shareholders		—	—	—	—	—	—	(12,672)	(10)	(12,682)
3. Dividends paid to preference shareholders		—	—	—	—	—	—	(1,482)	—	(1,482)
4. Appropriation to surplus reserve		—	—	—	—	860	—	(860)	—	—
III. As at 31 December 2017		20,774	25,905	75,011	(1,067)	10,684	70,611	214,977	5,857	422,752

THE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY- continued
FOR THE YEAR ENDED 31 DECEMBER 2017

UNIT: RMB IN MILLION

		2016								
		Attributable to equity holders of the Bank								
	Note VIII	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General and regulatory reserve	Retained earnings	Non-controlling interests	Total
I. As at 1 January 2016		19,052	25,905	50,861	5,685	9,824	60,665	141,656	3,729	317,377
II. Changes for the year										
(I) Net profit		—	—	—	—	—	—	53,850	477	54,327
(II) Other comprehensive income	47	—	—	—	(4,600)	—	—	—	(28)	(4,628)
Subtotal of (I) and (II)		—	—	—	(4,600)	—	—	53,850	449	49,699
(III) Capital contribution from shareholders		—	—	—	—	—	—	—	103	103
1. Contribution from shareholders	—	—	—	—	—	—	—	103	103	—
(IV) Profit distribution		—	—	—	—	—	9,213	(21,982)	—	(12,769)
1. Appropriation to general and regulatory reserve		—	—	—	—	—	9,213	(9,213)	—	—
2. Dividends paid to ordinary shareholders		—	—	—	—	—	—	(11,622)	—	(11,622)
3 Dividends paid to preference shareholders		—	—	—	—	—	—	(1,147)	—	(1,147)
III. As at 31 December 2016		19,052	25,905	50,861	1,085	9,824	69,878	173,524	4,281	354,410

The accompanying notes form part of the financial statements.

The financial statements on pages 3 to 154 were signed by the following:

Gao Jian Ping	Tao Yi Ping	Li Jian
Chairman of the Board Legal Representative	President Financial Director	Person in Charge of the Accounting Body

THE BANK'S STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

UNIT: RMB IN MILLION

		2017							
	Note VIII	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General and regulatory reserve	Retained earnings	Total owners' equity
I. As at 1 January 2017		19,052	25,905	51,081	1,105	9,824	67,744	165,156	339,867
II. Changes for the year									
(I) Net profit		—	—	—	—	—	—	54,007	54,007
(II) Other comprehensive income	47	—	—	—	(2,122)	—	—	—	(2,122)
Subtotal of (I) and (II)		—	—	—	(2,122)	—	—	54,007	51,885
(III) Capital contribution from shareholders		1,722	—	24,179	—	—	—	—	25,901
1. Contribution from shareholders		1,722	—	24,179	—	—	—	—	25,901
(IV) Profit distribution		—	—	—	—	860	144	(15,158)	(14,154)
1. Appropriation to general and regulatory reserve		—	—	—	—	—	144	(144)	—
2. Dividends paid to ordinary shareholders		—	—	—	—	—	—	(12,672)	(12,672)
3. Dividends paid to preference shareholders		—	—	—	—	—	—	(1,482)	(1,482)
4. Appropriation to surplus reserve		—	—	—	—	860	—	(860)	—
III. As at 31 December 2017		20,774	25,905	75,260	(1,017)	10,684	67,888	204,005	403,499

THE BANK'S STATEMENT OF CHANGES IN EQUITY- continued
FOR THE YEAR ENDED 31 DECEMBER 2017

UNIT: RMB IN MILLION

		2016							
	Note VIII	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General and regulatory reserve	Retained earnings	Total owners' equity
I. As at 1 January 2016		19,052	25,905	51,081	5,623	9,824	59,217	135,478	306,180
II. Changes for the year									
(I) Net profit		—	—	—	—	—	—	50,974	50,974
(II) Other comprehensive income	47	—	—	—	(4,518)	—	—	—	(4,518)
Subtotal of (I) and (II)		—	—	—	(4,518)	—	—	50,974	46,456
(III) Capital contribution from shareholders		—		—	—	—	—	—	—
1. Contribution from shareholders		—		—	—	—	—	—	—
(IV) Profit distribution		—	—	—	—	—	8,527	(21,296)	(12,769)
1. Appropriation to general and regulatory reserve		—	—	—	—	—	8,527	(8,527)	—
2. Dividends paid to ordinary shareholders		—	—	—	—	—	—	(11,622)	(11,622)
3. Dividends paid to preference shareholders		—	—	—	—	—	—	(1,147)	(1,147)
III. As at 31 December 2016		19,052	25,905	51,081	1,105	9,824	67,744	165,156	339,867

The accompanying notes form part of the financial statements.

The financial statements on pages 3 to 154 were signed by the following:

Gao Jian Ping	Tao Yi Ping	Li Jian
Chairman of the Board Legal Representative	President Financial Director	Person in Charge of the Accounting Body

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

I. GENERAL INFORMATION

Industrial Bank Co., Ltd. (hereinafter referred to as "the Bank") which was formerly referred to as Fujian Industrial Bank Co., Ltd., is a joint-stock commercial bank approved by the People's Bank of China (the "PBOC"), with the document YF [1988] No. 347 issued on 20 July 1988, in accordance with the *Ratification for Deepening Reform and Opening and Accelerating the Development of Export-oriented Economy in Fujian Province* (GH [1988] No. 58) approved by the State Council, the Bank was listed on the Shanghai Stock Exchange on 5 February 2007 with the stock code 601166.

The Bank operates under financial services certificate No. B0013H135010001 issued by from China Banking Regulatory Commission (the "CBRC"), and business license No. 350000100009440 issued by Fujian Provincial Administration of Industry and Commerce, the registered office of the Bank is located at 154 Hudong Road, Fuzhou, Fujian Province, the PRC. The legal representative of the Bank is Mr. Gao Jian Ping.

The principal activities of the Bank comprise the provision of banking service, which includes accepting deposits from the public; granting short-term, medium-term and long-term loans; domestic and overseas settlement services; issuance of discount and acceptance bills and notes; issuing financial bonds; agency issue and encashment, underwriting and trading of government bonds; trading of government and financial bonds and debentures; agency trading and trading of marketable securities except stock; asset custody business; inter-bank lending and borrowings; sale and purchase of foreign exchange; bank card business; letters of credit and letters of guarantee; remittance and insurance agent services; safety deposit box services; financial advisory services; credit investigation, advisory and attestation services and other banking activities approved by the CBRC.

The principal activities of the Bank's subsidiaries comprise finance leasing, trust services, fund raising and marketing, asset management for specific clients, asset management, consumer finance, equity investment, industrial investment, investment management and consulting (excluding brokerage); financial consulting, business consulting, enterprise management consulting, financial data processing, commodity futures brokerage, financial futures brokerage, futures investment consulting, economic information consulting service, application software development and operational services, system integration services; Investment and assets management, participating the batch acquisition, transfer and disposal of non-performing assets of financial institutions within the province, acquisition, transfer and disposal of non-performing assets of non-financial institutions; other banking activities approved by the CBRC as well as other businesses permitted by China Securities Regulatory Commission (the "CSRC").

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Bank and its subsidiaries (collectively, "the Group") has adopted the Accounting Standards for Business Enterprises (the "ASBE") issued by the Ministry of Finance of People's Republic of China (the "MOF").

In addition, the Group has disclosed relevant financial information in accordance with *Information Disclosure and Presentation Rules for Companies Offering Securities to the Public No. 15 — General Provisions on Financial Reporting* (*Revised in 2014*) and the relevant regulations released by the China Securities Regulatory Commission.

The report is prepared on a going concern basis.

III. STATEMENT OF COMPLIANCE WITH THE ASBE

The financial statements of the Bank have been prepared in accordance with ASBE, and present truly and completely, the Bank's and consolidated financial position as of 31 December 2017, and the Bank's and consolidated results of operations and cash flows for the year then ended.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Accounting period

The Group has adopted the calendar year as its accounting year, i.e. from 1 January to 31 December.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

2. Basic of accounting and principle of measurement

The Group has adopted the accrual basis of accounting. Except for certain financial instruments which are measured at fair value, the Group adopts the historical cost as the principle of measurement in the financial statements. Where assets are impaired, allowance for impairment losses are made in accordance with relevant requirements.

Under historical cost, assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds or assets received in exchange for the present obligation, or the amount payable under contract for assuming the present obligation, or at the amount of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement and disclosure of fair value in the financial statements are based on the fair value regardless of whether it is directly observable or estimated using valuation technique.

The fair value measurement is categorized into 3 levels subject to the observability of input and the significance of the input to the entire measurement:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

3. Functional currency

The Bank and its domestic subsidiaries choose Renminbi ("RMB") as their functional currency, while its subsidiaries overseas choose their functional currency depends on the primary economic environment in which the subsidiaries operate. The Group adopts RMB to prepare its financial statements.

4. The accounting treatment of business combinations involving enterprises under common control and business combinations not involving enterprises under common control

Business combinations are classified into business combinations involving enterprises under common control and business combinations not involving enterprises under common control.

4.1 Business combinations involving enterprises under common control

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory.

Assets and liabilities obtained shall be measured at their respective carrying amounts as recorded by the combining entities at the date of the combination. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination is adjusted to the share premium in capital reserve. If the share premium is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

Costs that are directly attributable to the combination are charged to profit or loss in the period in which they are incurred.

4.2 Business combinations not involving enterprises under common control and goodwill

A business combination not involving enterprises under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or parties before and after the combination.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

4. The accounting treatment of business combinations involving enterprises under common control and business combinations not involving enterprises under common control - continued

4.2 Business combinations not involving enterprises under common control and goodwill - continued

The cost of combination is the aggregation of the fair values, at the acquisition date, of the assets given, liabilities incurred or assumed, and the equity securities issued by the acquirer in exchange for control of the acquire. Where a business combination not involving enterprises under common control is achieved in stages that involve multiple transactions, the cost of combination is the sum of the consideration paid at the acquisition date and the fair value at the acquisition date of the acquirer's previously held interest in the acquiree. The intermediary expenses incurred by the acquirer in respect of auditing, legal services, valuation and consultancy services, etc. and other associated administrative expenses attributable to the business combination are recognised in profit or loss when they are incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities acquired by the acquirer in a business combination that meet the recognition criteria shall be measured at fair value at the acquisition date.

Where the cost of combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is treated as an asset and recognised as goodwill, which is measured at cost on initial recognition. Where the cost of combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer firstly reassesses the measurement of the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities and measurement of the cost of combination. If after that reassessment, the cost of combination is still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer recognises the remaining difference immediately in profit or loss for the current period.

Goodwill arising on a business combination is measured at cost less accumulated impairment losses, and is presented separately in the consolidated financial statements. It is tested for impairment at least at the end of each year.

5. Preparation of consolidated financial statements

The scope of consolidated financial statements is determined on the basis of control. Control refers to the power an investor has over an investee, by virtue of which the investor enjoys variable returns by participating in related activities of the investee, and has the ability to use its power over the investee to influence the amount of its returns. Once the change in relevant facts and circumstances leads to a change in relevant elements involved in the definition of control, the Group will conduct reassessment.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of subsidiary.

For subsidiaries acquired through a business combination not involving enterprises under common control, their results of operation and cash flows from the acquisition date(the date when control is obtained) are included in the consolidated statements of comprehensive income and consolidated statement of cash flows, as appropriate.

No matter when the business combination occurs in the reporting period, subsidiaries acquired through a business combination involving enterprises under common control are included in the Group's scope of consolidation as if they had been included in the scope of consolidation from the date when they first came under the common control of the ultimate controlling party. Their operating results and cash flows from the beginning of the earliest reporting period are included in the consolidated income statement and consolidated statement of cash flows, as appropriate.

The significant accounting policies and accounting periods adopted by the subsidiaries are determined based on the uniform accounting policies and accounting periods set out by the Bank.

All significant intergroup accounts and transactions between the Bank and its subsidiaries or between subsidiaries are eliminated in full amount on consolidation.

The portion of subsidiaries' equity that is not attributable to the Bank is treated as non-controlling interests in equity and presented as "non-controlling interests in equity" in the consolidated statements of financial position within shareholders' equity. The portion of net profits or losses of subsidiaries for the period

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

5. Preparation of consolidated financial statements - continued

attributable to non-controlling interests is presented as "non-controlling interests" in the consolidated statements of comprehensive income below the "net profit" line item.

When the amount of loss for the period attributable to the non-controlling shareholders of a subsidiary exceeds the non-controlling shareholders' portion of the opening balance of owners' equity of the subsidiary, the excess amount are still allocated against non-controlling interests.

Acquisition of non-controlling interests or disposal of interest in a subsidiary that does not result in the loss of control over the subsidiary is accounted for as equity transactions. The carrying amounts of the equity attributable to equity holders of the bank and non-controlling interests in equity are adjusted to reflect the changes in their relative interests in the subsidiary. The difference between the amount by which the non-controlling interests in equity are adjusted and the fair value of the consideration paid or received is adjusted to capital reserve. If the capital reserve is not sufficient to absorb the difference, the excess are adjusted against retained earnings.

When the Group loses control over a subsidiary due to disposal of certain equity interest or other reasons, any retained interest is re-measured at its fair value at the date when control is lost. The difference between (i) the aggregate of the consideration received on disposal and the fair value of any retained interest and (ii) the share of the former subsidiary's net assets cumulatively calculated from the acquisition date according to the original proportion of ownership interest is recognised as investment income in the period in which control is lost. Other comprehensive income associated with investment in the former subsidiary is reclassified to investment income in the period in which control is lost.

Structured entities refers to the entities that voting rights or similar rights do not constitute decisive factors when recognise the controlling party, such as when voting rights are associated with the administration, or related activities are led by the contractual arrangements. Wealth management products, fund, trust fund plans and fund management plans could be used as examples of the structured entities.

6. Recognition criteria of cash and cash equivalents

Cash comprises cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are the Group's short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

7. Transactions denominated in foreign currencies and translation of foreign currency financial statements

7.1 Transactions denominated in foreign currencies

A foreign currency transaction is recorded, on initial recognition, by applying the spot exchange rate on the date of the transaction.

At the balance sheet date, foreign currency monetary items are translated into functional currency using the spot exchange rates at the balance sheet date. Exchange differences arising from the differences between the spot exchange rates prevailing at the balance sheet date and those on initial recognition or at the previous balance sheet date are recognised in profit or loss for the period, except that exchange differences arising from changes in the carrying amounts (other than the amortised cost) of available-for-sale monetary items are recognised as other comprehensive income.

Involving in business overseas when preparing consolidated financial statements, such as foreign currency monetary items which essentially constitute net investment in a foreign operation, exchange differences arising from changes in exchange rate interests is presented as "foreign currency report translation differences" item in other comprehensive income and recognized in profit or loss disposal when disposing business overseas.

Foreign currency non-monetary items measured at historical cost are translated to the amounts in functional currency at the spot exchange rates on the dates of the transactions and the amounts in functional currency remain unchanged. Foreign currency non-monetary items measured at fair value are re-translated at the spot exchange rate on the date the fair value is determined. Difference between the re-translated functional currency amount and the original functional currency amount is treated as changes in fair value (including changes of exchange rate) and is recognised in profit and loss or as other comprehensive income.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

7. Transactions denominated in foreign currencies and translation of foreign currency financial statements - continued

7.2 Transactions for foreign currency financial statements

When preparing consolidated financial statements, financial statements of overseas operations in foreign currency are translated into financial statements in RMB in the following methods: All assets and liabilities in the statements of financial position are translated by applying the spot exchange rates at the balance sheet date; shareholders' equities except retained earnings are translated by applying the spot exchange rate on the date of the transaction; statements of comprehensive income and items reflecting profit distribution occurred are translated by exchange rates similar with the spot exchange rate on the date of the transaction; retained earnings at the beginning of this yeas equal to the retained earnings after translation at the end of previous year; retained earnings at the end of period are presented as profit distributions after translation; differences between assets after translation and liabilities &shareholders' equity after translation are presented as "other comprehensive income" in shareholders' equity.

Cash flow in foreign currency and cash flow of overseas institutions are translated by applying the spot exchange rates at the cash flow occurred date. Affected amount of cash and cash equivalents by exchange rate changes is presented separately as "effect of exchange rate changes on cash and cash equivalents" in the cash flow statement, as an adjustment item.

8. Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. For financial assets and financial liabilities at fair value through profit or loss, transaction costs are immediately recognised in profit or loss. For other financial assets and financial liabilities, transaction costs are included in their initial recognised amounts.

8.1 Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period, using the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or financial liability or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial asset or financial liability (without considering future credit losses), and also considers all fees paid or received between the parties to the contract giving rise to the financial asset and financial liability that are an integral part of the effective interest rate, transaction costs, and premiums or discounts, etc.

8.2 Classification, recognition and measurement of financial assets

On initial recognition, the Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.

8.2.1 Financial Assets at Fair Value through Profit or Loss ("FVTPL")

Financial assets at FVTPL include financial assets held for trading and those assigned as at fair value through profit or loss.

A financial asset is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of selling in the near term or repurchasing; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

8. Financial instruments - continued

8.2 Classification, recognition and measurement of financial assets - continued

8.2.1 Financial Assets at Fair Value through Profit or Loss ("FVTPL") - continued

there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) it is a derivative that is not designated and effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

A financial asset is assigned as financial assets at fair value through profit or loss, on initial recognition, if one of the following conditions is satisfied: (1) the recognition could eliminate or significantly reduce profit or loss differences in recognition or measurement due to the difference in measurement basis of financial assets; or (2) It has been stated in formal written document of the Group's risk management or investment strategy, that managing and evaluating the group of financial assets or financial assets & financial liabilities on the basic of fair value, and reporting it to key management personnel; or (3) The hybrid financial instrument combines financial asset with embedded derivatives.

Financial assets at fair value through profit or loss are subsequently measured at fair value. Any gains or losses arising from changes in the fair value and any dividend or interest income earned on the financial assets are recognized in profit or loss.

8.2.2 Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group's management has the positive intention and ability to hold to maturity.

Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method. Gain or loss arising from derecognition, impairment or amortisation is recognised in profit or loss.

8.2.3 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables by the Group include balances with Central Bank, deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets purchased under resale agreements, interest receivables, loans and advances to customers, investments classified as receivables, finance lease receivables and other receivables etc.

Loans and receivables are subsequently measured at amortised cost using the effective interest method. Gain or loss arising from derecognition, impairment or amortisation is recognised in profit or loss.

8.2.4 Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated on initial recognition as available for sale, and financial assets that are not assigned as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are subsequently measured at fair value, and gains or losses arising from changes in the fair value are recognised as other comprehensive income, except that impairment losses and exchange differences related to amortised cost of monetary financial assets denominated in foreign currencies are recognised in profit or loss, until the financial assets are derecognised, at which time the gains or losses are released and recognised in profit or loss.

Interests obtained and the cash dividends declared by the investee during the period in which the available-for-sale financial assets are held, are recognised in interest income and investment gains, respectively.

For investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivative financial assets that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

8. Financial instruments - continued

8.3 Impairment of financial assets

The Group assesses at each balance sheet date the carrying amounts of financial assets other than those at fair value through profit or loss. If there is objective evidence that a financial asset is impaired, the Group determines the amount of any impairment provision. Objective evidence that a financial asset is impaired is evidence that, arising from one or more events that occurred after the initial recognition of the asset, the estimated future cash flows of the financial asset, which can be reliably measured, have been affected.

Objective evidence that a financial asset is impaired includes the following observable events:

(1) Significant financial difficulty of the issuer or obligor;

(2) A breach of contract by the borrower, such as a default or delinquency in interest or principal payments;

(3) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting a concession to the borrower;

(4) It becoming probable that the borrower will enter bankruptcy or other financial reorganisations;

(5) The disappearance of an active market for that financial asset because of financial difficulties of the issuer;

(6) Upon an overall assessment of a group of financial assets, observable data indicates that there is a measurable decrease in the estimated future cash flows from the group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. Such observable data includes:

- Adverse changes in the payment status of borrower in the group of assets;
- Economic conditions in the country or region of the borrower which may lead to a failure to pay the group of assets;

(7) Significant adverse changes in the technological, market, economic or legal environment in which the issuer operates, indicating that the cost of the investment in the equity instrument may not be recovered by the investor;

(8) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost;

(9) Other objective evidence indicating there is an impairment of a financial asset.

8.3.1 Impairment of financial assets measured at amortised cost

If financial assets carried at amortised cost are impaired, the carrying amounts of the financial assets are reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of reduction is recognised as an impairment loss in profit or loss. If, subsequent to the recognition of an impairment loss on financial assets carried at amortised cost, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed. However, the reversal is made to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For a financial asset that is individually significant, the Group assesses the asset individually for impairment. For a financial asset that is not individually significant, the Group assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment. Assets for which an impairment loss is individually recognised are not included in a collective assessment of impairment.

8.3.2 Impairment of available-for-sale financial assets

Objective evidence that an available-for-sale financial asset is impaired includes significant or prolonged decline in the fair value of an investment in an equity instrument below its cost. The Group assesses each available-for-sale equity instrument investment individually on balance sheet date. Impairment is indicated

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

8. Financial instruments - continued

8.3 Impairment of financial assets - continued

8.3.2 Impairment of available-for-sale financial assets - continued

when the fair value of an equity instrument is lower than its initial investment cost over 50% (including 50%) or the fair value has been lower than its initial investment cost for over 12 months (including 12 months).

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value previously recognised directly in other comprehensive income is reclassified from the other comprehensive income to profit or loss. The amount of the cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

If, subsequent to the recognition of an impairment loss on available-for-sale financial assets, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed. The amount of reversal of impairment loss on available-for-sale equity instruments is recognised as other comprehensive income, while the amount of reversal of impairment loss on available-for-sale debt instruments is recognised in profit or loss.

8.3.3 Impairment of financial assets measured at cost

If an impairment loss has been incurred on an investment in unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, or on a derivative financial asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the carrying amount of the financial asset is reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The amount of reduction is recognised as an impairment loss in profit or loss. The impairment loss on such financial asset is not reversed once it is recognised.

8.4 Transfer of financial assets and derecognition of financial assets

The Group's financial assets are transferred if one of the following conditions is satisfied:

(1) Contractual rights to receive cash flow of the financial asset has been transferred; or

(2) Although the financial asset has been transferred, the Group keeps the contractual rights to receive cash flow of the financial asset and undertake the obligation to pay the received cash flow to the final transferee, and if the following conditions are satisfied simultaneously:

- The Group has the obligation to pay to the final recipient when receiving peer cash flow from the financial asset. It's deemed to satisfy this condition when the Group pays short-term advances, but it is entitled to recover the full amount of the advances and receive interest accrued in accordance with the market interest rate of bank loan.
- According to the contract, the financial asset could not be sold or pledged, but it could be offered as guarantee for paying cash flow to the final recipient.
- The Group has the obligation to pay the received cash flow to the final recipient promptly. The Group is not entitled to reinvest with the cash flow, except for the investment in cash or cash equivalent in accordance with the contract during the interval between two consecutive payments. If the Group reinvests according to the contract, it should pay the investment income to the final recipient in accordance with the provisions of the contract.

The Group derecognises a financial asset if one of the following conditions is satisfied:

(1) The contractual rights to the cash flows from the financial asset expire; or

(2) The financial asset has been transferred, and if one of the following conditions is satisfied:

- All the risks and rewards of ownership of the financial asset is transferred to the transferee; or
- The Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but has not retained control of the financial asset.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

8. Financial instruments - continued

8.4 Transfer of financial assets and derecognition of financial assets - continued

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, and it retains control of the financial asset, it recognises the financial asset to the extent of its continuing involvement in the transferred financial asset.

For a transfer of a financial asset that satisfies the derecognition criteria, the difference between (1) the carrying amount of the financial asset transferred; and (2) the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised in other comprehensive income, is recognised in profit or loss.

8.5 Asset-backed securities business

The Group securitises a portion of assets by selling these assets to structured entities, and then issue securities to its investors. Conditions of derecognising the relevant financial assets refer to Note IV 8.4. When applying the derecognising conditions of financial assets, the Group has already taken into account the extent of transfer of the risks and rewards of those assets transferred to the other structured entity, as well as the extent of control over such entity by the Group. If the derecognising conditions of securities are not satisfied, the related financial assets are not derecognised, but the funds raising from third party investors will be treated as financial liabilities; When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the asset- backed securities, it shall determine whether it has retained control over the financial asset. If the Group has not retained control, it shall derecognise the financial asset and recognise the rights retained or obligations arising from the transfer as an asset or a liability respectively. If the Group has retained control, it shall recognise the financial asset to the extent of its continuing involvement in the financial asset.

8.6 Classification, recognition and measurement of financial liabilities

The Group recognises a financial liability if one of the following conditions is satisfied: (1) Contractual obligations to deliver cash or other financial assets to other parties, or (2) Contractual obligations to exchange financial assets or financial liabilities with other parties under potential adverse conditions, or (3) Non-derivative contracts provide the Group shall or may measure business with its own equity instruments in the future, and will deliver a variable number of its own equity instruments, or (4) Derivative contracts provide the Group shall or may settle business with its own equity instruments in the future, except for the derivative contracts deliver a fixed number of its own equity instruments to exchange a fixed amount of cash or other financial assets.

At initial recognition, the Group classified financial instrument as financial liabilities or equity instruments according to the contractual terms of issued financial instruments and the reflected economic substance rather than its legal form only, combining with the definition of financial liabilities and equity instruments.

On initial recognition, financial liabilities are classified into financial liabilities at fair value through profit or loss and other financial liabilities.

8.6.1 Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL consist of financial liabilities held for trading and those assigned as at FVTPL on initial recognition.

A financial liability is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of repurchasing in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative, except for a derivative that is a designated as effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

A financial liability is assigned as financial assets at fair value through profit or loss, on initial recognition, if one of the following conditions is satisfied: (1) the recognition could eliminate or significantly reduce

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

8. Financial instruments - continued

8.6 Classification, recognition and measurement of financial liabilities - continued

8.6.1 Financial liabilities at fair value through profit or loss - continued

profit or loss differences in recognition or measurement due to the difference in measurement basis of financial liability; or (2) It has been stated in formal written document of the Group's risk management or investment strategy, that managing and evaluating the group of financial liabilities or financial assets & financial liabilities on the basic of fair value, and reporting it to key management personnel; or (3) The hybrid financial instrument embedded with derivatives.

Financial liabilities at FVTPL are subsequently measured at fair value. Any gains or losses arising from changes in the fair value or any dividend or interest expenses related to the financial liabilities are recognised in profit or loss.

8.6.2 Other financial liabilities

For a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, it is subsequently measured at cost. Other financial liabilities except those arising from financial guarantee contracts or loan commitments are subsequently measured at amortised cost using the effective interest method, with gain or loss arising from derecognition or amortisation recognised in profit or loss.

8.6.3 Financial guarantee contracts and loan commitments

A financial guarantee contract is a contract by which the guarantor and the lender agree that the guarantor would settle the debts or bear obligations in accordance with terms of the contract in case the borrower fails to settle the debts. Financial guarantee contracts that are not assigned as financial liabilities at fair value through profit or loss, or loan commitments to provide a loan at a below-market interest rate, which are not designated at fair value through profit or loss, are initially measured at their fair values less the directly attributable transaction costs. Subsequent to initial recognition, they are measured at the higher of: (i) the amount determined in accordance with Accounting Standard for Business Enterprises No. 13 — Contingencies; and (ii) the amount initially recognised less cumulative amortisation recognised in accordance with the principles set out in Accounting Standard for Business Enterprises No. 14 — Revenue.

8.7 Derecognition of financial liabilities

The Group derecognises a financial liability (or part of it) only when the underlying present obligation (or part of it) is discharged. An agreement between the Group (an existing borrower) and an existing lender to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

When the Group derecognises a financial liability or a part of it, it recognises the difference between the carrying amount of the financial liability (or part of the financial liability) derecognised and the consideration paid (including any non-cash assets transferred or new financial liabilities assumed) in profit or loss.

8.8 Derivatives and embedded derivatives

Derivative financial instruments include forward exchange contracts, currency swaps, debenture income swaps, interest rate swaps and foreign exchange options, etc. Derivatives are initially measured at fair value at the date when the derivative contracts are entered into and are subsequently re-measured at fair value. The resulting gain or loss is recognized in profit or loss.

An embedded derivative is separated from the hybrid instrument, where the hybrid instrument is not assigned as a financial asset or financial liability at fair value through profit or loss, and treated as a standalone derivative if 1) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; and 2) a separate instrument with the

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

8. Financial instruments - continued

8.8 Derivatives and embedded derivatives - continued

same terms as the embedded derivative would meet the definition of a derivative. If the Group is unable to measure the embedded derivative separately either at acquisition or at a subsequent balance sheet date, it assigns the entire hybrid instrument as a financial asset or financial liability at fair value through profit or loss.

8.9 Hedge accounting

Upon initial designation of hedging relationship, the Group formally designates relevant hedging relationship and records the hedging relationship, risk management objective and strategy with formal documents. The content of the records include the hedging instruments, hedged items or transactions, and the nature of hedged risk, as well as how does the Group assess the effectiveness of the hedging instruments to offset the changes in fair value or cash flows arising from the hedged risk to which the hedged item is attributable to. The Group anticipates that these hedges is highly effective in offsetting the changes in fair value, meanwhile, the hedge is assessed for effectiveness by the Group on an ongoing basis so as to determine whether the hedge is highly effective throughout the accounting periods for which the hedging relationship was designated.

8.9.1 Fair value hedges

The fair value hedge represent the hedge against the risks of changes in fair value of the Group recognized assets or liabilities, unrecognized firm commitments and the identifiable portion of such assets or liabilities, unrecognized firm commitments, where the change in fair value is caused by certain specific risk and will affect the profit or loss for the period. For fair value hedges, the fair value change gains or losses on the hedged item attributable to the hedged risk is recognised in profit or loss, with a corresponding adjustment to the carrying amount of the hedged item; the fair value change gains or losses on the hedging instruments attributable to the hedged risk is recognised in profit or loss, with a corresponding adjustment to the carrying amount of the hedging instruments.

For a hedged item of fair value hedge, if such item was previously measured at amortized cost, its carrying amount is adjusted using hedging accounting and then amortized over the period from the adjustment date to maturity date using the effective interest rate re-calculated at the adjustment date.

Where an unrecognized firm commitment is designated as the hedged item, the cumulative fair value change on such unrecognized firm commitment attributable to the hedged risk is recognized as an asset or liability, with relevant gain or loss recognized in the profit or loss for the period.

For fair value hedge of a firm commitment to purchase assets or undertake liabilities, the cumulative fair value change on such unrecognized firm commitment attributable to the hedged risk (already recognized as an asset or liability) is adjusted against the initial recognized amount of the assets obtained or liabilities assumed for performing the firm commitment.

When the hedging instrument is expired, sold, contractually terminated or exercised, or the hedging relationship no longer satisfy the criteria of hedging amounting, or the Group cancels the designation of the hedging relationship, the Group shall cease to use fair value hedging amounting. When the hedged item is terminated, the unamortized fair value is included in profit or loss for the period.

8.10 Offsetting financial assets and financial liabilities

Where the Group has a legal right that is currently enforceable to set off the recognised financial assets and financial liabilities, and intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously, a financial asset and a financial liability shall be offset and the net amount is presented in the statements of financial position. Except for the above circumstances, financial assets and financial liabilities shall be presented separately in the statements of financial position and shall not be offset.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

8. Financial instruments - continued

8.11 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group classified financial instruments as equity instruments when all of the following conditions is satisfied: (1) the financial instruments should not include contractual obligations to deliver cash or other financial assets to other parties or to exchange financial assets or financial liabilities with other parties under potential adverse conditions; and (2) the Group shall or may measure business with its own equity instruments in the future. If it is a non-derivative instrument, contractual obligations settled by delivering its own variable equity instruments shall not be included; if it is a derivative instrument, the Group can settle the financial instrument only through exchanging fixed amount of cash or other financial assets with fixed amount of its own equity instruments. Equity instruments issued (including refinanced), repurchased, sold and written off by the Group are recognized as changes of equity. Change of fair value of equity instruments is not recognized by the Group. Transaction costs related to equity transaction are deducted from equity.

The Group recognizes the distribution to holders of the equity instruments as distribution of profits, and dividends paid do not affect total amount of shareholders equity.

9. Precious metal

Non-trading precious metal of the Group is initially measured at cost at acquisition, and subsequently re-measured at the lower of cost and realizable value. Trading precious metal of the Group is initially measured and subsequently re-measured at fair value. The changes in fair value arising from re-measurement is recognized in profit or loss.

10. Long-term equity investments

10.1 Determination of joint control or significant influence over investee

Control refers to the power an investor has over an investee, by virtue of which the investor enjoys variable returns by participating in related activities of the investee, and has the ability to use its power over the investee to influence the amount of its returns. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. When determining whether an investing enterprise is able to exercise control or significant influence over an investee, the effect of potential voting rights of the investee (for example, warrants and convertible debts) held by the investing enterprises or other parties that are currently exercisable or convertible shall be considered.

10.2 Determination of initial investment cost

For the acquisition of long-term equity investments involving enterprises under the common control, the Group measures the initial cost of the long-term equity investment as the share of the carrying amount of the owner's equity of the acquired enterprise at that date. The difference between the initial costs of the long-term equity investment and cash paid or non- cash assets transferred as well as the carrying amount of the debts borne by the Group shall offset against the capital reserve. If the capital reserve is insufficient to observe the difference, the retained earnings shall be adjusted. The investment cost which adopts the equity securities issued as the consideration should be adopted as the initial investment cost of the long-term equity investment according to the proportion carrying amount of combined party's shareholder equity in the consolidated financial statement of the final controlling part, and adjust the capital reserves by the difference between the initial investment cost of long-term equity investment and the amount of issued stock's face value, which is regarded as capital stock. If the capital reserves are insufficient to absorb the difference, retained income should be adjusted. For the acquisition of enterprises under the common control through several steps of trading, it should be confirmed whether it's a package deal. If it is, these deals should be measured as one acquiring- control deal. If not, the Group measures the initial cost of the long-term equity investment as the share of the carrying amount of the owner's equity of the acquired enterprise at that date. The difference between the initial costs of the long-term equity investment and the carrying amount of

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

10. Long-term equity investments - continued

10.2 Determination of initial investment cost - continued

long-term equity investment before acquiring control as well as the carrying amount of the debts for more shares on the acquisition date shall offset against the capital reserve. If the capital reserve is insufficient to absorb the difference, the retained earnings shall be adjusted.

For a long-term equity investment acquired through business combination not involving enterprises under common control, the initial investment cost of the long-term equity investment is the cost of acquisition on the acquisition date. For the acquisition of enterprises under the common control through several steps of trading, it should be confirmed whether it's a package deal. If it is, these deals should be measured as one acquiring-control deal. If not, the carrying amount of long-term equity investment before acquiring control and the cost of new investment is the cost of acquisition measured under cost method.

Acquisition-related costs including auditing fees, legal services fees, valuation advice fees and other relevant management fees are generally recognised in profit or loss as incurred.

Long-term equity investments other than those arising from business combination, is initially measured at cost. When the Group increases its ownership interest in the investee to the extent that the Group has joint control or significant influence, but not control, over the investee, the cost of the long-term equity investment is the aggregation of fair value of its prior ownership interest recognized in accordance with the *Accounting Standards for Enterprises No. 22 — Recognition and Measurement of Financial Instruments* and the additional investment cost at that date.

10.3 Subsequent measurement and recognition of profit or loss

10.3.1 Long-term equity investment accounted for using the cost method

The Bank uses the cost method for the long-term equity investment in subsidiaries in the financial statements. The subsidiary refers to the investee that controlled by the group.

Under the cost method, a long-term equity investment is measured at initial investment cost. Increasing or reducing investment will adjust the cost of long term equity investment accordingly. Investment income is recognised in the period in accordance with the attributable share of cash dividends or profit distributions declared by the investee.

10.3.2 Long-term equity investment accounted for using the equity method

The Group accounts for investment in associates using the equity method. Associates are those that the group is able to exercise significant influence over the investee.

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, no adjustment is made to the initial investment cost. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the initial cost of the investment, after reassessment of the long-term equity investment, is recognised immediately in profit or loss in the period in which the investment is acquired.

Under the equity method, the Group recognizes investment income and other comprehensive income based on the Group's share of net profit or loss and other comprehensive income of the investee and adjust the carrying amount of long-term equity investment accordingly. The carrying amount of the investment decreases regarding the attributable share of cash dividends or profit distributions declared by the investee. Changes in shareholders' equity of the investee other than net profits or losses, other comprehensive income or profit distribution are correspondingly adjusted to the carrying amount of the long-term equity investment, and recognized as capital reserve. The Group recognizes its share of the investee's net profit or loss based on the fair value of the investee's identifiable assets after the adjustment of investee's net profit. When the accounting policy and accounting period adopted by the investee are inconsistent with the Group's, the investment income and other comprehensive income are recognized based on the adjusted financial statements of the investee in accordance with the Group's accounting policies and accounting period. Unrealized profits or losses resulting from the Group's transactions with its associates and joint ventures are recognized as investment income or loss to the extent that those attributable to the Group's

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

10. Long-term equity investments - continued

10.3 Subsequent measurement and recognition of profit or loss - continued

10.3.2 Long-term equity investment accounted for using the equity method - continued

equity interest are eliminated. However, unrealized losses resulting from the Group's transactions with its investees in respect of impairment losses on the transferred assets shouldn't be eliminated.

The Group discontinues recognising its share of net losses of the investee after the carrying amount of the long-term equity investment together with any long-term interests that in substance form part of its net investment in the investee is reduced to zero. If the Group has incurred obligations to assume additional losses of the investee, a provision is recognized according to the expected obligation, and recorded as investment loss for the period. Where net profits are subsequently made by the investee, the Group resumes recognising its share of those profits only after its share of the profits exceeds the share of losses previously not recognized.

10.3.3 Disposal of long-term equity investments

On disposal of a long term equity investment, the difference between the proceeds actually received and the carrying amount is recognised in profit or loss for the period. When the Group reduces its ownership interest in investee but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the investee's disposal of the related assets or liabilities. Then the equity recognized by the Group other than the change of the net profits and loss, other comprehensive income and profit distribution of the invested entity is reclassified to profit and losses on proportion. When the Group reduces its ownership interest but the Group continues to use the cost method, for the other comprehensive income recognized by the Group using equity method prior to the control over the investee or under financial instrument recognition and measurement standard, the Group reclassifies to profit or loss the proportion of the gain or loss relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the investee's disposal of the related assets or liabilities. Then the other changes in owners'' equity recognized by the Group using equity method, not arising from the change of the net profits and loss, other comprehensive income or profit distribution of the invested entity is reclassified to profit and loss on proportion.

11. Fixed assets

11.1 Recognition criteria for fixed assets

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and have useful lives of more than one accounting year. A fixed asset is recognised only when it is probable that economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Fixed assets are initially measured at cost.

Subsequent expenditures incurred for the fixed asset are included in the cost of the fixed asset if it is probable that economic benefits associated with the asset will flow to the Group and the cost can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognised. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

11.2 Depreciation of each category of fixed assets

A fixed asset is depreciated over its useful life using the straight-line method since the month subsequent to the one in which it is ready for intended use. The depreciation period, estimated net residual value rate and annual depreciation rate of each category of fixed assets are as follows:

Category	Depreciation period	Estimated Residual value rate	Annual depreciation rate
Buildings	20-30 years	0-3%	3.23-5.00%
Fixed assets improvement	the lower of improvement period and remaining useful life	0%	
Office and machinery equipment	3-20 years	0-5%	4.75-33.33%
Transportation vehicles	5-25 years	0-15%	3.8-20.00%

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

11. Fixed assets - continued

11.2 Depreciation of each category of fixed assets - continued

Estimated net residual value of a fixed asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

11.3 Other explanations

If a fixed asset is upon disposal or no future economic benefits are expected to be generated from its use or disposal, the fixed asset is derecognised. When a fixed asset is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes is recognised in profit or loss for the period.

The Group reviews the useful life and estimated net residual value rate of a fixed asset and the depreciation method applied at least once at each financial year-end, and accounts for any change as a change in an accounting estimate.

12. Construction in progress

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a fixed asset or other asset when it is ready for intended use.

13. Intangible assets

Intangible assets include land use rights, franchising, etc.

An intangible asset is measured initially at cost. Expenses related to the intangible assets are recognised in the cost of intangible assets when (i) it is probable that the associated economic benefits will flow to the Group; and (ii) the associated costs can be measured reliably. Other expenses related to the intangible assets are recognized in profit or loss for the period in which it is incurred.

The acquired land use right is recognized as intangible assets. Expenses related to land use right and construction cost from buildings such as self-built factory, etc. are recognized as intangible assets and fixed assets, respectively. In the case of purchased buildings, it allocates related cost between land use right and buildings. If related cost cannot be allocated reasonably, it is recognized as fixed assets.

When an intangible asset with a finite useful life is available for use, its original cost is amortised over its estimated useful life using the straight-line method. An intangible asset with an indefinite useful life is not amortised.

For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at the end of the period, and accounts for any change as a change in an accounting estimate. For an intangible asset with an infinite useful life, the Group reviews the useful life. If it is evident that the duration of associated economic benefits is predictable, then estimate the useful life pursuant to amortization policies for intangible assets with finite useful life.

14. Impairment of long-term assets

The Group checks whether long-term equity investment, fixed assets, construction in progress, and intangible assets with a finite useful life will impair in every balance sheet date. If the indication of impairment of these assets exists, the Group estimates their recoverable amount. Intangible assets with indefinite useful life and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that the assets may be impaired.

Estimation of recoverable amount of the assets is based on individual asset. If the recoverable amount is difficult to estimate, the amount should be estimated by the assets group which the asset belongs to. Recoverable amount is the higher of the two: net fair value of the assets or assets group after disposal expenses, or present value of the expected cash flow from the assets.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

14. Impairment of long-term assets - continued

If asset's recoverable amount is lower than its carrying amount, the allowance for impairment losses should be recognized by their balances in profit or loss for the period.

The goodwill should be tested of impairment at least in the end of the each year with related assets group or combination of assets group. In purchase date, the carrying amount of goodwill should be allocated reasonably to assets group or combinations which can benefit from the synergy of enterprise merger. If the recoverable amount of assets group or combinations of allocated goodwill is lower than its carrying amount, impairment loss should be recognized. The amount of impairment loss should offset the carrying value which is allocated to the goodwill of certain assets group or combinations at first, then it should offset the carrying amount of other assets proportionally according to the proportion of other assets' carrying amount of assets group or combination after goodwill.

The impairment losses cannot be reversed once they are recognized.

15. Long-term prepaid expenses

Long-term prepaid expenses represent expenses incurred that should be borne and amortised over the current and subsequent periods (together of more than one year). Long-term prepaid expenses are amortised using the straight-line method over the expected periods in which benefits are derived.

16. Employee benefits

16.1 Accounting method of short-term employee benefits

In an accounting period in which an employee has rendered service to the Group, the Group recognizes the short-term employee benefits for that service as a liability, and the expenditure incurred for the period is recorded in profit or loss.. The employee's welfare incurred is recognized in the profit or loss for the period as well. Non-monetary benefit included in employee's welfare expenses are recorded at fair value.

Payment made by the Group regarding social security contributions for employees such as contributions on medical insurance, work injury insurance and maternity insurance, etc. and payments of housing funds, as well as trade union fund and employee education fund provided in accordance with relevant requirements, are calculated according to prescribed bases and percentages in determining the amount of employee benefits and recognized as relevant liabilities, with a corresponding charge to the profit or loss for the period in the accounting period in which employees provide services.

16.2 Accounting method of post-employment benefits

Termination benefits are classified as defined contribution pension plans and defined benefit plans.

In an accounting period in which an employee has rendered service to the Group, the Group recognises the employee benefits for that service as a liability and included in profit or loss for the period.

For the defined benefit plan, the Group recognizes the obligations arising from such plan based on formula under estimated cumulated welfare method in the period in which employees render service and included in profit or loss for the period. The classifications of the costs are as follows:

- Service costs (including service costs of the period, service costs in the past, and profit and loss).
- Net value of interests from net liabilities or net assets of defined benefit plans (including interest income of planned assets, obligated interest cost of defined benefit plans and interest of influence of assets upper limit).
- The changes of recalculating the net liabilities and net assets of defined benefit plans.

Net interests of service costs and net liabilities and net assets of defined benefit plans are recorded in the profit and loss. The changes of recalculating the net liabilities and net assets of defined benefit plans, including actuarial gains or loss, planned assets yield deducting net value of interests from net liabilities or net assets of defined benefit plans, change rising from upper limit of assets deducting net value of interests from net liabilities or net assets of defined, are recorded in other comprehensive income.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

16. Employee benefits - continued

16.2 Accounting method of post-employment benefits - continued

The difference between the present value of defined benefit obligation and the fair value of defined benefit asset is recognized as a net asset or liability of defined benefit plans. If there is surplus, the net assets of defined benefit plans should be measured by the lower of the two: 1. the surplus of defined benefit plans; 2. upper limit of assets.

16.3 Accounting method of termination benefits

In an accounting period in which an employee has rendered service to the Group, a liability for a termination benefit and an expense accordingly are recognized at the earlier of when the Company entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

17. Assets transferred under repurchase agreements

17.1 Financial assets purchased under resale agreements

The financial assets are not recognized in the statements of financial position if they are committed to be resold at a specific price at a specific date in the future. The cost of purchasing such assets is presented under “financial assets purchased under resale agreements” in the statements of financial position. The difference between the purchasing price and reselling price is recognized as interest income during the term of the agreement using the effective interest method.

17.2 Financial assets sold under repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date and price are not derecognised in the statements of financial position. The proceeds from selling such assets are presented under “financial assets sold under repurchase agreements” in the statements of financial position. The difference between the selling price and repurchasing price is recognised as interest expense during the term of the agreement using the effective interest method.

18. Provisions

Provisions are recognised when the Group has a present obligation related to a contingency, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

Where all or some of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement is recognised as a separate asset only when it is virtually certain that reimbursement will be received, and the amount of reimbursement recognised does not exceed the carrying amount of the provision.

19. Interest income and expense

Interest income and expense is carried at amortized cost of related financial assets and liabilities using the effective interest rate method, and recognized in profit or loss. If the difference between effective interest rate and contract interest rate is an insignificant amount, contract interest rate also can be applied.

20. Fee and commission income

Fee and commission income is recognized on accrual basis when providing related service.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

21. Government grants

Government grants are transfer of monetary assets and non-monetary assets from the government to the Group at no consideration, except the capital from the government as the owner. A government grant is recognised only when the Group can comply with the conditions attaching to the grant and the Group will receive the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a non-monetary asset, it is measured at fair value. If the fair value cannot be reliably determined, it is measured at a nominal amount. A government grant measured at a nominal amount is recognised immediately in profit or loss for the period. Government grants are classified into government grants related to assets and government grants related to income according the subjects required by the Government documents.

A government grant related to an asset is offset against the carrying amount of related asset. For a government grant related to income, if the grant is a compensation for related costs or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and recognised in profit or loss over the periods in which the related costs or losses are recognised. If the grant is a compensation for related expenses or losses already incurred, the grant is recognised immediately in profit or loss for the period.

A government grant related to the Group's daily activities is included in other income according to the economic business substance. A government not related to the Group's daily activities is included in non-operating income and expense.

For return of a government grant already recognised, if there is related deferred income, it is offset against the carrying amount of the deferred income, and any excess is recognised in profit or loss for the period. If there is no related deferred income, the repayment is recognised immediately in profit or loss for the period.

22. Deferred tax assets/deferred tax liabilities

The income tax expenses include current income tax and deferred income tax.

22.1 Current income tax

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods are measured at the amount expected to be paid (or recovered) according to the requirements of tax laws.

22.2 Deferred tax assets and deferred tax liabilities

For temporary differences between the carrying amounts of certain assets or liabilities and their tax base, or between the nil carrying amount of those items that are not recognised as assets or liabilities and their tax base that can be determined according to tax laws, deferred tax assets and liabilities are recognised using the balance sheet liability method.

Deferred tax is generally recognised for all temporary differences. Deferred tax assets for deductible temporary differences are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. However, for temporary differences associated with the initial recognition of goodwill and the initial recognition of an asset or liability arising from a transaction (not a business combination) that affects neither the accounting profit nor taxable profits (or deductible losses) at the time of transaction, no deferred tax asset or liability is recognised.

For deductible losses and tax credits that can be carried forward, deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future. At the balance sheet date, deferred tax assets and liabilities are measured at the tax rates, according to tax laws, that are expected to apply in the period in which the asset is realised or the liability is settled.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

22. Deferred tax assets/deferred tax liabilities - continued

22.2 Deferred tax assets and deferred tax liabilities - continued

Current and deferred tax expenses or income are recognised in profit or loss for the period, except when they arise from transactions or events that are directly recognised in other comprehensive income or in shareholders' equity, in which case they are recognised in other comprehensive income or in shareholders' equity; and when they arise from business combinations, in which case they adjust the carrying amount of goodwill.

At the balance sheet date, the carrying amount of deferred tax assets is reviewed and reduced if it is no longer probable that sufficient taxable profits will be available in the future to allow the benefit of deferred tax assets to be utilised. Such reduction in amount is reversed when it becomes probable that sufficient taxable profits will be available.

When the Group has a legal right to settle on a net basis and intends either to settle on a net basis or to realise the assets and settle the liabilities simultaneously, current tax assets and current tax liabilities are offset and presented on a net basis.

When the Group has a legal right to settle current tax assets and liabilities on a net basis, and deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax assets and liabilities on a net basis or to realise the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be reversed, deferred tax assets and deferred tax liabilities are offset and presented on a net basis.

23. Fiduciary activities and agent business

The Group acts in a fiduciary activities and agent business as a trustee or an agent for customers. Customers should bear the risk and return generated by such activities. The Group only charges fee and commission. The fiduciary activities and agent business are excluded from the financial statements.

24. Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee under operating leases

Operating lease payments are recognized on a straight- line basis over the term of the relevant lease, and are recorded in profit or loss for the period. Initial direct costs incurred are charged to profit or loss for the period. Contingent rents are charged to profit or loss in the period in which they are actually incurred.

The Group as lessor under operating leases

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs with more than an insignificant amount are capitalized when incurred, and are recognized in profit or loss on the same basis as rental income over the lease term. Other initial direct costs with an insignificant amount are charged to profit or loss in the period in which they are incurred. Contingent rents are charged to profit or loss in the period in which they actually arise.

The Group as lessor under finance leases

At the commencement of the lease term, the aggregate of the minimum lease receivable at the inception of the lease and the initial direct costs is recognised as a finance lease receivable, and the unguaranteed residual value is recorded at the same time. The difference between the aggregate of the minimum lease receivable, the initial direct costs and the unguaranteed residual value, and the aggregate of their present values is recognised as unearned finance income. The net amount of financial lease receivables less unearned finance income is listed in "financial lease receivables" for presentation.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

24. Lease - continued

Unearned finance income is recognised as finance income for the period using the effective interest method over the lease term. Contingent rents are credited to profit or loss in the period in which they are actually incurred.

25. Other significant accounting policies and accounting estimates

Foreclosed asset

Foreclosed asset is initially measured at its fair value. At the balance sheet date, foreclosed asset is measured at the lower of carrying amount and net realizable value. The difference by which the net realizable value is lower than the carrying amount of the assets shall be provided for the current period.

On disposal of a foreclosed asset, the difference between (i) income from disposal and (ii) the carrying amount of the foreclosed asset is charged to income from disposal of assets.

If the foreclosed asset is transferred for self-use, it should be measured at the carrying amount at the transfer date. Provision is to taken into account if applicable.

26. Significant changes in accounting policies

The Group has adopted *Accounting Standards for Business Enterprises No. 42-Non-Current Assets Held for Sale, Disposal Groups and Discontinued Operations* issued by MoF in 2017 and *Accounting Standard for Business Enterprises No. 16 – Government Grants* revised by MoF in 2017 since 28 May 2017 and 12 June 2017 respectively. In addition, the financial statements are also prepared in accordance with *Notice on Revising the Format of Printing and Distributing Financial Statement of General Enterprises* (Cai Kuai (2017) No. 30, hereinafter referred to as *Cai Kuai No. 30 Document*) issued by MoF on 25 December 2017.

Non-current assets held for sale, disposal groups and discontinued operations

Specific provisions have been made by *Accounting Standards for Business Enterprises No. 42-Non-current Assets Held for Sale, Disposal Groups and Discontinued Operations* on classification and measurement of non-current assets held for sale and disposal groups, requiring a separate presentation of profit or loss from continuing operations and that of discontinued operations in income statement and detailed disclosures of non-current assets held for sale or disposal groups in the notes to the finical statements. Prospective application is required by the standard for treatment, which has no impact on the financial statements for comparative year.

Government grants

Before adoption of *Accounting Standards for Business Enterprises No. 16-Government Grants (Revised)*, a government grant related to an asset of the Group is recognized as deferred income, and evenly amortized to non-operating income over the useful life of the related asset. For a government grant related to income, if the grant is a compensation for related costs or losses to be incurred in subsequent periods, the grant is recognized as deferred income, and recognized in profit or loss for the periods in which the related costs or losses are recognized. If the grant is a compensation for related costs or losses already incurred, the grant is recognized immediately in profit or loss for the period.

After implementation of *Accounting Standards for Business Enterprises No. 16-Government Grants (Revised)*, a government grant related to an asset of the Group is offset against the carrying amount of related assets. For a government grant related to income, if the grant is a compensation for related costs or losses to be incurred in subsequent periods, the grant is recognized as deferred income, and recognized in profit or loss over the periods in which the related costs or losses are recognized; If the grant is a compensation for related costs and losses already incurred, the grant is immediately recognized in profit or loss for the period. A government grant related to the Group's daily activities is recognized as other income based on the economic business substance. A government grant not related to the Group's daily activities is recognized as non-operating income and expense.

The Group has accounted for the above changes in accounting policies prospectively, and such changes in accounting policies have no impact on the financial statements for the comparative year.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

26. Significant changes in accounting policies - continued

Presentation of profit or loss on disposal of assets

Prior to the release of *Cai Kuai No. 30 Document*, the gains or losses recognized from sales of held-for-sale non-current assets (excluding financial instruments, long-term equity investment or investment properties) or disposal groups, and gains or losses arising from disposal of fixed assets, construction in progress, and intangible assets that are not classified as held- for- sale are presented under the item of "non-operating income" or "non-operating expenses". After the release of the *Cai Kuai No. 30 Document*, gains or losses recognized from sales of held-for-sale non-current assets (excluding financial instruments, long-term equity investment or investment properties) or disposal groups, and gains or losses arising from disposal of fixed assets construction in progress, and intangible assets not classified as held-for-sale are presented under the item of "income from disposal of assets". For the changes in aforesaid presentation items, the Group has retrospectively adjusted the comparative figures of prior year.

V. CRITICAL ACCOUNTING JUDGEMENTS AND KEY ASSUMPTIONS AND UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note IV, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The aforementioned estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The followings are the key items of financial statements that the Group has made critical judgement, estimation and assumption at the balance sheet date.

1. Impairment on loans and advances to customers and investments classified as receivables

The Group reviews its loan and investments classified as receivables portfolio to assess impairment on a periodic basis. In determining whether an impairment loss should be recognized in profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is an objective evidence of impairment which will have a measurable decrease in the estimated future cash flows from a portfolio of loans and advances and investments classified as receivables. When the decrease may not have been identified individually or the individual loan and investments classified as receivables is not significant, management uses estimates based on historical loss experience on a collective basis with similar credit risk characteristics to assess the impairment loss while estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2. Fair value of financial instruments

The Group uses various valuation techniques to determine the fair value of financial instruments which are not quoted in an active market. Valuation techniques include the use of discounted cash flows analysis, option pricing models or other valuation methods as appropriate. To the extent practical, models use only observable data; however areas such as credit risk of the Group and the counterparty, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

3. Impairment of available-for-sale financial assets

The determination of whether an available-for-sale financial asset is impaired requires significant judgement from the management. In making this judgement, the Group evaluates the duration and extent to which the fair value of an investment of equity instrument is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, technology innovation, credit ratings, delinquency rates and counterparty risk etc.

V. CRITICAL ACCOUNTING JUDGEMENTS AND KEY ASSUMPTIONS AND UNCERTAINTY - continued

4. Classification of held-to-maturity investments

The Group classifies non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the positive intention and ability to hold to maturity as held-to-maturity investments. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to hold these investments to maturity other than for specific circumstances (such as selling an insignificant amount close to maturity), it will be required to reclassify the entire portfolio of held-to-maturity investments as available-for-sale financial assets.

5. Impairment of held-to-maturity investments

The determination of whether a held-to-maturity financial asset is impaired requires significant judgement from the management. Objective evidence that a financial asset or group of assets is impaired includes a breach of contract, such as a default or delinquency in interest or principal payments, etc. In making such judgement, the impact of objective evidence for impairment on expected future cash flows of the investment is taken into account.

6. Income taxes

There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. Whether some items can be charged before tax requires assertion from tax authority. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

7. Consolidation of structured entities

For structured entities managed or invested by the Group, assess whether the Group is acting as a principal or an agent so as to evaluate whether the Group has control over the structured entities. The Group determines whether it is acting as a principal or an agent and whether the structured entities should by consolidated by considering the factors including decision scope of asset manager, power of other trust holders, reward from offering management service and the risk exposure to variable return.

8. Derecognition of Transfer of Financial Assets

The Group transfers financial assets in a variety of ways through regular trading, asset securitization, and repurchase agreements in daily operations. The Group needs to make significant judgments and estimates in determining whether a transferred financial asset can be fully or partially derecognized. In assessing and judging, the Group takes into account a wide range of factors and determines whether the conditions for the derecognition of the financial assets are met by using a reasonable model to measure the degree of transfer of risk and return associated with the ownership of financial assets.

VI. TAXATION

1. Enterprise income tax

According to the *Corporate Income Tax Law of the People's Republic of China*, the income tax of domestic branches of the Bank and the Group's subsidiaries is calculated and settled at the tax rate of 0% or 15% or 25%. Therein, the income tax rate for the Group's subsidiary Fujian Clearing Corp. is 15%; and the income tax rate for the Group's subsidiary CIB FINTECH is 0%.

The income tax of overseas branches of the Bank is calculated in accordance with the local tax rate, and the difference between the overseas tax rate and domestic tax rate is settled by the head office.

The deductible items of enterprise income tax are calculated in accordance with the relevant regulations. Enterprise income tax is prepaid by domestic branches of the Bank and conducted annual filing by the head office.

VI. TAXATION - continued

2. Value-added tax

The value-added tax ("VAT") on sales is calculated using applicable tax rate on the basis of the revenue from sales determined as per tax regulations, and is paid after deducting the VAT on purchases. The Group's tax rate is 3% to 17%.

According to the Supplementary *Notice on Issues relating to VAT Policies on Assets Management Products* (Cai Shui [2017] No. 2) and *Notice on Issues relating to VAT Policies on Assets Management Products* (Cai Shui [2017] No. 56) issued by MoF and State Administration of Taxation, since 1 January 2018, the manager of asset management products will be the VAT taxpayer for VAT taxable behaviours occurred in the operation of asset management products. And the VAT is levied at the rate of 3% with a provisional application of simple taxation method.

3. Business tax

Up to 30 April 2016, business tax of the Bank's domestic branches and subsidiaries were levied at 5% of taxable revenue.

4. City maintenance and construction tax

The Group's city maintenance and construction tax is calculated according to 1% ~ 7% of VAT.

5. Education surcharge

The Group's education surcharge and local education surcharge is calculated according to 3% ~ 5% of VAT.

VII. CONSOLIDATION SCOPE

1. Details of the Bank's principal subsidiaries included in the scope of consolidation are set out as follows:

Key subsidiaries	Main business place/ Place of registration	Business nature	Registered capital	Total shareholding by the Group			
				31/12/2017		31/12/2016	
				Direct	Indirect	Direct	Indirect
			RMB in Million	(%)	(%)	(%)	(%)
Industrial Bank Financial Leasing Co., Ltd.(1)	Tianjin	Financial leasing	9,000	100	—	100	—
China Industrial International Trust Limited	Fuzhou	Trust	5,000	73	—	73	—
CIB Fund Management Co., Ltd.	Fuzhou	Fund management	700	90	—	90	—
Industrial Consumer Finance Co., Ltd.(1)	Quanzhou	Consumer finance	700	66	—	66	—
CIIT Asset Management Co., Ltd (2)	Shanghai	Assets management, equity investment, industrial investment, investment management and consulting	300	—	100	—	100
Industrial Wealth Asset Management Co., Ltd (2)(3)	Shanghai	Assets management	780	—	100	—	100
Industrial Future Co., Ltd. (2) (4)	Ningbo	Merchandise, financial futures investment and consulting Service	500	—	100	—	92.20

(1) In December 2017, the Bank increase the registered capital of its wholly-owned subsidiary Industrial Bank Financial Leasing Co., Ltd by RMB 2 billion. After the capital increase, the registered capital of Industrial Bank Financial Leasing Co., Ltd became RMB 9 billion. In December 2017, the Bank

VII. CONSOLIDATION SCOPE - continued

1. Details of the Bank's principal subsidiaries included in the scope of consolidation are set out as follows: - continued

increased the registered capital of its holding subsidiary Industrial Consumer Finance Co., Ltd. by RMB 132 million in proportion to its shareholding. After the capital increase, the registered capital of Industrial Consumer Finance Co., Ltd. became RMB 700 million.

(2) The companies are the subsidiaries of the Bank's holding subsidiaries.

(3) In December 2017, the Bank's holding subsidiary CIB Fund Management Co., Ltd. increased the registered capital of its wholly-owned subsidiary Industrial Wealth Asset Management Co., Ltd. by RMB 400 million. After the capital increase, the registered capital of Industrial Wealth Asset Management Co., Ltd. is RMB 780 million, with 100% shares held by CIB Fund Management Co., Ltd.

(4) In August 2017, the Bank's holding subsidiary China Industrial International Trust Limited acquired 7.8% equity of its subsidiary Industrial Future Co., Ltd. at the price of RMB 82 million. Since then, China Industrial International Trust Limited holds 100% equity of Industrial Future Co., Ltd.

2. Refer to No. VIII 50 for information of consolidated structure entities

3. Foreign exchange rate of principle items in financial statements of overseas operating entities

The operating entity of the Group converts the financial statement from foreign currency to RMB based on the following method: all assets and liabilities in the statement of financial position should be converted by spot rate at balance sheet date; equity of shareholders except for the retained earnings should be converted by spot rate when occurs; all subjects in the statements of comprehensive income and subjects which reflect the accrual distributed profit should be converted by approximate spot rate when occurs.

The exchange rate of USD, JPY, EUR, HKD, and GBP to RMB should be determined by the middle rate published by China's State Administration of Foreign Exchange (the "SAFE"). The exchange rate of other currency to RMB should be calculated by the benchmark rate of USD to RMB and rate of USD to other currency offered by SAFE.

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS

1. CASH AND BALANCES WITH CENTRAL BANK

	The Group		The Bank	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	RMB Million	RMB Million	RMB Million	RMB Million
Cash	5,535	5,806	5,535	5,806
Mandatory reserves (1)	444,091	384,801	444,082	384,784
Surplus deposit reserves (2)	13,989	66,508	13,987	66,497
Other reserve (3)	2,788	539	2,788	539
Total	466,403	457,654	466,392	457,626

(1) The domestic institution of the Bank places mandatory reserves mainly with the PBOC as required, including RMB reserves and foreign reserves. These reserves are not available for the Group's daily operations and can't be transferred or used without the PBOC's approval. General deposit generates from organizations deposit, non-financial-budget deposit, individual deposit, enterprise deposit, net trust funds and other deposit. On 31 December 2017, the ratio of the Bank's RMB reserves is 15% (31 December 2016: 14.5%), the ratio of foreign reserves is 5% (31 December 2016: 5%). According to related regulations from the PBOC, foreign reserves are non-interest bearing. The Group's subsidies' RMB reserve deposit ratio is in accordance with regulations of PBOC. Deposit ratio of mandatory reserve in Hong Kong branch is in accordance with regulations from local regulators.

(2) Surplus reserves are reserve in excess of mandatory reserve maintained with the PBOC mainly for the purpose of clearing, and transferring, etc.

(3) The majority of other deposits are the fiscal deposits placed with the Central Bank. Fiscal deposit at Central Bank refers to the fiscal deposit at PBOC by the Bank according to regulations, including the Bank's agent central budgetary revenues, local treasury deposits, etc. The fiscal deposits placed with the PBOC of institutions in mainland China are non-interest bearing.

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

2. DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group		The Bank	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	RMB Million	RMB Million	RMB Million	RMB Million
Deposits with:				
Domestic banks	61,425	37,002	51,427	24,087
Other domestic financial institutions	4,232	2,177	4,149	2,159
Overseas banks	11,918	17,048	11,918	17,048
Subtotal	77,575	56,227	67,494	43,294
Less: Allowance for impairment losses	(16)	(21)	(16)	(21)
Net value	77,559	56,206	67,478	43,273

3. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group		The Bank	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	RMB Million	RMB Million	RMB Million	RMB Million
Placements with:				
Domestic banks	1,774	249	1,774	249
Other domestic financial institutions	12,396	5,499	17,630	10,757
Overseas financial institutions	17,068	11,167	17,068	11,167
Subtotal	31,238	16,915	36,472	22,173
Less: Allowance for impairment losses	(60)	(64)	(60)	(64)
Net value	31,178	16,851	36,412	22,109

4. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group		The Bank	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	RMB Million	RMB Million	RMB Million	RMB Million
Trading financial assets:				
Debt instrument investments:				
Government bonds	22,335	22,761	11,079	11,947
The Central Bank bills and policy financial bonds	6,992	7,072	3,583	2,953
Bonds issued by financial institutions	4,869	3,006	3,373	3,006
Corporate bonds	67,834	34,055	47,144	19,515
Non-negotiable certificates of deposit	34,701	21,043	30,791	12,226
Subtotal of debt instruments investments	136,731	87,937	95,970	49,647
Equity instrument investments:				
Funds	216,485	265,787	237,256	308,246
Trust plan of assembled funds	—	4	—	—
Stocks	142	165	—	—
Subtotal of equity instrument investment	216,627	265,956	237,256	308,246
Total of trading financial assets	353,358	353,893	333,226	357,893
Financial assets designated at fair value through profit and loss:				
Debt instrument investment	8,302	599	4,739	—
Equity instrument investment	412	103	—	—
Financial assets designated at fair value through profit and loss:	8,714	702	4,739	—
Total	362,072	354,595	337,965	357,893

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

5. DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into foreign currency exchange rate, interest rate and precious metals related derivative financial instruments for purposes of trading, asset and liability management and customer driven business.

The notional amounts of derivative instruments represent the value of the underlying asset or the reference rate as a basis to measure changes in derivative financial instruments, which provide an indication of the volume of business transacted by the Group, but don't stand for the relevant future cash flow or current fair value, thus, do not indicate the Group's exposure to credit or market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or precious metal prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The notional amount and fair value of the Group's derivative financial instruments:

The Group and the Bank

	31/12/2017			31/12/2016		
		Fair Value			Fair Value	
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Interest rate derivatives	1,911,173	4,590	3,800	1,182,679	4,428	4,080
Exchange rate derivatives	2,354,545	22,965	24,973	1,101,859	10,293	11,039
Precious metal derivatives	74,569	553	723	60,037	1,319	1,347
Credit derivatives	14,248	288	18	11,060	97	13
Total		28,396	29,514		16,137	16,479

Fair value hedging

The Group uses the fair value hedges to hedge the influences of changes in fair value of financial assets caused by the changes of market interest rate. For interest rate risk of financial assets, the Group adopts interest rate swaps as hedging instruments and available-for-sale bonds as the hedged item.

Included in the aforesaid derivative financial instruments, the hedging instruments designated by the Group and the Bank are as follows:

	The Group & the Bank					
	12/31/2017			12/31/2016		
		Fair value			公允价值	
	Nominal amount	Assets	Liabilities	Nominal amount	Assets	Liabilities
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Derivatives designated as fair value hedging instruments:						
Interest rate swaps	7,922	70	—	—	—	—

The effectiveness of the hedging activities in the year which is reflected by the changes in fair value of hedging instruments and the net profit or loss from the hedged item attributable to the hedged risks is as follows:

	The Group & the Bank	
	12/31/2017	12/31/2016
	RMB Million	RMB Million
Net gain/(loss) from fair value hedge:		
Hedging instruments	74	—
Hedged item attributable to the hedged risk	(83)	—

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

6. FINANCIAL ASSETS PURCHASED UNDER RESALE AGREEMENTS

	The Group		The Bank	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	RMB Million	RMB Million	RMB Million	RMB Million
Bonds	88,684	8,261	85,029	5,654
Bills	333	3,902	333	3,902
Beneficial rights of trust and others (Note 1)	4,102	11,306	4,102	11,306
Credit assets (Note 2)	—	4,468	—	4,468
Total	93,119	27,937	89,464	25,330

Note 1: Beneficial rights of trust and others mainly comprised of the investment to trust plans and asset management plans operated by trust companies, securities companies and asset management companies.

Note 2: The credit assets purchased under resale agreement are carried out between the Hong Kong Branch of the Bank and overseas counterparties.

7. INTEREST RECEIVABLE

	The Group		The Bank	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	RMB Million	RMB Million	RMB Million	RMB Million
Deposits with Central Bank and financial institutions	733	339	696	267
Placements with banks and other financial institutions	93	133	155	193
Financial assets purchased under resale agreements	49	83	45	78
Loans and advances to customers	6,686	5,108	6,566	5,059
Bonds and other investments	22,475	18,092	21,691	17,516
Other	370	144	105	39
Total	30,406	23,899	29,258	23,152

8. LOANS AND ADVANCES TO CUSTOMERS

(1) Analysis of loans and advances to customers by personal and corporate:

	The Group		The Bank	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	RMB Million	RMB Million	RMB Million	RMB Million
Personal loans and advances				
Residential and business mortgage loans	603,047	517,597	603,047	517,597
Credit cards	186,256	110,330	186,256	110,330
Others	121,521	122,611	111,651	116,896
Subtotal	910,824	750,538	900,954	744,823
Corporate loans and advances				
Loans and advances	1,482,362	1,271,347	1,484,432	1,271,548
Discounted bills	37,509	57,929	37,509	57,929
Subtotal	1,519,871	1,329,276	1,521,941	1,329,477
Gross loans and advances	2,430,695	2,079,814	2,422,895	2,074,300
Less: Allowance for impairment losses	(81,864)	(72,448)	(81,498)	(72,263)
-Individually assessed	(16,378)	(12,669)	(16,378)	(12,669)
-Collectively assessed	(65,486)	(59,779)	(65,120)	(59,594)
Loans and advances to customers	2,348,831	2,007,366	2,341,397	2,002,037

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

8. LOANS AND ADVANCES TO CUSTOMERS - continued

(2) Analysis of loans and advances to customers by industry distribution:

	The Group				The Bank			
	31/12/2017		31/12/2016		31/12/2017		31/12/2016	
	RMB Million	(%)	RMB Million	(%)	RMB Million	(%)	RMB Million	(%)
Manufacturing	335,445	13.80	310,297	14.92	335,445	13.84	310,297	14.96
Leasing and commercial services	226,770	9.34	142,608	6.86	230,410	9.51	142,608	6.87
Retail and wholesale	223,649	9.20	196,681	9.46	223,649	9.23	196,681	9.48
Water, environment and public facilities administration	163,577	6.73	109,135	5.25	163,577	6.75	109,135	5.26
Real estate	151,488	6.23	164,351	7.90	149,918	6.19	164,351	7.92
Construction	89,581	3.69	86,707	4.17	89,581	3.70	86,707	4.18
Transport, logistics and postal service	69,794	2.87	66,644	3.20	69,794	2.88	66,644	3.21
Extractive industry	65,503	2.69	64,684	3.11	65,503	2.70	64,684	3.12
Production and supply of power, gas and water	72,413	2.98	60,939	2.93	72,413	2.99	60,939	2.94
Finance industry	23,865	0.98	12,717	0.61	23,865	0.98	12,917	0.62
Other corporate industries	60,277	2.48	56,584	2.71	60,277	2.49	56,585	2.74
Discounted bills	37,509	1.54	57,929	2.79	37,509	1.55	57,929	2.79
Personal loans	910,824	37.47	750,538	36.09	900,954	37.19	744,823	35.91
Gross loans and advances	2,430,695	100.00	2,079,814	100.00	2,422,895	100.00	2,074,300	100.00
Less: Allowance for impairment losses	(81,864)		(72,448)		(81,498)		(72,263)	
-Individually assessed	(16,378)		(12,669)		(16,378)		(12,669)	
-Collectively assessed	(65,486)		(59,779)		(65,120)		(59,594)	
Loans and advances to customers	2,348,831		2,007,366		2,341,397		2,002,037	

(3) Analysis of loans and advances to customers by geographical distribution:

	The Group				The Bank			
	31/12/2017		31/12/2016		31/12/2017		31/12/2016	
	RMB Million	(%)	RMB Million	(%)	RMB Million	(%)	RMB Million	(%)
Head office (Note 1)	196,298	8.08	127,488	6.13	196,298	8.10	127,488	6.15
Fujian	302,458	12.44	268,487	12.91	304,296	12.56	267,344	12.89
Beijing	154,237	6.35	130,925	6.30	154,237	6.37	130,925	6.31
Shanghai	121,291	4.99	116,401	5.60	119,897	4.95	115,133	5.55
Guangdong	250,615	10.31	217,880	10.48	249,506	10.30	217,144	10.47
Zhejiang	161,574	6.65	134,720	6.48	160,923	6.64	134,590	6.49
Jiangsu	206,352	8.49	167,291	8.04	205,430	8.48	166,844	8.04
Other (Note 2)	1,037,870	42.69	916,622	44.06	1,032,308	42.60	914,832	44.10
Gross loans and advances	2,430,695	100.00	2,079,814	100.00	2,422,895	100.00	2,074,300	100.00
Less: Allowance for impairment losses	(81,864)		(72,448)		(81,498)		(72,263)	
-Individually assessed	(16,378)		(12,669)		(16,378)		(12,669)	
-Collectively assessed	(65,486)		(59,779)		(65,120)		(59,594)	
Loans and advances to customers	2,348,831		2,007,366		2,341,397		2,002,037	

Note 1: Head office contains the credit card centre and the treasury operation centre.

Note 2: As at 31 December 2017, the Bank has 44 tier-1 branches, apart from the tier-1 branches mentioned above, the rest is categorised into "Others". Loans and advances of the subsidiaries of the Bank are presented by geographical distribution.

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

8. LOANS AND ADVANCES TO CUSTOMERS - continued

(4) Analysis of loans and advances to customers by security type:

	The Group		The Bank	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	RMB Million	RMB Million	RMB Million	RMB Million
Unsecured loans	585,734	411,300	579,504	405,786
Guaranteed loans	582,000	482,311	581,250	482,311
Collateralised loans	1,225,452	1,128,274	1,224,632	1,128,274
-Secured by mortgage	977,266	955,801	976,446	955,801
-Secured by collaterals	248,186	172,473	248,186	172,473
Discounted bills	37,509	57,929	37,509	57,929
Gross loans and advances	2,430,695	2,079,814	2,422,895	2,074,300
Less: Allowance for impairment losses	(81,864)	(72,448)	(81,498)	(72,263)
-Individually assessed	(16,378)	(12,669)	(16,378)	(12,669)
-Collectively assessed	(65,486)	(59,779)	(65,120)	(59,594)
Loans and advances to customers	2,348,831	2,007,366	2,341,397	2,002,037

(5) Overdue loans

The Group

	31/12/2017					31/12/2016				
	1-90 days (including 90 days)	90-360 days (including 360 days)	360 days to 3 years (including 3 years)	over 3 years	Total	1-90 days (including 90 days)	90-360 days (including 360 days)	360 days to 3 years (including 3 years)	over 3 years	Total
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Unsecured loans	2,546	2,742	546	61	5,895	2,144	2,289	469	20	4,922
Guaranteed loans	4,732	3,802	3,927	1,161	13,622	6,135	5,600	4,845	728	17,308
Collateralised loans	6,542	5,724	6,490	329	19,085	9,284	8,414	4,484	226	22,408
-Secured by mortgage	6,380	5,643	6,228	225	18,476	8,356	8,072	4,129	102	20,659
-Secured by collaterals	162	81	262	104	609	928	342	355	124	1,749
Total	13,820	12,268	10,963	1,551	38,602	17,563	16,303	9,798	974	44,638

The Bank

	31/12/2017					31/12/2016				
	1-90 days (including 90 days)	90-360 days (including 360 days)	360 days to 3 years (including 3 years)	over 3 years	Total	1-90 days (including 90 days)	90-360 days (including 360 days)	360 days to 3 years (including 3 years)	over 3 years	Total
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Unsecured loans	2,350	2,629	444	61	5,484	2,086	2,221	431	20	4,758
Guaranteed loans	4,732	3,802	3,927	1,161	13,622	6,135	5,600	4,845	728	17,308
Collateralised loans	6,542	5,724	6,490	329	19,085	9,283	8,414	4,484	226	22,407
-Secured by mortgage	6,380	5,643	6,228	225	18,476	8,355	8,072	4,129	102	20,658
-Secured by collaterals	162	81	262	104	609	928	342	355	124	1,749
Total	13,624	12,155	10,861	1,551	38,191	17,504	16,235	9,760	974	44,473

Note: The loan will be categorized into overdue when principal or interest is overdue for one day.

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

8. LOANS AND ADVANCES TO CUSTOMERS - continued

(6) Allowance for impairment losses on loans and advances to customers

The Group

	2017			2016		
	Individually	Collectively	Total	Individually	Collectively	Total
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Opening balance	12,669	59,779	72,448	11,297	43,289	54,586
Charge for the year	22,313	6,308	28,621	27,380	18,996	46,376
Write-off/Transfer out	(20,482)	(1,047)	(21,529)	(25,903)	(2,944)	(28,847)
-Recoveries of loans and advances written off in previous years	2,837	707	3,544	819	595	1,414
-Unwinding of discount on allowance	(959)	(214)	(1,173)	(924)	(209)	(1,133)
Fluctuation in exchange rate	—	(47)	(47)	—	52	52
Closing balance	16,378	65,486	81,864	12,669	59,779	72,448

The Bank

	2017			2016		
	Individually	Collectively	Total	Individually	Collectively	Total
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Opening balance	12,669	59,594	72,263	11,297	43,208	54,505
Charge for the year	22,313	6,116	28,429	27,380	18,892	46,272
Write-off/Transfer out	(20,482)	(1,031)	(21,513)	(25,903)	(2,944)	(28,847)
-Recoveries of loans and advances written off in previous years	2,837	702	3,539	819	595	1,414
-Unwinding of discount on allowance	(959)	(214)	(1,173)	(924)	(209)	(1,133)
Fluctuation in exchange rate	—	(47)	(47)	—	52	52
Closing balance	16,378	65,120	81,498	12,669	59,594	72,263

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

(1) Listed by types:

	The Group		The Bank	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	RMB Million	RMB Million	RMB Million	RMB Million
Available-for-sale debt instruments				
Government bonds	116,726	85,496	116,726	85,496
The Central Bank bills and policy financial bonds	28,791	17,973	28,791	17,973
Bonds issued by banks and other financial institutions	98,679	81,670	99,099	81,770
Corporate bonds	139,941	132,567	139,381	132,002
Non-negotiable certificates of deposit	4,818	60,636	4,818	60,636
Wealth management products	2,848	386	—	—
Trust fund plans and other equity instrument (Note 1)	21,107	157,458	20,803	157,259
Credit assets	15,019	89,165	14,935	89,089
Interbank deposits	—	50,550	—	50,550
Bonds	4,575	6,660	4,575	6,660
Funds	1,513	10,483	1,293	10,360
Others	—	600	—	600
Subtotal	412,910	536,186	409,618	535,136
Available-for-sale equity instruments:				
Measured at fair value	89,471	47,797	106,094	54,832
Measured at cost	1,840	867	304	309
Subtotal	91,311	48,664	106,398	55,141
Total available-for-sale financial assets	504,221	584,850	516,016	590,277

Note 1: Trust fund plans and others are the beneficial rights of trust which are designated as available-for-sale financial assets when initially invested by the Group. These products' investment directions are mainly the trust loans or fund management plans run by the trust companies, asset management companies or securities companies as entrusted fund administrators. According to the liquidity management or operation management, these beneficial rights of trust or fund management plans will be probably for sale.

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS - continued

(2) Related analysis for available-for-sale financial assets at fair value in the year-end:

	The group		The bank	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	RMB Million	RMB Million	RMB Million	RMB Million
Available-for-sale debt instrument:				
Amortized cost	417,600	537,691	414,319	536,648
Fair value	412,910	536,186	409,618	535,136
Accumulative appropriation to other comprehensive income	(2,524)	1,265	(2,553)	1,240
Accumulative appropriation to allowance for impairment losses	(2,166)	(2,770)	(2,148)	(2,752)
Available-for-sale equity instrument:				
Cost	89,480	47,573	105,987	54,554
Fair value	89,471	47,797	106,094	54,832
Accumulative appropriation to other comprehensive income	(7)	227	107	278
Accumulative appropriation to allowance for impairment losses	(2)	(3)	—	
Total:				
Amortized cost of debt instruments/ cost of equity instrument	507,080	585,264	520,306	591,202
Fair value	502,381	583,983	515,712	589,968
Accumulative appropriation to other comprehensive income	(2,531)	1,492	(2,446)	1,518
Accumulative appropriation to allowance for impairment losses	(2,168)	(2,773)	(2,148)	(2,752)

(3) Related analysis for available-for-sale financial assets at cost in the year-end

The Group

Investee	Book balance			Provision	Proportion of share in Investee	Cash dividends for the year
	Opening	Increase	Closing			
	RMB Million	RMB Million	RMB Million	RMB Million	(%)	RMB Million
China Union Pay Co., Ltd	81	—	81	—	2.13	5
Huafu Securities Co., Ltd.	359	—	359	—	4.35	—
Zijin Mining Group Holding Group Finance Co. Ltd.	25	—	25	—	5.00	—
China Trust Registration Co. Ltd.	60	—	60	—	2.00	— —
Shanghai Commercial Paper Exchange Corporation Ltd.	—	50	50	—	2.71	—
Others	342	923	1,265	—		—
Total	867	973	1,840	—		5

The Bank

Investee	Book balance			Provision	Proportion of share in Investee	Cash dividends for the year
	Opening	Decrease	Closing			
	RMB Million	RMB Million	RMB Million	RMB Million	(%)	RMB Million
China Union Pay Co., Ltd	81	—	81	—	2.13	5
Others	228	(5)	223	—		—
Total	309	(5)	304	—		5

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS - continued

(4) Related analysis for allowance for impairment losses on available-for-sale financial assets

	The group			The bank		
	Available-for-sale debt instrument	Available-for-sale equity instrument	Total	Available-for-sale debt instrument	Available-for-sale equity instrument	Total
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Opening	2,770	3	2,773	2,752	—	2,752
Provision/(Reversal)	(597)	(1)	(598)	(597)	—	(597)
Exchange rate effect	(7)	—	(7)	(7)	—	(7)
Closing	2,166	2	2,168	2,148	—	2,148

10. HELD-TO-MATURITY INVESTMENTS

	The Group & the Bank	
	12/31/2017	12/31/2016
	RMB Million	RMB Million
Government bonds	287,900	210,232
The Central Bank bills and policy financial bonds	746	414
Bonds issued by banks and other financial institutions	14,486	9,055
Non-negotiable certificates of deposit	11,349	7,095
Corporate bonds	23,133	23,171
Subtotal	337,614	249,967
Less: Allowance for impairment losses	(131)	(139)
Net value	337,483	249,828

11. INVESTMENTS CLASSIFIED AS RECEIVABLES

	The Group		The Bank	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	RMB Million	RMB Million	RMB Million	RMB Million
Government bonds	397,626	302,475	397,626	302,475
Bonds issued by banks and other financial institutions	44,131	8,306	44,131	8,306
Corporate bonds	47,064	42,333	47,574	43,092
Wealth management products (Note 1)	85,173	460,003	85,173	460,003
Trust fund plans and others (Note 2)	1,356,354	1,303,087	1,342,377	1,295,120
Credit assets	896,775	881,689	887,491	876,870
Paper assets	110,435	143,401	110,435	143,401
Bonds	231,789	140,258	231,789	140,258
Interbank deposits	68,793	20,063	68,793	20,063
Funds	38,656	3,999	34,471	1,013
Others	9,906	113,677	9,398	113,515
Subtotal	1,930,348	2,116,204	1,916,881	2,108,996
Less: Allowance for impairment losses	(16,966)	(13,403)	(16,912)	(13,403)
Net value	1,913,382	2,102,801	1,899,969	2,095,593

Note 1: Wealth management products are fixed-period financial products issued by other financial institutions.

Note 2: Trust fund plans and others are the beneficial rights of the trust and fund management plans, etc. These products' investment directions are mainly the trust loans or fund management plans operated by the trust companies, securities companies and asset management companies as entrusted fund administrators.

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

12. FINANCE LEASE RECEIVABLES

The Group

Set out by nature:

	31/12/2017	31/12/2016
	RMB Million	RMB Million
Finance lease receivables	120,070	103,464
Less: unrealized financing income	(13,153)	(10,665)
Subtotal	106,917	92,799
Less: Allowance for impairment losses	(3,422)	(2,960)
-Individually assessed	(355)	(344)
-Collectively assessed	(3,067)	(2,616)
Net value	103,495	89,839

List as follows:

	31/12/2017	31/12/2016
	RMB Million	RMB Million
1st year subsequent to the balance sheet date	36,028	33,862
2nd year subsequent to the balance sheet date	27,799	26,375
3rd year subsequent to the balance sheet date	23,177	18,657
Subsequent periods	33,066	24,570
Subtotal	120,070	103,464
Unrealized financing income	(13,153)	(10,665)
Subtotal	106,917	92,799
Less: Allowance for impairment losses	(3,422)	(2,960)
-Individually assessed	(355)	(344)
-Collectively assessed	(3,067)	(2,616)
Net value	103,495	89,839
-Finance lease receivables due less than 1 year	32,921	29,403
-Finance lease receivables due more than 1 year	70,574	60,436

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

13. LONG-TERM EQUITY INVESTMENTS

Breakdown of long-term equity investments:

The Group

Investee	Accounting method	Initial investment	01/01/2017	Additions (reduction)	31/12/2017	Proportion of equity interest	Proportion of voting power in the investee	Explanation on inconsistency between the proportion of equity interest and the proportion of voting power in the investee	Provisions	Cash dividends for this year
		RMB Million	RMB Million	RMB Million	RMB Million	(%)	(%)		RMB Million	RMB Million
Bank of Jiujiang Co., Ltd. (1)	Equity method	561	1,931	726	2,657	14.72	14.72	not applicable	—	35
Chongqing Machinery and Electronics Holding Group Finance Company Limited (2)	Equity method	114	154	(154)	—	—	—	not applicable	—	30
Others	Equity method	352	333	18	351			not applicable	—	—
Total			2,418	590	3,008				—	65

The Bank

Investee	Accounting method	Initial investment	01/01/2017	Additions (reduction)	31/12/2017	Proportion of equity interest	Proportion of voting power in the investee	Explanation on inconsistency between the proportion of equity interest and the proportion of voting power in the investee	Provisions	Cash dividends for this year
		RMB Million	RMB Million	RMB Million	RMB Million	(%)	(%)		RMB Million	RMB Million
Bank of Jiujiang Co., Ltd. (1)	Equity method	561	1,931	726	2,657	14.72	14.72	not applicable	—	35
Industrial Bank Financial Leasing Co., Ltd. (Note VII)	Cost method	5,000	5,000	2,000	7,000	100.00	100.00	not applicable	—	—
China Industrial International Trust Limited (Note VII)	Cost method	6,395	6,395	—	6,395	73.00	73.00	not applicable	—	—
CIB Fund Management Co., Ltd. (Note VII)	Cost method	450	450	—	450	90.00	90.00	not applicable	—	—
Industrial Consumer Finance Co., Ltd (Note VII)	Cost method	198	330	132	462	66.00	66.00	not applicable	—	20
Total			14,106	2,858	16,964					55

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

13. LONG-TERM EQUITY INVESTMENTS - continued

(1) In accordance with the YJF [2008] No. 449, approved by the CBRC on 4 November, 2008, the Bank has acquired 102.2 million shares of Bank of Jiujiang Co., Ltd. (refers to as Bank of Jiujiang hereafter) for the price of RMB2.9 yuan per share. As the result, the Bank holds 20% of the total shares of the Bank of Jiujiang after it expanded its share capital. In 2009, Bank of Jiujiang increases 4 shares for every 10 shares to all recorded shareholders based on the share capital by the end of August 2009 by utilizing capital reserve. The Bank currently holds 143.08 million shares of Bank of Jiujiang. In 2010, Bank of Jiujiang increases its registered capital RMB400.66 million, offered privately and subscribed in cash for the price of RMB3.3 yuan per share. The Bank has acquired 80.12 million shares. After the acquisition, the Bank holds 223.20 million shares and the proportion of equity interest remains 20% of the total shares of the Bank of Jiujiang after it expanded its share capital. On 14 December 2011, Bank of Jiujiang increased its registered capital by RMB400 million, none of which was subscribed by the Bank, and the proportion of equity interest of the Bank was diluted to 14.72% after the capital increase. On 17 March 2017, Bank of Jiujiang issued 484 million shares through private placement. The Bank subscribed 71.2 million shares at the price of RMB 6.87 per share. After the subscription, the Bank holds total 294.4 million shares in Bank of Jiujiang with its proportion of shareholding remained at 14.72% of the total share capital of Bank of Jiujiang after the capital increase. As the Bank sent a director to the Bank of Jiujiang and has significant influence over the Bank of Jiujiang, the equity investment is accounted for using the equity method.

(2) Chongqing Machinery and Electronics Holding Group Finance Company Limited is the investee of China Industrial International Trust Limited's long-term investments. As China Industrial International Trust Limited holds 19% of the total shares and sends directors to the investee, China Industrial International Trust Limited has significant influence over Chongqing Machinery and Electronics Holding Group Finance Company Limited, therefore the equity investment is accounted by the equity method. In May 2017, China Industrial International Trust Limited transferred all its equity in Chongqing Machinery and Electronics Holding Group Finance Company Limited.

(3) There are no restrictions of the investees' capital transferring capacities to the Group and the Bank on 31 December 2017.

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

14. FIXED ASSETS

The Group

	Buildings	Fixed assets improvement	Office and machinery equipment	Transportation vehicles	Total
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Cost					
1/1/2017	9,853	1,059	8,878	3,061	22,851
Purchase	27	3	2,753	1,768	4,551
Transfers from constructions in progress	813	11	12	—	836
Sales/disposals	(3)	(14)	(5,578)	(49)	(5,644)
31/12/2017	10,690	1,059	6,065	4,780	22,594
Accumulated depreciation					
1/1/2017	2,264	414	4,289	300	7,267
Depreciation for the year	385	15	945	206	1,551
Eliminated on sales/disposals	(1)	(8)	(1,074)	(18)	(1,101)
31/12/2017	2,648	421	4,160	488	7,717
Net value					
1/1/2017	7,589	645	4,589	2,761	15,584
31/12/2017	8,042	638	1,905	4,292	14,877
Allowance for impairment losses					
1/1/2017	(3)	—	—	—	(3)
Charged for the year	—	—	—	—	—
Eliminated on sales/disposals	—	—	—	—	—
31/12/2017	(3)	—	—	—	(3)
Net carrying amount					
1/1/2017	7,586	645	4,589	2,761	15,581
31/12/2017	8,039	638	1,905	4,292	14,874

Buildings cost RMB 1,265 million are in use but the legal ownership registrations were still in process as at 31 December 2017 (31 December 2016: RMB 1,256 million).

The Bank

	Buildings	Fixed assets improvement	Office and machinery equipment	Transportation vehicles	Total
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Cost					
1/1/2017	9,820	1,058	6,478	424	17,780
Purchase	25	2	751	62	840
Transfers from constructions in progress	813	11	9	—	833
Sales/disposals	(3)	(12)	(1,426)	(49)	(1,490)
31/12/2017	10,655	1,059	5,812	437	17,963
Accumulated depreciation					
1/1/2017	2,257	414	4,201	232	7,104
Depreciation for the year	381	15	735	50	1,181
Eliminated on sales/disposals	(1)	(8)	(905)	(18)	(932)
31/12/2017	2,637	421	4,031	264	7,353
Net value					
1/1/2017	7,563	644	2,277	192	10,676
31/12/2017	8,018	638	1,781	173	10,610

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

14. FIXED ASSETS - continued

The Bank - continued

	Buildings	Fixed assets improvement	Office and machinery equipment	Transportation vehicles	Total
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Allowance for impairment losses					
1/1/2017	(3)	—	—	—	(3)
Charge for the year	—	—	—	—	—
Eliminated on sales/disposals	—	—	—	—	—
31/12/2017	(3)	—	—	—	(3)
Net carrying amount					
1/1/2017	7,560	644	2,277	192	10,673
31/12/2017	8,015	638	1,781	173	10,607

Buildings cost RMB 1,265 million are in use but the legal ownership registrations were still in process as at 31 December 2017 (31 December 2016: RMB 1,256 million).

15. CONSTRUCTION IN PROGRESS

(1) Details of construction in progress are as follows:

The Group

	31/12/2017			31/12/2016		
	Carrying amount	Allowance for impairment loss	Net carrying amount	Carrying amount	Allowance for impairment loss	Net carrying amount
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Operating building, Lujiazui Shanghai	3,678	—	3,678	3,683	—	3,683
Operating building, Tianjin	775	—	775	724	—	724
Operating building, Head office	546	—	546	431	—	431
Operating building, Jinan	457	—	457	407	—	407
Operating building, Guangzhou	365	—	365	—	—	—
Operating building, Zhangzhou	277	—	277	—	—	—
Others	1,026	—	1,026	1,145	—	1,145
Total	7,124	—	7,124	6,390	—	6,390

The Bank

	31/12/2017			31/12/2016		
	Carrying amount	Allowance for impairment loss	Net carrying amount	Carrying amount	Allowance for impairment loss	Net carrying amount
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Operating building, Lujiazui Shanghai	3,678	—	3,678	3,683	—	3,683
Operating building, Tianjin	775	—	775	724	—	724
Operating building, Head office	546	—	546	431	—	431
Operating building, Jinan	457	—	457	407	—	407
Operating building, Guangzhou	365	—	365	—	—	—
Operating building, Zhangzhou	277	—	277	—	—	—
Others	1,024	—	1,024	1,143	—	1,143
Total	7,122	—	7,122	6,388	—	6,388

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

15. CONSTRUCTION IN PROGRESS - continued

(2) Significant changes in construction in progress are as follows:

The Group

	2017				
	1/1/2017	Additions (decrease)	Transfer to fixed assets	Transfer to long-term prepaid expenses	31/12/2017
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Operating building, Lujiazui Shanghai	3,683	(5)	—	—	3,678
Operating building, Tianjin	724	51	—	—	775
Operating building, Head office	431	115	—	—	546
Operating building, Jinan	407	50	—	—	457
Operating building, Guangzhou	—	365	—	—	365
Operating building, Zhangzhou	—	277	—	—	277
Others	1,145	1,103	836	386	1,026
Total	6,390	1,956	836	386	7,124

The Bank

	2017				
	1/1/2017	Additions (decrease)	Transfer to fixed assets	Transfer to long-term prepaid expenses	31/12/2017
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Operating building, Lujiazui Shanghai	3,683	(5)	—	—	3,678
Operating building, Tianjin	724	51	—	—	775
Operating building, Head office	431	115	—	—	546
Operating building, Jinan	407	50	—	—	457
Operating building, Guangzhou	—	365	—	—	365
Operating building, Zhangzhou	—	277	—	—	277
Others	1,143	1,096	833	382	1,024
Total	6,388	1,949	833	382	7,122

16. GOODWILL

The Group

Investee	01/01/2017	Additions	Deductions	31/12/2017	31/12/2017 Provision
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
China Industrial International Trust Limited	532	—	—	532	—

Goodwill arose from acquisition of China Industrial International Trust Limited in February 2011, and the overweight of China Industrial Future Limited by China Industrial International Trust Limited in March 2015.

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

16. GOODWILL - continued

At the end of the year, the Group performed impairment tests on goodwill based on expected future cash flow of the investee, applying appropriate discount rate, reflecting current time value of money and the risk of specific assets. No evidence shows that the recoverable amount of goodwill is less than the carrying amount as at December 2017, therefore no impairment is recognised.

17. DEFERRED TAX ASSET AND DEFERRED TAX LIABILITY

(1) Recognized deferred tax assets and liabilities

	The Group				The Bank			
	31/12/2017		31/12/2016		31/12/2017		31/12/2016	
	Deductible (taxable) temporary differences	Deferred tax assets (liabilities)	Deductible (taxable) temporary differences	Deferred tax assets (liabilities)	Deductible (taxable) temporary differences	Deferred tax assets (liabilities)	Deductible (taxable) temporary differences	Deferred tax assets (liabilities)
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Deferred tax assets								
Impairment losses on assets	92,601	23,150	81,995	20,499	89,601	22,400	79,544	19,886
Fair value changes of financial assets at fair value through profit or loss	643	161	412	103	643	161	412	103
Fair value changes of financial liability at fair value through profit or loss	20	5	—	—	2	1	—	—
Accrued but not paid employee benefits	12,014	3,004	11,757	2,940	10,977	2,744	10,951	2,738
Fair value changes of available-for-sale financial assets	2,558	640	46	11	2,446	612	—	—
Fair value changes of derivative financial instruments	1,277	319	287	71	1,277	319	287	71
Fair value changes of precious metals	—	—	695	174	—	—	695	174
Others	885	221	517	130	769	192	280	70
Deferred tax assets before offset	109,998	27,500	95,709	23,928	105,715	26,429	92,169	23,042
Deferred tax liabilities								
Difference of fixed asset impairment tax	(324)	(81)	(346)	(87)	(324)	(81)	(346)	(87)
Fair value changes of available-for-sale financial assets	(27)	(7)	(1,538)	(384)	—	—	(1,518)	(379)
Changes in the fair value of precious metals.	(458)	(115)	—	—	(458)	(115)	—	—
Fair value changes of financial assets at fair value through profit or loss	—	—	(2)	(1)	—	—	—	—
Deferred tax liabilities before offset	(809)	(203)	(1,886)	(472)	(782)	(196)	(1,864)	(466)
Net amount after offset	109,189	27,297	93,823	23,456	104,933	26,233	90,305	22,576

The tax payment of various domestic branches of Bank can be aggregated, and the deferred tax assets and deferred tax liabilities are presented at the net amount after offset; the overseas branches being individual taxable entity, the deferred tax assets and deferred tax liabilities of the respective entity can be presented at the net amount after offset. When there is net deferred tax/liabilities in overseas branches, they are not offset against those in domestic branches. The subsidiaries of the Bank being individual taxable entity, the deferred tax assets and deferred tax liabilities of the respective entity can be presented at the net amount after offset.

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

17. DEFERRED TAX ASSET AND DEFERRED TAX LIABILITY - continued

(1) Recognized deferred tax assets and liabilities - continued

	The Group	The Bank
	2017	2017
	RMB Million	RMB Million
Opening balance of net value	23,456	22,576
- Deferred tax assets	23,928	23,042
- Deferred tax liabilities	(472)	(466)
Net changes of deferred tax recognised in income tax expenses	2,835	2,666
Net changes of deferred tax recognised in other comprehensive income	1,006	991
Closing balance of net value	27,297	26,233
- Deferred tax assets	27,500	26,429
- Deferred tax liabilities	(203)	(196)

(2) According to the Group's future profit forecast, the Group believes that it is probable that sufficient taxable profits will be available in future periods to offset the deductible temporary differences and deductible losses. Therefore, the Group can recognize the deferred tax assets.

18. OTHER ASSETS

	The Group		The Bank	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	RMB Million	RMB Million	RMB Million	RMB Million
Other receivables (1)	15,496	10,686	7,289	6,505
Prepaid purchase cost of finance lease assets	15,753	16,872	—	—
Foreclosed assets (2)	463	424	463	424
Receivables to be settled and cleared.	170	1,224	170	1,224
Assets with continuing involvement	2,101	—	2,101	—
Long term prepaid expenses (3)	1,463	1,689	1,409	1,646
Net assets of defined benefit plan (Note VIII, 49.2)	1,412	673	1,412	673
Total	36,858	31,568	12,844	10,472

(1) Other receivables

Listed by aging:

Account age	The Group				The Bank			
	31/12/2017		31/12/2016		31/12/2017		31/12/2016	
	Amount	Proportion	Amount	Proportion	Amount	Proportion	Amount	Proportion
	RMB Million	(%)	RMB Million	(%)	RMB Million	(%)	RMB Million	(%)
Within 1 year	14,035	82.39	9,047	76.16	5,849	66.26	4,877	63.35
1-2 years	421	2.47	2,351	19.79	400	4.53	2,340	30.40
2-3 years	2,169	12.73	185	1.56	2,169	24.57	185	2.40
Over 3 years	409	2.41	296	2.49	409	4.64	296	3.85
Subtotal	17,034	100.00	11,879	100.00	8,827	100.00	7,698	100.00
Less: Allowance for impairment losses	(1,538)		(1,193)		(1,538)		(1,193)	
Net value	15,496		10,686		7,289		6,505	

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

18. OTHER ASSETS - continued

(2) Foreclosed assets

Analysed by category of the foreclosed assets:

The Group and the Bank

	31/12/2017	31/12/2016
	RMB Million	RMB Million
Buildings	392	396
Land use rights	85	48
Others	3	3
Subtotal	480	447
Less: Allowance for impairment losses	(17)	(23)
Net value	463	424

(3) Long term prepaid expenses

The Group

	1/1/2017	Additions	Transferred from construction in progress	Amortization	31/12/2017
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Leasehold improvements	1,569	84	385	(668)	1,370
Others	120	8	1	(36)	93
Total	1,689	92	386	(704)	1,463

The Bank

	1/1/2017	Additions	Transferred from construction in progress	Amortization	31/12/2017
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Leasehold Improvements	1,526	52	381	(643)	1,316
Others	120	8	1	(36)	93
Total	1,646	60	382	(679)	1,409

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

19. ALLOWANCE FOR IMPAIRMENT LOSSES ON ASSETS

The Group

	2017					
	1/1/2017	Charge/(Reversal)	Transfer in/(out)	Write-off	Exchange rate influence	31/12/2017
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Allowance for impairment losses on deposits with banks and other financial institutions	21	—	—	(5)	—	16
Allowance for impairment losses on placements with banks and other financial institutions	64	(4)	—	—	—	60
Allowance for impairment losses on loans and advances to customers	72,448	28,621	2,371	(21,529)	(47)	81,864
Allowance for impairment losses on held-to-maturity investments	139	—	—	—	(8)	131
Allowance for impairment losses on for available-for-sale financial assets	2,773	(598)	—	—	(7)	2,168
Allowance for impairment losses on investments classified as receivables	13,403	6,290	—	(2,727)	—	16,966
Allowance for impairment losses on finance lease receivables	2,960	462	—	—	—	3,422
Allowance for impairment losses on fixed assets	3	—	—	—	—	3
Allowance for impairment losses on foreclosed assets	23	4	—	(10)	—	17
Allowance for impairment losses on prepaid purchase cost of finance lease assets	438	33	—	—	—	471
Allowance for impairment losses on other assets	1,193	699	(168)	(186)	—	1,538
Total	93,465	35,507	2,203	(24,457)	(62)	106,656

The Bank

	2017					
	1/1/2017	Charge/(Reversal)	Transfer in/(out)	Write-off	Exchange rate influence	31/12/2017
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Allowance for impairment losses on deposits with banks and other financial institutions	21	—	—	(5)	—	16
Allowance for impairment losses on placements with banks and other financial institutions	64	(4)	—	—	—	60
Allowance for impairment losses on loans and advances to customers	72,263	28,429	2,366	(21,513)	(47)	81,498
Allowance for impairment losses on held-to-maturity investments	139	—	—	—	(8)	131
Allowance for impairment losses on available-for-sale financial assets	2,752	(597)	—	—	(7)	2,148
Allowance for impairment losses on investments classified as receivables	13,403	6,236	—	(2,727)	—	16,912
Allowance for impairment losses on fixed assets	3	—	—	—	—	3
Allowance for impairment losses on foreclosed assets	23	4	—	(10)	—	17
Allowance for impairment losses on other assets	1,193	699	(168)	(186)	—	1,538
Total	89,861	34,767	2,198	(24,441)	(62)	102,323

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

20. DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group		The Bank	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	RMB Million	RMB Million	RMB Million	RMB Million
Deposits from banks:				
Domestic banks	315,782	689,202	315,782	689,202
Foreign banks	80,864	53,199	80,864	53,199
Deposits from other financial institutions				
Other domestic financial institutions	1,049,413	978,607	1,052,407	986,298
Total	1,446,059	1,721,008	1,449,053	1,728,699

21. PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group		The Bank	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	RMB Million	RMB Million	RMB Million	RMB Million
Placements from:				
Domestic banks	139,711	99,999	39,100	13,776
Other domestic financial institutions	2,731	4,571	2,731	4,571
Overseas banks	45,487	25,434	43,318	24,250
Total	187,929	130,004	85,149	42,597

22. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group		The Bank	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	RMB Million	RMB Million	RMB Million	RMB Million
Trading financial liabilities:				
Sold financing bonds	873	459	873	459
Others	123	—	123	—
Financial liabilities assigned as at fair value through profit or loss	5,567	35	4,729	—
Total	6,563	494	5,725	459

23. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	The Group		The Bank	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	RMB Million	RMB Million	RMB Million	RMB Million
Bonds	209,658	143,440	203,749	141,654
Bills	20,136	24,037	20,136	24,037
Total	229,794	167,477	223,885	165,691

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

24. DUE TO CUSTOMERS

The Group

	31/12/2017	31/12/2016
	RMB Million	RMB Million
Demand deposits		
Corporate	1,083,505	969,658
Personal	227,134	215,305
Subtotal	1,310,639	1,184,963
Term deposits (including call deposits)		
Corporate	1,373,402	1,176,856
Personal	194,172	135,561
Subtotal	1,567,574	1,312,417
Guaranteed and margin deposits	205,923	194,657
Others	2,757	2,714
Total	3,086,893	2,694,751

Analysed by business/products for which guaranteed and margin deposits are required:

	31/12/2017	31/12/2016
	RMB Million	RMB Million
Bank acceptances	107,853	106,059
Letters of credit	14,486	16,328
Guarantee	14,124	11,004
Others	69,460	61,266
Total	205,923	194,657

The Bank

	31/12/2017	31/12/2016
	RMB Million	RMB Million
Demand deposits		
Corporate	1,084,291	969,750
Personal	227,134	215,305
Subtotal	1,311,425	1,185,055
Term deposits (including call deposits)		
Corporate	1,373,642	1,176,856
Personal	194,172	135,561
Subtotal	1,567,814	1,312,417
Guaranteed and margin deposits	205,923	194,657
Others	2,757	2,714
Total	3,087,919	2,694,843

Analysed by business/products for which guaranteed and margin deposits are required:

	31/12/2017	31/12/2016
	RMB Million	RMB Million
Bank acceptances	107,853	106,059
Letters of credit	14,486	16,328
Guarantee	14,124	11,004
Others	69,460	61,266
Total	205,923	194,657

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

25. EMPLOYEE BENEFITS PAYABLE

	The Group				The Bank			
	1/1/2017	Increase	Decrease	31/12/2017	1/1/2017	Increase	Decrease	31/12/2017
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Salaries and bonus	12,228	17,628	(17,649)	12,207	11,120	16,126	(16,305)	10,941
Labour union expenditure and staff educational funds	1,345	695	(465)	1,575	1,311	652	(433)	1,530
Social insurance	167	2,263	(2,326)	104	148	2,057	(2,123)	82
Housing funds	45	940	(941)	44	41	881	(882)	40
Defined contribution plans	131	2,261	(2,285)	107	112	2,179	(2,200)	91
Total	13,916	23,787	(23,666)	14,037	12,732	21,895	(21,943)	12,684

The salaries, bonus, retirement benefits and other social insurance of employee benefits payable are granted or paid according to time limit set by relevant laws, regulations and the Group's policies. See defined contribution pension plans in Note VIII, 49.1,

26. TAX PAYABLE

	The Group		The Bank	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	RMB million	RMB million	RMB million	RMB million
Income tax	6,160	11,077	5,643	10,413
Value added tax	1,399	132	1,401	136
City maintenance and construction tax	82	22	72	18
Others	487	257	311	242
Total	8,128	11,488	7,427	10,809

27. INTEREST PAYABLE

	The Group		The Bank	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	RMB million	RMB million	RMB million	RMB million
Interest borrowing from Central Bank	3,581	1,565	3,581	1,565
Interest deposits from banks and other financial institutions	7,589	6,087	7,599	6,092
Interest of placements from banks and other financial institutions	1,416	732	356	200
Interest of debt securities issued	4,505	4,309	4,237	4,233
Interest of financial assets sold under repurchase agreements	386	200	386	200
Interest due to customers	23,352	22,679	23,352	22,679
Others	464	328	434	326
Total	41,293	35,900	39,945	35,295

28. DEBT SECURITIES ISSUED

	The Group		The Bank	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	RMB million	RMB million	RMB million	RMB million
Long term subordinated bonds	20,953	20,951	20,953	20,951
Financial bonds	97,530	91,704	86,471	86,816
Secondary capital bonds	51,930	49,925	49,930	49,925
Non-negotiable certificates of deposit	471,058	536,722	471,058	536,722
Certificates of deposit	19,620	13,810	19,620	13,810
Asset-backed securities	1,867	854	—	—
Total	662,958	713,966	648,032	708,224

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

28. DEBT SECURITIES ISSUED - continued

Note : Debt securities issued by the Group include long-term subordinated bonds, financial bonds, secondary capital bonds, non-negotiable certificates of deposit, certificates of deposit and asset-backed securities. The secondary capital bonds are issued by commercial banks to supply the secondary capital. The secondary capital bonds and the long term subordinated bonds are in the same liquidation sequence.

Detailed information for debt securities issued as follows:

Category of bonds	Issuing date	Interest payment frequency	The Group	The Bank
			31/12/2017	31/12/2017
			RMB million	RMB million
Long-term subordinate bonds				
09 CIB 02 [(1)]	2009-09-09	Yearly	7,995	7,995
10 CIB debt [(2)]	2010-03-29	Yearly	3,000	3,000
11 CIB subordinated debt [(3)]	2011-06-28	Yearly	10,000	10,000
Less: unamortized issuance cost			(42)	(42)
Subtotal			20,953	20,953
Financial bonds 15 CIB 01 [(4)]	2015-01-19	Yearly	30,000	30,000
15 CIB leasing debt 01 [(5)]	2015-06-08	Yearly	2,000	—
15 CIB leasing debt 02 [(5)]	2015-10-20	Yearly	3,000	—
16 CIB green financial bond 01 [(6)]	2016-01-28	Yearly	10,000	10,000
16 CIB green financial bond 02 [(6)]	2016-07-14	Yearly	20,000	20,000
USD medium-term notes [(7)]	2016-09-21	Half-year	4,574	4,574
USD medium-term notes [(7)]	2016-09-21	Half-year	1,960	1,960
16 CIB green financial bond 03 [(6)]	2016-11-15	Yearly	20,000	20,000
17 CIB leasing debt 01 [(8)]	2017-03-08	Yearly	400	—
17 CIB leasing debt 02 [(8)]	2017-05-19	Yearly	2,000	—
17 CIB leasing debt 03 [(8)]	2017-08-10	Yearly	3,680	—
Less: unamortized issuance cost			(84)	(63)
Subtotal			97,530	86,471
Secondary capital bonds				
14 CIB secondary [(9)]	2014-06-18	Yearly	20,000	20,000
16 CIB secondary [(10)]	2016-04-11	Yearly	30,000	30,000
17 CIB leasing secondary [(11)]	2017-09-15	Yearly	2,000	—
Less: unamortized issuance cost			(70)	(70)
Subtotal			51,930	49,930

Type-continued	The Group	The Bank
	31/12/2017 RMB million	31/12/2017 RMB million
Non-negotiable certificates of deposit		
Carrying value of Non-negotiable certificate of deposit [(12)]	476,749	476,749
Less: unamortized issuance cost	(5,691)	(5,691)
Subtotal	471,058	471,058
Certificate of deposit		
Carrying value of certificate of deposit [(13)]	19,554	19,554
Accrued interest	117	117
Less: unamortized issuance cost	(51)	(51)
Subtotal	19,620	19,620
Asset-backed securities		
Jinxin 2016 Series 1 leasing asset-backed security [(14)]	74	—
Jinxin 2017 Series 1 leasing asset-backed security [(15]	1,720	—
CIB trust•Xingxin series 1 asset-backed special plan [(16)]	73	—
Subtotal	1,867	—
Total	662,958	648,032

(1) In September 2009, the Group issued RMB 7,995 million subordinated bonds with a 15-year maturity, a fixed interest rate and a redemption option in the end of the tenth year. The annual coupon rate in first ten interest-bearing years is 5.17%, and the rate in late five years is 8.17% if the issuer does not exercise the option of redemption.

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

28. DEBT SECURITIES ISSUED - continued

(2) In March 2010, the Group issued RMB 3,000 million subordinated bond with a 15-year maturity, a fixed interest rate and a redemption right in the end of the tenth year. The annual coupon rate in first ten interest-bearing years is 4.80%, and the rate in late five years is 7.80% if the issuer does not exercise the option of redemption.

(3) In June 2011, the Group issued RMB 10,000 million subordinated bond with a 15-year maturity, a fixed interest rate and a redemption right in the end of the tenth year. The annual coupon rate is 5.75% consistently.

(4) The Group issued RMB 30 billion of 3-year fixed interest rate RMB financial bonds in January 2015. The annual interest rate is 4.95%.

(5) The subsidiary China Industrial Finance Leasing Limited issued RMB 2 billion of 3-year fixed interest rate RMB financial bonds in June 2015 and RMB3 billion in October 2015. The annual interest rate is 4.2% and 3.75% respectively.

(6) In January 2016, July 2016 and November 2016, the Group respectively issued green financial bonds of 3-year bonds amounting RMB 10,000 million, 3-year bonds amounting RMB 20,000 million and 5-year bonds amounting RMB 20 billion with fixed rate of 2.95%, 3.20% and 3.40%.

(7) In September 2016, the Group set the medium-term notes issuing plan with limit of USD 5 billion at The Stock Exchange of Hong Kong Ltd According to the plan, the Hong Kong branch of the Bank initially issued 3-year medium-term notes amounting USD 700 million and 5-year medium-term notes amounting USD 300 million at fixed annual rate of 2.00% and 2.375% respectively. The annual rate kept constant during the existence of bonds.

(8) In March 2017, May 2017 and August 2017, the Group's subsidiary China Industrial Finance Leasing Limited issued RMB 500 milion, RMB 2,000 million and RMB 4,000 million three-year fixed interest rate financial bonds at the annual rate of 4.5%, 5% and 4.7% respectively. As at 31 December 2017, the Bank holds 17 CIB leasing debt 01 of RMB 100 million and 17 CIB leasing debt 03 of RMB 320 million issued by China Industrial Finance Leasing Limited in March 2017 and August 2017 respectively.

(9) In June 2014, the Group issued RMB 20,000 million subordinated bond with a 10-year maturity, a fixed interest rate and a redemption right in the end of the fifth year. The annual coupon rate is 6.15% consistently.

(10) In April 2016, the Group issued RMB 30,000 million subordinated bond with a 10-year maturity, a fixed interest rate and a redemption right at the end of the fifth year. The annual coupon rate is 3.74% consistently.

(11) In September 2017, the Group's subsidiary China Industrial Finance Leasing Limited issued RMB 2 billion 10-year secondary capital bonds with fixed interest rate and issuer's redemption right at the end of the 5th year. During the tenure of the bonds, the annual interest rate remains at 5.15%.

(12) As at 31 December 2017, the Group had 388 unpaid non-negotiable certificates of deposit with total amount of RMB 476,749 million, including 2 USD non-negotiable certificates deposit, of which the issued par value was USD 260 million (RMB 1,699 million) and the terms are within 1 year and 3 months; 386 RMB non-negotiable certificates of deposit, of which the issued par value is RMB 475,050 million, with RMB 452,258 million due within 1 year and the rest due in 2 to 3 years. The annual rate is 2.17% to 5.68%. Except for interest of 39 interest-bearing debts being paid quarterly, the interest of rest is paid upon maturity.

(13) As at 31 December 2017, Hong Kong branch had 50 unpaid non-negotiable certificates of deposit, of which the amount was RMB 19,554 million and terms are all less than 1 year. The amount of 17 HKD certificates was HKD 6,520 million (RMB 5,450 million); the amount of 19 USD certificates was USD 1,308 million (RMB 8,546 million). 9 RMB certificates with issued par value of RMB 3,800 million; 5 GBP certificates with issued par value of GBP 200 million (RMB 1,758 million). The annual interest rate was between 0.89% and 5.05%. The interest of all certificates is paid upon maturity.

(14) The Group's subsidiary, Industrial Bank Financial Leasing Co., Ltd. issued "Jin Xin 2016 Series 1 leasing asset-backed security" amounting RMB 2,156 million in September 2016. As at 31 December 2017, the existing amount of "Jin Xin 2016 Series 1 leasing asset-backed security" is RMB 313 million, including RMB 239 million held by the initiator. The amount held by the initiator has been offset in the consolidated financial statements.

(15) In May 2017, the Group's subsidiary, Industrial Bank Financial Leasing Co., Ltd. issued "Jin Xin 2017 Series 1 leasing asset-backed security" amounting RMB 4,721 million. As at 31 December 2017, the existing amount of "Jin Xin 2017 Series 1 leasing asset-backed security" is RMB 2,626 million, including RMB 801 million held by the initiator and RMB 105 million held by the Bank. The amount held by the initiator and the bank has been offset in the consolidated financial statements.

(16) In December 2016, the Group's subsidiary, China Industrial International Trust Limited issued "CIB Trust• Xingxin Series 1 Asset-backed Special Plan" amounting RMB 1,424 million. As at 31 December 2017, the existing amount of " CIB Trust• Xingxin Series 1 Asset-backed Special Plan" is RMB 924 million, including RMB 71 million held by the initiator, China Industrial International Trust Limited and RMB 780 million held by the Bank. The amount held by the initiator and the bank has been offset in the consolidated financial statements.

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

29. OTHER LIABILITIES

	The Group		The Bank	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	RMB million	RMB million	RMB million	RMB million
Bank promissory notes	119	1,021	119	1,021
Items in the process of clearance and settlement	2,111	1,980	2,111	1,980
Dividend payables	1	1	1	1
Liabilities with continuing involvement	2,101	—	2,101	—
Wealth management and entrusted investment fund	74	138	74	138
Deferred income	3,488	3,175	1,348	1,125
Other payables	28,028	21,687	10,981	7,467
Total	35,922	28,002	16,735	11,732

30. SHARE CAPITAL

The Group and the Bank

	1/1/2017	Change for the year	31/12/2017
	RMB million	RMB million	RMB million
Shares without limited sales restrictions			
RMB ordinary shares (A shares)	19,052	—	19,052
Shares with limited sales restrictions			
RMB ordinary shares (A shares)	—	1,722	1,722
Total shares	19,052	1,722	20,774

In the current year, the Bank issued A shares to Fujian Provincial Department of finance, China National Tobacco Corporation, China National Tobacco Corporation Fujian Branch, China National Tobacco Corporation Guangdong Branch, Sunshine Holdings Limited, Fujian Investment & Development Group., Ltd. by non-public offering of total 1,721,854,000 shares and raised fund totalling RMB 25,999,995,400.00. The aforesaid capital increase and share expansion have been verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP, which has issued capital verification report De Shi Bao (Yan) Zi (17) No. 00187. Fujian Provincial Department of finance, China National Tobacco Corporation, China National Tobacco Corporation Fujian Branch, China National Tobacco Corporation Guangdong Branch subscribed the shares of this non-public offering, which shall not be transferred within 60 months since the end date of the issuance. Sunshine Holdings Limited and Fujian Investment & Development Group., Ltd. subscribed the shares of this non-public offering, which shall not be transferred within 36 months since the end date of the issuance.

As at 31 December 2017, the share capital of the Bank is RMB20,774 million (31 December 2016: RMB19,052 million) with par value of RMB 1 Yuan per share.

31. OTHER EQUITY INSTRUMENTS

The Bank are approved by CSRC to non-publicly issue domestic preference shares no further than RMB 26 billion on 24/11/2014, in which RMB 13 billion is initially issued with face value of RMB 100 per share and completed in December 2014, which was verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP.. In June 2015, the Bank issued the second term of non-publicly domestic preference shares for RMB 13 billion, with face value of RMB 100 per share, which was verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP.. The Bank completed the issue of RMB 26 billion domestic preference shares, approved in November 2014, successfully in June 2015.

Outstanding preference shares in the end of the year are as follows:

The Group and the Bank

Outstanding financial Instrument	Time	Classification	Rate	Price	Quantity	Amount	Maturity Date	Conversion requirement	Condition
				RMB/Share	RMB Million Share	RMB million			
Preference shares	12/2014	Equity instrument	Note1	100	130	13,000	N/A	Note 3	N/A
Preference shares	06/2015	Equity instrument	Note2	100	130	13,000	N/A	Note 3	N/A

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

31. OTHER EQUITY INSTRUMENTS - continued

The Group and the Bank - continued

Note 1: For the first issue of the preference shares, every five year is an interest-bearing cycle from the payment deadline 8 December 2014, the dividend rate is the same in every interest-bearing cycle. The dividend rate of first cycle is determined to be 6.00% through inquiring, by the Board of Directors in according with the shareholders' meeting authorized combining with some factors such as national policy when issued, market conditions, specific circumstances of the Bank and requirements of investors. The dividend rate of preference shares of this issue is not higher than annual weighted average ROE of ordinary shareholders in the last two fiscal years. The dividend rate of preference shares of this issue is the sum of benchmark interest rate and basic interest rate, the benchmark interest rate of the first interest-bearing cycle is national debt (which period before payment is for 5 years) YTM's arithmetic mean (i.e. 3.45%, rounded off to 0.01%), from the fixed-rate national debt yield curve in Bank Debt published by China Bond Information Website (or any other websites approved by Central Securities Depository Trust and Clearing Corporation Limited), 20 days before 8 December 2014 which's the date of the deadline for payment of preference shares issued (excluding the day). The benchmark interest rate adjusts every 5 years from the deadline for payment of preference shares issued. The basic interest rate is the dividend rate of first cycle deducting the benchmark interest rate, which is 2.55%. The basic interest rate will no longer be adjusted since the issue of determining. The coupon interest rate of follow-up period is current dividend benchmark interest rate plus an interest margin, the benchmark interest rate of current interest-bearing cycle is national debt (which period before payment is for 5 years) YTM's arithmetic mean (rounded off to 0.01%), from the fixed-rate national debt yield curve in Bank Debt published by China Bond Information Website (or any other websites approved by Central Securities Depository Trust and Clearing Corporation Limited), 20 days before benchmark interest rate adjustment date which's the date of each 5 years of the deadline for payment of preference shares issued (which is 8 December). If the YTM of 5-year treasury bonds with 5-year maturity is not available on the benchmark interest adjustment day, the benchmark interest rate or determination principal will be determined under negotiations between the Bank and investors required by regulator.

Note 2: For the second issue of preference shares, every five year is an interest-bearing cycle from the payment deadline 24 June 2015, the dividend rate is the same in every interest-bearing cycle. The dividend rate of first cycle is determined to be 5.40% through inquiring, by the Board of Directors in according with the shareholders' meeting authorized combining with some factors such as national policy when issued, market conditions, specific circumstances of the Bank and requirements of investors. The dividend rate of preference shares of this issue is not higher than annual weighted average ROE of ordinary shareholders in the last two fiscal years. The dividend rate of preference shares of this issue is the sum of benchmark interest rate and basic interest rate, the benchmark interest rate of the first interest-bearing cycle is national debt (which period before payment is for 5 years) YTM's arithmetic mean (i.e. 3.25%, rounded off to 0.01%), from the fixed-rate national debt yield curve in Bank debt published on www.chinabond.com.cn (or any other websites approved by Central Securities Depository Trust and Clearing Corporation Limited), 20 days before 24 June 2015 which's the date of the deadline for payment of preference shares issued (excluding the day).

The benchmark interest rate adjusts every 5 years from the deadline for payment of preference shares issued. The basic interest rate is the dividend rate of first cycle deducting the benchmark interest rate, which is 2.15%. The basic interest rate will no longer be adjusted since the issue of determining. The coupon interest rate of follow-up period is current dividend benchmark interest rate plus an interest margin, the benchmark interest rate of current interest-bearing cycle is national debt (which period before payment is for 5 years) YTM's arithmetic mean (rounded off to 0.01%), from the fixed-rate national debt yield curve in Bank Debt published on www.chinabond.com.cn (or any other websites approved by Central Securities Depository Trust and Clearing Corporation Limited), 20 days before benchmark interest rate adjustment date which's the date of each 5 years of the deadline for payment of preference shares issued (which is 24 June). If the YTM of 5-year national debt with 5-year maturity is not available on the benchmark interest adjustment day, the benchmark interest rate or determination principal will be determined under negotiations between the Bank and investors required by regulator.

Note 3: (1) When the Bank's core tier one capital adequacy ratio fell to 5.125%, the preference shares of this issue will be examined and decided by the CBRC in accordance with the relevant requirements of, in accordance with the full mandatory conversion price into ordinary shares of the Bank, when the preference shares converted into A shares of ordinary share, under any conditions no longer be restored to preference shares.

(2) When triggered event of the secondary capital instruments issued by the Bank occurs, the preference shares of this issue will be examined and decided by the CBRC in accordance with the relevant requirements of, in accordance with the full mandatory conversion price into ordinary shares of the Bank, when the preference shares converted into A shares of ordinary share, under any conditions no longer be restored to preference shares. Among them, the secondary capital instruments triggering event is the earlier of the following two situations: ① the CBRC identifies if it was not conversion or written down, the Bank will be unable to survive; ② Relevant departments identify if the public sectors don't inject or offer the same effect support, the Bank will not survive.

The principal terms of disclosure (applicable to first and second issue of domestic preference shares):

The Bank will pay preferred dividends in cash. The preference shares of this issue use a non-cumulative dividend payment, which means dividend that is not paid in full to preference shareholders do not accrue interest to next year. After the preference shareholders of this issue obtain distribution in accordance with the agreed dividend rate, they can no longer participate in the distribution of profits remaining.

Under the premise of ensuring the capital adequacy ratio from the regulatory requirements, after the Bank covers losses, extracts mandatory reserve and other reserve, under the case of there still is retained earnings in the Bank's financial statements calibre, the Bank could allocate dividends to preference shareholders. The priority of

31. OTHER EQUITY INSTRUMENTS - continued

The Group and the Bank - continued

preference shareholders dividends is higher than ordinary shareholders, payment of preference shares dividends is neither linked to ratings of banks, nor adjusted with the rating changes. The Bank could cancel payment of dividend in any case, and it does not constitute an event of default. The Bank can freely cancel the dividends distribution without constituting a breach of contract. The Bank is entitled to arrange cancelled income as payment to other debts with maturity. Cancelling paying dividend shall not constitute any further restrictions on the Bank except income distribution of ordinary shares. When the Bank exercises these rights, it will take full account into the interests of preference shareholders. If payment of dividend for preference shareholders is all or part cancelled, the Bank shall not pay ordinary share dividend for the fiscal year.

The right of redemption for preference shares of this issue belongs to the Bank, the Bank exercised the right of conditional redemption is under the premise of the CBRC's approval, the Bank's preference shareholders do not have the right to request redemption of preference shares and should not form expectations that the preference shares will be redeemed.

The initial mandatory conversion price of the preference shares of this issue is the Bank A shares of ordinary share trading price on the date of 20 days before consideration by the Board of Directors of this preference shares issued, which means that mandatory initial conversion price of preference shares of this issue is RMB9.86 / share. Since the day that the issuance of preference shares program is passed by the Bank's Board of Directors, when the Bank shares change with the delivery of the stock dividend, share capital, issuance of new shares (not including any increasing share capital from conversion of financing instruments with terms that could be converted to ordinary shares) or the allotment of shares, the preference shares will be cumulatively adjusted in turn the forced conversion price in accordance with the established formula , and disclose relevant information in accordance with the provisions.

The Bank's preference shareholders are entitled with priority to ordinary shareholders of the remaining property dividing, the amount paid off is the sum of the neither cancelled nor distributed dividends and the total nominal amount of the held preference shares; if it could not cover, then assign by the preference shareholders in proportion to their shareholding.

As of 30 June 2015, the Bank's net proceeds of RMB 25,905 million dollars have been all used to supplement the first level capital.

Changes of outstanding preference shares are as follows:

The Group and the Bank

	1/1/2017		Addition		Less		31/12/2017	
	Quant	Carrying value	Quantity	Carrying value	Quantity	Carrying value	Quantity	Carrying value
	Million	RMB Million	Million	RMB Million	Million	RMB Million	Million	RMB Million
Preference shares	260	26,000	—	—	—	—	260	26,000
Fees		(95)		—		—		(95)
Total	260	25,905	—	—	—	—	260	25,905

Attributing to holders of equity instrument

The Group

	31/12/2017	31/12/2016
	RMB Million	RMB Million
Equities attributable to equity holders of parent company		
Equities attributable to ordinary shareholders of parent company	390,990	324,224
Equities attributable to other equity holders of parent company	25,905	25,905
Net profit	1,482	1,147
Total comprehensive income	1,482	1,147
Distributed dividend of the period	(1,482)	(1,147)
Accumulated retained dividend	—	—
Equities attributable to non-controlling interests in equity	5,857	4,281

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

32. CAPITAL RESERVE

	The Group				The Bank			
	1/1/2017	Increase	Decrease	31/12/2017	1/1/2017	Increase	Decrease	31/12/2017
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Share premium	50,828	24,179	(29)	74,978	51,048	24,179	—	75,227
Others	33	—	—	33	33	—	—	33
Total	50,861	24,179	(29)	75,011	51,081	24,179	—	75,260

33. SURPLUS RESERVE

The Group and the Bank

	12/31/2017	31/12/2016
	RMB million	RMB million
Statutory surplus reserve	10,387	9,527
Discretionary surplus reserve	297	297
Total	10,684	9,824

Under relevant PRC law, the Bank is required to transfer 10% of its net profit to a non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of this reserve has reached 50% of share capital. As of 31 December 2017, the Bank make appropriations to the statutory surplus reserves in respect of the deficit of statutory surplus reserves of prior year in less than 50% of the share capital of the Bank.

34. GENERAL AND REGULATION RESERVE

	The Group		The Bank	
	2017	2016	2017	2016
	RMB Million	RMB Million	RMB Million	RMB Million
General and regulatory reserve	70,611	69,878	67,888	67,744

Pursuant to (CJ[2012] No. 20) *Measures on General Provision for Bad and Doubtful Debts for Financial Institutions* promulgated by the MOF, the Bank is required to transfer certain percentage of its net profit to establish and maintain a general reserve within shareholders' equity, through the appropriation of profit to address unidentified potential impairment losses. In principle, the general and regulatory reserve, accounted as profit distribution, should not be lower than 1.5% of the closing balance of gross risk-bearing assets since it is a part of shareholders' equity. Gross risk-bearing assets, include loans and advances to customers, available-for-sale financial assets, held-to-maturity investments, investments classified as receivables, long-term equity investments, deposits with banks and other financial institutions, placements with banks and other financial institutions, foreclosed assets and other receivables and so forth. As at 31 December 2017, the balance of the provision of general risk is 1.5% of the balance of risk-bearing assets at the end of the year. The subsidiaries of the Bank determine the general and regulatory reserve according to the regulation.

35. RETAINED EARNINGS

	The Group		The Bank	
	2017	2016	2017	2016
	RMB million	RMB million	RMB million	RMB million
Opening balance	173,524	141,656	165,156	135,478
Net profit for the year	57,200	53,850	54,007	50,974
Appropriations to statutory surplus reserve	(860)	—	(860)	—
Appropriations to general and regulatory reserve	(733)	(9,213)	(144)	(8,527)
Dividends distribution of ordinary shares	(12,672)	(11,622)	(12,672)	(11,622)
Dividends distribution of preference shares	(1,482)	(1,147)	(1,482)	(1,147)
Closing balance	214,977	173,524	204,005	165,156

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

35. RETAINED EARNINGS - continued

(1) "2017 Profit Distribution Proposal of the Bank" approved by the Board of Directors on 24 April 2018 and submitted for approval by the annual general meeting is as follows:

(i) Appropriation of RMB 860 million to statutory surplus reserve on the basis of the Bank's net profit for 2017 amounting to RMB 54,007. As at 31 December 2017, the proposed appropriation to statutory surplus reserve has been included in the surplus reserve.

(ii) Appropriation of RMB 144 million to general and regulation reserve. As at 31 December 2017, the proposed appropriation of general and regulation reserve has been included in the general risk reserve.

(iii) Distribute a cash dividend of RMB 6.50 per 10 shares (tax inclusive) on the basis of 20,774,190,751 ordinary shares of the Bank at issuance date of the financial statements.

(iv) The interest period of preference shares issued in 2014 is from 1 January 2017 to 31 December 2017 (the annual dividend rate is 6%), the interest period of preference shares issued in 2015 is from 1 January 2017 to 31 December 2017 (the annual dividend rate is 5.4%), the preferred dividends payable is RMB 1,482 million in total.

The above profit distribution plan has not been approved by the Annual General Meeting of the Bank. The accounting treatment of dividend distribution scheme before the approval is not carried out.

(2) "2016 Profit Distribution Proposal of the Bank" approved by the Board of Directors on 27 April 2017 and approved by the annual general meeting on 26 May 2017 is as follows:

(i) Appropriation of RMB 8,527 million to general and regulation reserve. As at 31 December 2016, the proposed appropriation to general and regulation reserve has been included in the general risk reserve.

(ii) Distribute a cash dividend of RMB 6.10, per 10 shares (tax inclusive) on the basis of 20,774,190,751 ordinary shares of the Bank when this report is presented.

(iii) The interest period of preference shares issued in 2014 is from 1 January 2016 to 31 December 2016 (the annual dividend rate is 6%), the interest period of preference shares issued in 2015 is from 1 January 2016 to 31 December 2016 (the annual dividend rate is 5.4%), the preferred dividends payable is RMB 1,482 million in total.

As at 31 December 2017, the above-mentioned dividend distribution has been completed.

(3) Surplus reserve appropriated by subsidiaries

As at 31 December 2017, the balance of the Group's retained earnings include surplus reserve appropriated by subsidiaries amounting to RMB 1,360 million (31 December 2016: RMB 1,074 million).

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

36. NET INTEREST INCOME

	The Group		The Bank	
	2017	2016	2017	2016
	RMB million	RMB million	RMB million	RMB million
Interest income				
Balances with Central Bank	6,813	5,898	6,813	5,898
Deposits with banks and other financial institutions	1,991	2,052	1,809	1,577
Placements with banks and other financial institutions	1,337	1,132	1,545	1,363
Financial assets purchased under resale agreements	2,879	4,511	2,505	4,450
Loans and advances to customers	104,760	95,505	103,497	94,845
Including: Corporate	66,725	63,544	66,732	63,558
Personal	36,885	29,346	35,615	28,672
Discounted bills	1,150	2,615	1,150	2,615
Bonds and other investment	128,567	121,147	126,281	119,355
Finance lease	5,472	4,923	—	—
Others	825	1,111	825	894
Total	252,644	236,279	243,275	228,382
Interest expense:				
Borrowing from Central Bank	(7,105)	(3,972)	(7,105)	(3,972)
Deposits from banks and other financial institutions	(64,123)	(49,291)	(64,189)	(49,360)
Placements from banks and other financial institutions	(6,185)	(3,605)	(1,696)	(641)
Financial assets sold under repurchase agreements	(3,358)	(2,058)	(3,255)	(2,022)
Due to customers	(54,891)	(42,313)	(54,903)	(42,313)
Debt securities issued	(28,390)	(22,569)	(27,933)	(22,362)
Others	(141)	(152)	(60)	(41)
Total	(164,193)	(123,960)	(159,141)	(120,711)
Net interest income	88,451	112,319	84,134	107,671
Including: Interest income accrued on impaired financial assets	1,173	1,133	1,173	1,133

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

37. NET FEE AND COMMISSION INCOME

	The Group		The Bank	
	2017	2016	2017	2016
	RMB million	RMB million	RMB million	RMB million
Fee and commission income Settlement and clearing fee	1,190	814	1,190	814
Bank card fee	13,228	7,947	13,228	7,947
Agency fee	3,059	4,537	3,032	4,517
Credit commitment fee	1,673	1,551	1,673	1,551
Transactional service fee	602	290	602	290
Custodian fee	4,063	4,345	4,063	4,345
Consultancy and advisory fee	14,416	15,243	13,458	14,346
Trust service fee	1,631	1,847	—	—
Lease service fee	1,060	1,086	—	—
Others	1,105	1,022	734	965
Subtotal	42,027	38,682	37,980	34,775
Fee and commission expense				
Settlement and clearing expenses	(810)	(427)	(803)	(427)
Bank card expenses	(1,454)	(1,200)	(1,454)	(1,200)
Inter-bank expenses	(12)	(26)	(12)	(26)
Others	(1,012)	(477)	(921)	(583)
Subtotal	(3,288)	(2,130)	(3,190)	(2,236)
Net fee and commission income	38,739	36,552	34,790	32,539

38. INVESTMENT INCOME

	The Group		The Bank	
	2017	2016	2017	2016
	RMB million	RMB million	RMB million	RMB million
Precious metal	(687)	8,361	(687)	8,361
Financial assets at fair value through profit of loss	9,565	4,162	10,242	4,641
Derivative financial instruments	(6,464)	(4,449)	(6,464)	(4,449)
Available-for-sale financial assets	1,580	3,496	2,037	3,808
Long-term equity investments (equity method)	292	246	272	238
Long-term equity investments (cost method)	—	—	20	—
Financial liabilities at fair value through profit of loss	(32)	20	(32)	20
Others	260	—	(115)	—
Total	4,514	11,836	5,273	12,619

39. LOSSES FROM CHANGES IN FAIR VALUE

	The Group		The Bank	
	2017	2016	2017	2016
	RMB million	RMB million	RMB million	RMB million
Precious metals	1,153	595	1,153	595
Financial assets at fair value through profit of loss	(763)	(627)	(231)	(172)
Derivative financial instruments	(990)	(3,723)	(990)	(3,723)
Financial liabilities at fair value through profit of loss	(22)	(1)	(2)	(1)
Total	(622)	(3,756)	(70)	(3,301)

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

40. BUSINESS TAXES AND SURCHARGES

	The Group		The Bank	
	2017	2016	2017	2016
	RMB million	RMB million	RMB million	RMB million
Business tax	—	4,132	—	3,943
City maintenance and construction tax	589	697	558	658
Education surcharge	409	471	387	443
Others	(23)	367	(59)	356
Total	975	5,667	886	5,400

41. GENERAL AND ADMINISTRATIVE EXPENSES

	The Group		The Bank	
	2017	2016	2017	2016
	RMB million	RMB million	RMB million	RMB million
Employee benefits	23,787	22,517	21,895	21,134
Depreciation and amortization	2,052	2,230	1,949	2,074
Lease expenses	2,889	2,741	2,719	2,631
Others	9,402	8,913	9,170	8,514
Total	38,130	36,401	35,733	34,353

42. IMPAIRMENT LOSSES ON ASSETS

	The Group		The Bank	
	2017	2016	2017	2016
	RMB million	RMB million	RMB million	RMB million
Loans and advances to customers	28,621	46,376	28,429	46,272
Investments classified as receivables	6,290	3,130	6,236	3,130
Available-for-sale financial assets	(598)	443	(597)	427
Finance lease receivables	462	950	—	—
Others	732	377	699	681
Total	35,507	51,276	34,767	50,510

43. NON-OPERATING INCOME

	The Group		The Bank	
	2017	2016	2017	2016
	RMB million	RMB million	RMB million	RMB million
Penalties and fines received	29	42	29	42
Gains from dormant accounts	10	13	10	13
Government grants	105	340	36	109
Others	229	236	210	213
Total	373	631	285	377

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

44. NON-OPERATING EXPENSES

	The Group		The Bank	
	2017	2016	2017	2016
	RMB million	RMB million	RMB million	RMB million
Losses on damage and retirement of non-current assets	—	1	—	1
Donation expenses	21	32	20	30
Penalties and fines paid	389	35	389	35
Others	23	47	22	44
Total	433	115	431	110

45. INCOME TAX EXPENSES

	The Group		The Bank	
	2017	2016	2017	2016
	RMB million	RMB million	RMB million	RMB million
Current income tax	9,915	17,175	8,531	15,830
Deferred income tax	(2,835)	(7,373)	(2,666)	(7,109)
Adjustment in respect of income tax of prior year	(62)	(204)	(71)	(203)
Total	7,018	9,598	5,794	8,518

The tax charges can be reconciled to the profit as follows:

	The Group		The Bank	
	2017	2016	2017	2016
	RMB million	RMB million	RMB million	RMB million
Accounting profit	64,753	63,925	59,801	59,492
Tax calculated at applicable statutory tax rate of 25%	16,188	15,981	14,950	14,873
Adjustments:				
Income not subject to tax	(9,511)	(6,341)	(9,399)	(6,302)
Items not deductible for tax purposes	403	162	314	150
Adjustment in respect of income tax of prior year	(62)	(204)	(71)	(203)
Total	7,018	9,598	5,794	8,518

46. EARNINGS PER SHARE

The Group

	2017	2016
Current net profit attributable to ordinary shareholders of the Bank (RMB million)	55,718	52,703
Weighted average ordinary shares issued by the Bank (shares in million)	20,344	19,052
Basic and diluted earnings per share (RMB)	2.74	2.77

The RMB 26,000 million preference shares of the Bank approved in November 2014 were successfully issued in June 2015. When calculating the earnings per share, the current net profit attributed to ordinary shareholders did not include preference shares dividends announced of insurance. In addition, it had no influence on basic earnings per share and diluted earnings per share in 2017 and 2016.

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

47. OTHER COMPREHENSIVE INCOME

The Group

	31/12/2016	2017 Amount incurred before income tax	2017 Other comprehensive income transferred to profit and loss	2017 Income tax expense	2017 Belong to shareholders of the bank after tax	2017 Belong to non-controlling interests after tax	31/12/2017
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Other comprehensive income that will not be subsequently classified to profit and loss							
Including: Actuarial profits/losses on defined benefit plans	(30)	852	—	—	852	—	822
Subtotal	(30)	852	—	—	852	—	822
Other comprehensive income that may be subsequently classified to profit and loss							
Including: Profit and loss arising from changes in fair value of available-for-sale financial assets	1,119	(12,756)	8,731	1,006	(3,004)	(15)	(1,885)
Shares of other comprehensive income of associates and joint ventures accounted for under equity method	(4)	—	—	—	—	—	(4)
Subtotal	1,115	(12,756)	8,731	1,006	(3,004)	(15)	(1,889)
Total	1,085	(11,904)	8,731	1,006	(2,152)	(15)	(1,067)

The Bank

	12/31/2016	2017 Amount incurred before income tax	2017 Other comprehensive income transferred to profit and loss	2017 Income tax expense	31/12/2017
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Other comprehensive income that will not be subsequently classified to profit and loss					
Including: Actuarial profits/losses on defined benefit plans	(30)	852	—	—	822
Subtotal	(30)	852	—	—	822
Other comprehensive income that may be subsequently classified to profit and loss					
Including: Profit and loss arising from changes in fair value of available-for-sale financial assets	1,139	(12,706)	8,741	991	(1,835)
Shares of other comprehensive income of associates and joint ventures accounted for under equity method	(4)	—	—	—	(4)
Subtotal	1,135	(12,706)	8,741	991	(1,839)
Total	1,105	(11,854)	8,741	991	(1,017)

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

48. SUPPLEMENTARY INFORMATION TO THE CASH FLOW STATEMENT

(1) Supplementary information to the cash flow statement

	The Group		The Bank	
	2017	2016	2017	2016
	RMB million	RMB million	RMB million	RMB million
1. Reconciliation of net profit to cash flows from operating activities				
Net profit	57,735	54,327	54,007	50,974
Add: Impairment losses on assets	35,507	51,276	34,767	50,510
Depreciation of fixed assets	1,551	1,422	1,181	1,313
Amortization of intangible assets	102	89	89	81
Amortization of long-term prepaid expenses	704	719	679	680
Gains from disposal of fixed assets, intangible assets and other long-term assets	(70)	(27)	(29)	(26)
Interest income of bonds and other investments	(128,567)	(121,147)	(126,281)	(119,355)
Interest income of impairment financial assets	(1,173)	(1,133)	(1,173)	(1,133)
Losses from changes in fair value	622	3,756	70	3,301
Investment income	(4,514)	(11,836)	(5,273)	(12,619)
Interest expense for debt securities issued	28,390	22,569	27,933	22,362
Increase in deferred tax assets	(2,943)	(6,593)	(2,775)	(6,333)
Increase (decrease) in deferred tax liabilities	108	(780)	109	(776)
(Increase) decrease in receivables of operating activities	(437,550)	(203,515)	(427,653)	(201,006)
Increase in payables of operating activities	287,456	413,890	272,388	422,916
Net cash flow from operating activities	(162,642)	203,017	(171,961)	210,889
2. Changes in cash and cash equivalents				
Closing balance of cash and cash equivalents	470,321	433,063	480,627	465,783
Less: opening balance of cash and cash equivalents	433,063	312,352	465,783	310,026
Net increase of cash and cash equivalents	37,258	120,711	14,844	155,757

(2) Composition of cash and cash equivalents

	The Group		The Bank	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	RMB million	RMB million	RMB million	RMB million
Cash on hand	5,535	5,806	5,535	5,806
Balances with Central Bank that can be withdrawn on demand	13,989	66,508	13,987	66,497
Deposits with banks and other financial institutions with original maturity less than three months	65,883	43,428	58,978	36,966
Placements with banks and other financial institutions with original maturity less than three months	20,921	5,783	20,921	5,783
Financial assets purchased under resale agreements with original maturity less than three months	88,202	15,517	85,362	13,010
Investment with original maturity less than three months	275,791	296,021	295,844	337,721
Closing balance of cash and cash equivalents	470,321	433,063	480,627	465,783

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

49. POST-EMPLOYMENT COMPENSATION

49.1 Defined contribution plans

The Group participates in the endowment insurance, unemployment insurance plans established by the government and the annuity plan established by the Group. According to these plans, the employees' salaries are paid to the plans proportionally each month. Except the expenses above, the Group shoulders no further payment duties. Certain expenses are charged in profit and loss of the period.

Expense recognised in profit or loss for the period:

	The Group		The Bank	
	2017	2016	2017	2016
	RMB million	RMB million	RMB million	RMB million
Defined contribution plans	2,261	2,011	2,179	1,958

Amount of payable in the year-end:

	The Group		The Bank	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	RMB million	RMB million	RMB million	RMB million
Defined contribution plans	107	131	91	112

49.2 Defined benefit plans

The Group offers complementary retiring benefit plans to employees who start their service before 31 December 2007. The Group invited Tower Watson Consulting Group (Shanghai) to estimate the present value. The project estimates the future cash flow based on rate of inflation and rate of death, and recognizes its present value by discount rate. Discount rate is measured by the national debt market income rate in which the period of defined benefit plans and currency on balance sheet date. Past service costs will be charged in profit and loss in the period of revising the plans. The net interest is recognized by the net liabilities or assets of defined benefit plans timing appropriate discount rate.

In the Current year, the effect of defined benefit plans recognized as expenses is RMB 113 million; actuary gains included in other comprehensive income is RMB 852 million. The closing balance of net assets of defined benefit plans amounting to RMB 1,412 million, representing the fair value of the defined benefit plans assets net of the present value of defined benefit plans obligation, is charged to other assets. (Note VIII, 18).

As of 31 December 2017, the Group benefit plans set was in the period of the average benefit obligation for about 10-11 years (31 December 2016:11 years).

Defined benefit plan makes the Group face the actuarial risks that include interest rate risk and longevity risk. Government bond yielding down will lead to a defined benefit plan duty value added. The present value of defined benefit plan duty is calculated based on the best estimate of employees participating in the scheme of the mortality rate, and the increase in life expectancy will lead to an increase in plan liabilities.

In determining the set of major actuarial present value using the benefit plan obligations assumed discount rate, mortality rate. The discount rate is 4% as at 31 December 2017 (2016: 3.25%). Mortality assumptions is based on the men and women pension service table released by Chinese Insurance Regulatory Commission (China experience life table of life insurance "2010-2013"). The men and women workers retire at the age of 60 and retired at the age of 55 on average expected residual life for 25.34 years and 34.03 years respectively.

The following sensitivity analysis is based on the reasonably possible changes of corresponding hypothesis that occurring at the end of the reporting period (all other assumptions unchanged):

If the discount rate increase (decrease) by 25 basis points, then the present value of defined benefit plan duty will be reduced by RMB38 million (an increase of RMB39 million).

As part of hypothesis may have relevance, a hypothesis cannot be isolated to change, so the sensitivity analysis cannot reflect the actual changes in benefit obligations set value.

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

49. POST-EMPLOYMENT COMPENSATION - continued

49.2 Defined benefit plans - continued

In the sensitivity analysis, the net debt of defined benefit plan and the related debt recognized in the statement of financial position share the same calculation method.

Compared with the previous year, the method for sensitivity analysis and the hypothesis didn't change.

50. STRUCTURED ENTITIES

50.1 Consolidated structured entities

The consolidated structured entities of the Group are funds, asset-backed securities, trust plans and asset management plans. As the manager/initiator of the products, asset-backed securities, trust plans and asset management plans, the Group considers whether it has control over the structured entities, and determine whether the consolidation is necessary based on the decision scope of asset manager, power of trust holder, reward from offering management service and the risk exposure of variable return. In 2017 and 2016, the Group didn't offer financial support to the consolidated structured entities.

50.2 Unconsolidated structured entities

50.2.1 Structured entities without the scope managed by the Group

The Group initiates and establishes structured entities which offer specific investment opportunities. Such structured entities conduct financing and investing through issuing products. The Group enjoys no control over such structured entities. Therefore, such structured entities are unconsolidated. Up to 31 December 2017 and 31 December 2016, the consolidated entities issued by the Group mainly include wealth management products, funds, asset-backed securities, trust plans and asset management plans. And the Group earns commission income mainly from offering management service to the investors of these structured entities.

In 2017 and 2016, the Group did not offer financial support to other structured entities excluded from the consolidation scope.

Up to 31 December 2017 and 31 December 2016, the information of unconsolidated structured entities initiated by the Group is listed below:

The Group

	Scale 31/12/2017	Scale 31/12/2016	Type
	RMB million	RMB million	
Wealth management products	1,152,282	1,056,671	Commission income
Funds	283,388	139,157	Commission income
Asset-backed securities	29,081	27,453	Commission income
Trust plans	915,867	935,136	Commission income
Asset management plans	293,106	369,786	Commission income
Total	2,673,724	2,528,203	

In 2017, the commission income earned from offering management service to the investors of these structured entities by the Group is RMB 14,550 million (2016: RMB14,958 million).

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

50. STRUCTURED ENTITIES - continued

50.2 Unconsolidated structured entities - continued

50.2.2 Equity enjoyed by the Group in structured entities without the scope

To utilize the capital better, the equity enjoyed by the Group in structured entities without the scope in 31 December 2017 mainly includes wealth management products, funds, asset-backed securities, trust plans and asset management plans issued or managed by the Group or individual third parties. The Group earns interest income and investment income mainly through holding these structured entities equities. The Group does not consolidate these structured entities because the Group does not control them.

The Group did not offer financial support to the structured entities above in 2017.

Up to 31 December 2017 and 31 December 2016, the information of unconsolidated structured entities in which the Group enjoys equity is listed below:

The Group

	31/12/2017(RMB million)							
	Financial assets held under resale agreement	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Hold-to-maturity investments	Investments classified as receivables	Carrying value	Max risk exposure (Note 1)	Type
Funds	—	216,511	81,489	—	—	298,000	298,000	Investment income
Wealth management products	—	3	2,848	—	84,614	87,465	87,465	Investment income, interest income
Trust plans	800	162	9,832	—	805,441	816,235	816,235	Investment income, interest income
Asset management plans	3,302	3,784	14,541	—	315,458	337,085	337,085	Investment income, interest income
Asset-backed securities	—	2,635	29,335	4	242,125	274,099	274,099	Investment income, interest income
Total	4,102	223,095	138,045	4	1,447,638	1,812,884	1,812,884	

Note 1: Max loss exposure to funds, wealth management products, trust plans, asset management plans and asset-backed securities is the amortized cost or fair value at the reporting date as recognized in the balance sheet.

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

50. STRUCTURED ENTITIES - continued

50.2 Unconsolidated structured entities - continued

50.2.2 Equity enjoyed by the Group in structured entities without the scope - continued

The Group - continued

	31/12/2016(RMB million)							
	Financial assets held under resale agreement	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Hold-to-maturity investments	Investments classified as receivables	Carrying value	Max risk exposure (Note 1)	Type
Funds	—	265,889	46,332	—	—	312,221	312,221	Investment income
Wealth management products	—	—	386	—	459,778	460,164	460,164	Investment income, interest income
Trust plans	8,004	280	63,844	—	717,680	789,808	789,808	Investment income, interest income
Asset management plans	3,302	321	95,055	—	448,617	547,295	547,295	Investment income, interest income
Asset-backed securities	—	1,632	30,842	29	152,484	184,987	184,987	Investment income, interest income
Total	11,306	268,122	236,459	29	1,778,559	2,294,475	2,294,475	

Note 1: Max loss exposure to funds, wealth management products, trust plans, asset management plans and asset-backed securities is the amortized cost or fair value at the reporting date as recognized in the balance sheet.

IX. SEGMENT REPORTING

Senior management of the Group evaluates the operations of the Group in accordance with their economic areas of the respective branches and subsidiaries. Each branch serves its local customers and few customers in other regions. The Group does not deeply depend on one single external customer. Through the review of internal reports, the management of the Group conducts performance evaluation and determines the allocation of resources. Segment reporting is presented in a manner consistent with the Group's internal management and reports.

Segment accounting policies are consistent with the accounting policies of the consolidated financial statements. Inter-segment transfer transactions are measured at the actual transaction prices.

The Group includes the head office (including the head office and the operating institutions of the head office), Fujian, Beijing, Shanghai, Guangdong, Zhejiang, Jiangsu, northeast and other region, western region, central region, a total of ten segments, of which branches within the northeast and other region, western region, central region are presented in a consolidated manner.

Among them, the northeast and other region includes: Harbin branch, Changchun branch, Shenyang branch, Dalian branch, Tianjin branch, Jinan branch, Qingdao branch, Haikou branch, Hong Kong branch and Industrial Bank Financial Leasing Co., Ltd;

Western region includes: Chengdu branch, Chongqing branch, Guiyang branch, Xi'an branch, Kunming branch, Nanning branch, Urumqi branch, Lanzhou branch, Yinchuan branch and Xining branch.

Central region includes: Hohhot branch, Shijiazhuang branch, Zhengzhou branch, Taiyuan branch, Hefei branch, Changsha branch, Wuhan branch and Nanchang branch.

The Group

	2017											RMB million
	Head office	Fujian	Beijing	Shanghai	Guangdong	Zhejiang	Jiangsu	Northeast and other region	Western region	Central region	Eliminations	Total
Operating income	50,903	17,563	7,359	7,767	9,959	2,153	3,438	14,263	11,406	15,164	—	139,975
Net interest income	19,741	12,557	6,234	6,208	8,198	1,397	2,286	8,771	9,737	13,322	—	88,451
Including: Net inter-segment interest income	(67,542)	7,681	10,112	9,333	11,666	976	402	6,639	9,903	10,830	—	—
Net fee and commission income	21,997	4,025	1,073	1,514	1,675	736	1,119	3,215	1,603	1,782	—	38,739
Other income	9,165	981	52	45	86	20	33	2,277	66	60	—	12,785
Operating expenses	(17,683)	(10,899)	(1,475)	(1,908)	(4,492)	(3,481)	(3,310)	(10,775)	(11,528)	(9,611)	—	(75,162)
Operating profit	33,220	6,664	5,884	5,859	5,467	(1,328)	128	3,488	(122)	5,553	—	64,813
Add: Non-operating income	44	106	5	20	19	18	15	20	92	34	—	373
Less: Non-operating expenses	(4)	(12)	(12)	(7)	(5)	(4)	(1)	(239)	(10)	(139)	—	(433)
Total profit	33,260	6,758	5,877	5,872	5,481	(1,314)	142	3,269	(40)	5,448	—	64,753
Less: Income tax expenses												(7,018)
Net profit												57,735
Segment assets	3,727,907	506,940	487,656	386,217	686,749	221,858	328,015	805,371	555,336	691,504	(2,008,008)	6,389,545
Including: Investment in an associate												3,008
Undistributed assets												27,297
Total assets												6,416,842
Segment liabilities	3,391,827	485,306	481,603	379,602	681,332	223,153	327,873	790,017	555,497	685,888	(2,008,008)	5,994,090
Undistributed liabilities												—
Total liabilities												5,994,090
Supplemental information												
Credit commitments	208,127	40,358	10,289	11,970	51,931	31,820	46,409	145,930	94,139	156,804	—	797,777
Depreciation and amortization	357	281	102	62	154	78	151	279	240	348	—	2,052
Capital expenditures	511	546	21	36	481	71	117	4,021	535	369	—	6,708

IX. SEGMENT REPORTING - continued

The Group - continued

2016 — RMB in million

	Head office	Fujian	Beijing	Shanghai	Guangdong	Zhejiang	Jiangsu	Northeast and other region	Western region	Central region	Eliminations	Total
Operating income	76,310	14,244	3,895	5,041	6,770	5,129	6,274	14,744	11,431	13,249	—	157,087
Net interest income	52,476	9,804	2,507	2,658	5,164	3,673	5,025	10,509	9,457	11,046	—	112,319
Including: Net inter-segment interest income	(42,896)	2,755	3,163	4,737	5,297	2,136	3,038	6,930	8,940	5,900	—	—
Net fee and commission income	16,516	3,972	1,273	2,292	1,574	1,439	1,221	4,186	1,924	2,155	—	36,552
Other income	7,318	468	115	91	32	17	28	49	50	48	—	8,216
Operating expenses	(31,709)	(11,903)	(2,067)	(2,354)	(5,086)	(4,501)	(3,587)	(10,380)	(10,799)	(11,292)	—	(93,678)
Operating profit	44,601	2,341	1,828	2,687	1,684	628	2,687	4,364	632	1,957	—	63,409
Add: Non-operating income	67	64	12	28	23	17	34	249	42	95	—	631
Less: Non-operating expenses	(16)	(20)	(6)	(7)	(4)	(15)	(3)	(6)	(27)	(11)	—	(115)
Total profit	44,652	2,385	1,834	2,708	1,703	630	2,718	4,607	647	2,041	—	63,925
Less: Income tax expenses												(9,598)
Net profit												54,327
Segment assets	3,773,106	472,319	432,553	398,822	560,091	249,755	345,584	787,102	622,039	624,710	(2,203,642)	6,062,439
Including: Investment in an associate												2,418
Undistributed assets												23,456
Total assets												6,085,895
Segment liabilities	3,485,905	454,906	430,314	395,335	558,398	249,097	344,665	772,510	621,370	622,627	(2,203,642)	5,731,485
Undistributed liabilities												—
Total liabilities												5,731,485
Supplemental information												
Credit commitments	140,375	46,203	7,361	12,665	37,040	26,895	59,687	145,477	112,912	141,619	—	730,234
Depreciation and amortization	362	322	100	67	170	89	147	335	260	378	—	2,230
Capital expenditures	516	279	117	232	156	54	140	4,833	275	236	—	6,838

X. RELATED PARTY RELATIONSHIP AND TRANSACTIONS

1. Related Party Relationship

The Group

Related parties with no controlling interest

(1) Shareholders holding more than 5% (inclusive) of the Bank's shares

Name	Economic nature	Place of registration	Registered capital	Principal activities	Legal representative
			RMB 100 Million		
The Finance Bureau of Fujian Province	Legal entity of government agencies	Fuzhou	—	Administration of Fujian provincial fiscal and tax policy	Wang Yongli
People's Insurance Company of China(1)	Incorporated Company	Beijing	148.29	Insurance services	Wu Yan
China Life Insurance Company(1)	Incorporated Company	Beijing	257.61	Insurance services	Wu Yan
China National Tobacco Corporation(1)	Owned by the whole people	Beijing	570	Production, and sales of tobacco products	Ling Chengxing
Haisheng Investment Management Company of Fujian Tobacco(1)	Limited Company	Xiamen	26.47	Investment management	Lu Xiaodong
China Tobacco Hunan Investment Management Company(1)	Limited Company	Changsha	2	Investment management	Deng Yongzhi
The People's Insurance Company (Group) of China Limited(1)	Incorporated Company	Beijing	424.24	Investment management and insurance services	Wu Yan
China National Tobacco(1) corporation fujian company	Owned by the whole people	Fuzhou	1.37	Sales of tobacco products	Zhang YongJun
China national Tobacco(1) Corporation Guangdong Branch	Owned by the whole people	Guangzhou	1.40	Production and sales of tobacco products	Liu,yiping

Details of shareholders holding more than 5% (inclusive) of the Bank's shares:

Name of share holders	31/12/2017		31/12/2016	
	Shares	Proportion	Shares	Proportion
	Million Shares	(%)	Million Shares	(%)
The Finance Bureau of Fujian Province	3,902	18.78	3,472	18.22
PICC Life Insurance Company Limited (1)	1,276	6.14	1,276	6.70
Chinese People's property insurance Co., Ltd.(1)	1,229	5.91	1,229	6.45
China National Tobacco Corporation(1)	1,110	5.34	614	3.22
Haisheng Investment Management Company of Fujian Tobacco(1)	441	2.13	441	2.32
China Tobacco Hunan Investment Management Company(1)	226	1.09	226	1.19
The people's Insurance Company (Group) of China Limited(1)	174	0.84	174	0.91
China National Tobacco Corporation Fujian Branch(1)	132	0.64	—	—
China National Tobacco Corporation Guangdong Branch(1)	99	0.48	—	—
Total	8,589	41.35	7,432	39.01

Notes: (1) Relationship between related parties: People's Insurance Company of China and China Life Insurance Company are both subsidiaries of The People's Insurance Company (Group) of China Limited. The aggregate proportion of shareholding is 12.89%. Haisheng Investment Management Company of Fujian Tobacco, China Tobacco Hunan Investment Management

X. RELATED PARTY RELATIONSHIP AND TRANSACTIONS - continued

1. Related Party Relationship - continued

The Group - continued

Related parties with no controlling interest - continued

(1) Shareholders holding more than 5% (inclusive) of the Bank's shares - continued

Company, China National Tobacco Corporation Fujian Branch and China National Tobacco Corporation Guangdong Branch are subsidiaries of China National Tobacco Corporation. The aggregate proportion of shareholding is 9.68%.

(2) Associates

For basic information and related information of associates refer to Note VIII, 13.

(3) Other related parties

Other related parties include key management personnel (director, supervisor, senior management of head office) and their close families, as well as other enterprises over which the key management personnel or their close families have control, common control or significant influence.

2. Related party transactions

The conditions and prices of related party transactions between the Group and the Bank are determined according to the Group's contract, and are examined and approved in accordance with the transaction type and content of transaction by corresponding decision-making authority.

1. Interest income

Related party	2017	2016
	RMB million	RMB million
The people's Insurance Company (Group) of China Limited and its subsidiaries	128	133
China National Tobacco Corporation and its subsidiaries	25	58
Associates	87	3
Other related parties	197	1
Total	437	195

2. Interest expense

Related party	2017	2016
	RMB million	RMB million
The Finance Bureau of Fujian Province and its subsidiaries	296	551
The people's Insurance Company (Group) of China Limited and its subsidiaries	463	80
China National Tobacco Corporation and its subsidiaries	947	1,545
Associates	4	6
Other related parties	93	34
Total	1,803	2,216

3. Fee and commission income

Related party	2017	2016
	RMB million	RMB million
The Finance Bureau of Fujian Province and its subsidiaries	13	10
The people's Insurance Company (Group) of China Limited and its subsidiaries	14	7
Associates	—	—
Others	40	2
Total	67	19

X. RELATED PARTY RELATIONSHIP AND TRANSACTIONS - continued

2. Related party transactions - continued

4. Fees and commission expense

Related party	2017	2016
	RMB million	RMB million
The people's Insurance Company (Group) of China Limited and its subsidiaries	40	—

5. General and administrative expenses-insurance

Related party	2017	2016
	RMB million	RMB million
The people's Insurance Company (Group) of China Limited and its subsidiaries	19	11

In 2017, the Bank was received compensation of RMB 11 million from The people's Insurance Company (Group) of China Limited and its subsidiaries (2016: RMB 82 million).

6. General and administrative expenses-rental expense

Related party	2017	2016
	RMB million	RMB million
China National Tobacco Corporation and its subsidiaries	24	22

3. Unsettled amount of related party transactions

1. Deposits with banks

Related party	31/12/2017	31/12/2016
	RMB million	RMB million
Other related parties	307	29

2. Derivative financial instruments

Related party	Transaction Type	31/12/2017		31/12/2016	
		Nominal amount	Assets/Liabilities	Nominal amount	Assets/Liabilities
		RMB million	RMB million	RMB million	RMB million
The People's Insurance Company and its subsidiaries	Interest Rate Derivative	730	—	730	(1)
Other related parties	Exchange Rate Derivative	4,988	41	16,734	(168)
Total		5,718	41	17,464	(169)

3. Interest receivable

Related party	31/12/2017	31/12/2016
	RMB million	RMB million
The People's Insurance Company (Group) of China Limited and its subsidiaries	52	52
China National Tobacco Corporation and its subsidiaries	—	2
Associates	26	—
Other related parties	69	—
Total	147	54

X. RELATED PARTY RELATIONSHIP AND TRANSACTIONS - continued

3. Unsettled amount of related party transactions - continued

4. Available-for-sale financial assets

Related party	31/12/2017	31/12/2016
	RMB million	RMB million
Other related parties	379	99

5. Investments classified as receivables

Related party	31/12/2017	31/12/2016
	RMB million	RMB million
The People's Insurance Company (Group) of China Limited and its subsidiaries	2,400	2,400
Associates	5,330	—
Other related parties	4,488	—
Total	12,218	2,400

All the investments classified as receivables are the bonds issued by the above-mentioned related parties.

6. Held-for-trading financial assets

Related party	31/12/2017	31/12/2016
	RMB million	RMB million
Other related parties	1,366	—

7. Loans and advances to customers

Related party	12/31/2017	12/31/2016
	RMB million	RMB million
China National Tobacco Corporation and its subsidiaries	—	1,600
Other related parties	3,084	313
Total	3,084	1,913

8. Deposits from banks and other financial institution

Related party	31/12/2017	31/12/2016
	RMB million	RMB million
Associates	213	423
Other related parties	534	3,751
Total	747	4,174

9. Due to customers

Related party	31/12/2017	31/12/2016
	RMB million	RMB million
The Finance Bureau of Fujian Province and its subsidiaries	13,409	13,347
The People's Insurance Company (Group) of China Limited and its subsidiaries	11,286	10,990
China National Tobacco Corporation and its subsidiaries	35,512	45,043
Associates	246	—
Other related parties	6,063	263
Total	66,516	69,643

X. RELATED PARTY RELATIONSHIP AND TRANSACTIONS - continued

3. Unsettled amount of related party transactions - continued

10. Interest payable

Related party	31/12/2017	31/12/2016
	RMB million	RMB million
The Finance Bureau of Fujian Province and its subsidiaries	201	203
The People's Insurance Company (Group) of China Limited and its subsidiaries	470	43
China National Tobacco Corporation and its subsidiaries	589	928
Associates	—	1
Other related parties	21	3
Total	1,281	1,178

11. Credit line

Related party	31/12/2017	31/12/2016
	RMB million	RMB million
The People's Insurance Company (Group) of China Limited and its subsidiaries	54,000	54,000
China National Tobacco Corporation and its subsidiaries	15,000	15,000
Other related parties	29,500	—
Total	98,500	69,000

12. Off-balance sheet items

At the end of the year, the amount of letter of credit and Bank acceptance held by the subsidiaries of China National Tobacco Corporation is RMB 2,501 million and RMB 500 million (2016: RMB 1,500 million and RMB 1,622 million) respectively; the amount of bank acceptances and letters of guarantee held by other related parties are RMB 270 million and RMB 725 million (2016: RMB 0.00 and RMB 1,500 million) respectively.

4. Key management personnel remuneration

	2017	2016
	RMB million	RMB million
Salary and welfare	17	15

XI. CONTINGENCIES AND COMMITMENTS

1. Pending Litigations

As of the balance sheet date, the Group's management considers that there is no pending litigation which has a significant impact on the financial statements that needs to be disclosed.

2. Off-balance sheet items

The Group and the Bank

	Contractual amount	
	31/12/2017	31/12/2016
	RMB million	RMB million
Credit card commitments	208,127	140,375
Letter of credit	85,144	79,402
Letters of guarantee	120,259	119,303
Bank acceptances	384,247	391,154
Total	797,777	730,234

XI. CONTINGENCIES AND COMMITMENTS - continued

2. Off-balance sheet items - continued

In addition, the Group also provides credit facilities to specific customers. According to the management's opinion, since such credit facilities are conditional and can be cancelled, the Group is not committed to these customers for the credit risk of the unused facilities.

3. Capital commitments

	Contractual amount of the Group		Contractual amount of the Bank	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	RMB million	RMB million	RMB million	RMB million
Authorized but not contracted for	1	—	1	—
Contracted but not paid for	258	2,082	243	2,064
Total	259	2,082	244	2,064

4. Operating lease commitments

As a tenant, according to the non-cancellable lease contracts, the required minimum lease payments by the Group and the Bank are as follows:

	The Group		The Bank	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	RMB million	RMB million	RMB million	RMB million
Within one year	1,945	1,815	1,826	1,718
One to five years	4,727	3,868	4,591	3,737
Over five years	1,076	975	1,066	950
Total	7,748	6,658	7,483	6,405

5. Collateral

5.1 Assets pledged

(i) The carrying amount of assets pledged as collateral under repurchase agreements is as follows:

	The Group		The Bank	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	RMB million	RMB million	RMB million	RMB million
Bonds	214,353	149,137	208,444	147,351
Bills	20,136	24,037	20,136	24,037
Total	234,489	173,174	228,580	171,388

As at 31 December 2017 and 31 December 2016, included in Group's and the Bank's notes purchased under resale agreement, there was no note used for carrying out business of sale under repurchase agreement.

(ii) At 31 December 2017, the Group and the Bank pledged RMB 2,031 million bonds to credit derivative transaction (31 December 2016: RMB 1,706 million).

5.2 Collateral accepted

At 31 December 2017, in the resale agreement, the Group and the Bank have pledged assets of RMB 0.00 (31 December 2016: RMB 3,956 million) that can be sold or transferred in other transactions when the counterparty is not in breach of the contract.

XI. CONTINGENCIES AND COMMITMENTS - continued

6. Redemption commitment of certificate treasury bonds and saving treasury bonds

(1) The Group entrusted by the MOF as its agent issues certificate treasury bonds and saving treasury bonds. Holders of certificate treasury bonds and saving treasury bonds can require advance redemption, and the Group has the obligation to execute the redemption responsibility. Redemption amount for the certificate treasury bonds and saving treasury bonds includes principal and interest payable till redemption date.

As of 31 December 2017 and 31 December 2016, the cumulative principal balances of the certificate treasury bonds and saving treasury bonds which are issued by the Group under trust prior to maturity and not been paid are as follows:

The Group and the Bank

	Contractual amount	
	31/12/2017	31/12/2016
	RMB million	RMB million
Certificate treasury bonds and saving treasury bonds	3,180	3,046

The Group believes the Group's redemption amount of these certificate treasury bonds and saving treasury bonds is not significant before their maturity.

(2) At 31 December 2017, The Group has announced but unissued bonds underwriting amount of RMB 500 million (31 December 2016: nil).

7. Fiduciary Business

The Group and the Bank

	31/12/2017	31/12/2016
	RMB million	RMB million
Fiduciary deposits and loans	564,990	618,082
Fiduciary wealth management products	1,152,282	1,056,671
Fiduciary investments	4,123	23,640

Fiduciary deposits and loans are deposits and loans that depositor designated specific third party as the loan party, and related credit risk of the loan is borne by depositors who designated borrowers.

Fiduciary wealth management products refer to a kind of service that the entrusted Group is responsible for the operation and management of customer assets. The investment risk of fiduciary wealth management products is borne by the trustee.

Fiduciary investments refers to a kind of service that the entrusted Group engaged in capital operation, investment management, investment advisory and other investment services based on the principal-agent relationship. The investment risk of fiduciary investment is borne by the trustee.

XII. OTHER SIGNIFICANT EVENTS

1. Assets and liabilities measured at fair value

The Group

	2017				
	Opening Balance	Profit or loss arising from changes in fair value for the period	Changes in fair value recognised in equity	Impairment losses charged in the current period	Closing Balance
	RMB million	RMB million	RMB million	RMB million	RMB million
Financial assets at fair value through profit or loss	354,595	(763)	—	—	362,072
Derivative financial assets	16,137	12,259	—	—	28,396
Available-for-sale financial assets	583,983	—	(2,531)	(598)	502,381
Total financial assets	954,715	11,496	(2,531)	(598)	892,849
Financial liabilities(1)	(16,973)	(13,271)	—	—	(36,077)

The Bank

	2017				
	Opening Balance	Profit or loss arising from changes in fair value for the period	Changes in fair value recognised in equity	Impairment losses charged in the current period	Closing Balance
	RMB million	RMB million	RMB million	RMB million	RMB million
Financial assets at fair value through profit or loss	357,893	(231)	—	—	337,965
Derivative financial assets	16,137	12,259	—	—	28,396
Available-for-sale financial assets	589,968	—	(2,446)	(597)	515,712
Total financial assets	963,998	12,028	(2,446)	(597)	882,073
Financial liabilities(1)	(16,938)	(13,251)	—	—	(35,239)

(1) Financial liabilities include financial liabilities at fair value through profit or loss and derivative financial liabilities.

(2) The movement of assets and liabilities listed above has no inevitable relationship.

XII. OTHER SIGNIFICANT EVENTS - continued

2. Financial assets and financial liabilities denominated in foreign currencies

The Group

	2017				
	Opening Balance	Profit or loss arising from changes in fair value for the period	Changes in fair value recognised in equity	Impairment losses charged in the current period	Closing Balance
	RMB million	RMB million	RMB million	RMB million	RMB million
Cash and balances with Central Bank	17,005	—	—	—	17,104
Deposits with banks and other financial institutions	26,360	—	—	—	15,632
Placements with banks and other financial institutions	9,426	—	—	—	13,789
Financial assets at fair value through profit or loss	9,555	(79)	—	—	41,418
Derivative financial assets	9,729	(8,227)	—	—	1,502
Financial assets purchased under resale agreement	4,522	—	—	—	—
Loans and advances to customers	95,204	—	—	801	145,478
Available-for-sale financial assets	93,705	—	(274)	(65)	105,884
Investments classified as receivables	8,788	—	—	2	23,708
Held-to-maturity investments	7,482	—	—	—	12,047
Finance lease receivable	1,478	—	—	—	1,227
Other financial assets	1,960	—	—	—	2,295
Total of financial assets	285,214	(8,306)	(274)	738	380,084
Financial liabilities(1)	(306,259)	9,953	—	—	463,562

The Bank

	2017				
	Opening Balance	Profit or loss arising from changes in fair value for the period	Changes in fair value recognised in equity	Impairment losses charged in the current period	Closing Balance
	RMB million	RMB million	RMB million	RMB million	RMB million
Cash and balances with Central Bank	17,005	—	—	—	17,104
Deposits with from banks and other financial institutions	26,360	—	—	—	15,632
Placements with banks and other financial institutions	9,426	—	—	—	14,351
Financial assets at fair value through profit or loss	9,555	(79)	—	—	41,418
Derivative financial assets	9,729	(8,227)	—	—	1,502
Financial assets purchased under resale agreement	4,522	—	—	—	—
Loans and advances to customers	95,204	—	—	801	145,478
Available-for-sale financial assets	93,705	—	(274)	(65)	105,884
Investments classified as receivables	8,788	—	—	2	23,708
Held-to-maturity investments	7,482	—	—	—	12,047
Other financial assets	1,960	—	—	—	2,295
Total of financial assets	283,736	(8,306)	(274)	738	379,419
Financial liabilities(1)	(306,259)	9,953	—	—	463,562

(1) Financial liabilities include borrowing from Central Bank, deposits from banks and other financial institutions, placement from banks and other financial institutions, financial liabilities at fair value through profit or loss, financial assets sold under repurchase agreements, derivative financial liabilities, due to customers and debt securities issued, etc.

(2) The movement of assets and liabilities listed above has no inevitable relationship.

XII. OTHER SIGNIFICANT EVENTS - continued

3. Transfer of Financial Assets

3.1 Assets securitization

The Group conducts asset-backed securities transactions during normal operations. The Group sells part of its financial assets to the special purpose trusts established by the Group as an originating institution and then the special purpose trusts issues asset-backed securities to investors. The Group determines whether it combines the special purpose trusts based on whether it has power over such special purpose trusts and whether it is involved in related activities of the special purpose trusts to enjoy variable returns, and whether the Group has the ability to use its power over the special purpose trust to affect its returns.

In the course of the transfer of financial assets under asset-backed securities transactions, the Group loses the use right of such financial assets. Once a special purpose trust is established, it shall be distinguished from other property for which the Group has not set up a trust. According to the relevant transaction documents, the trust property is not a liquidation property when the Group dissolves or is liquidated according to law, or is declared bankrupt.

In the course of the transfer of the aforesaid financial assets, the Group has not recognized the gains or losses since the consideration of transfer is same as the carrying value of the transferred financial assets. Subsequently, the Group as a financial asset service institution will charge a certain service fee.

In 2017, included in the transferred assets, the Group transferred substantially all the risks (mainly include the credit risk, early repayment risk and interest rate risk of the transferred assets) and rewards of the ownership of financial assets with carrying amount of RMB 32,903 million (2016: RMB 76,788 million) to other investors, and has derecognized such transferred financial assets. Meanwhile, the Group subscribe certain proportion of asset-backed securities. At 31 December 2017, the Group hold the aforesaid asset-backed securities of RMB 17,565 million (31 December 2016: RMB 13,111 million).

In 2017, included in the Group’s transferred assets, the Group transferred substantially all the risks (mainly include the credit risk, early repayment risk and interest rate risk of the transferred assets) and rewards of the ownership of finance lease receivable and investments classified as receivables with carrying amount of RMB 4,721 million (2016: RMB 3,580 million) to other investors, and has derecognized such transferred finance lease receivable and investments classified as receivables. At 31 December 2017, the Group held the aforesaid finance lease receivable and investments classified as receivables of RMB 2,939 million (31 December 2016: RMB 1,197 million) and RMB 924 million (31 December 2016: RMB 1,424 million) respectively, and received consideration of transferred assets amounting to RMB 1,867 million (31 December 2016: RMB 854 million), which are presented under “debt securities issued”.

In 2017, the Group’s transferred assets include financial assets with carrying amount of RMB 14,600 million (31 December 2016: Nil), where the Group neither transferred nor retained substantially all the risks (mainly include the credit risk, early repayment risk and interest rate risk of the transferred assets) and rewards of the ownership, and retained the control and has continuing involvement in these financial assets. At 31 December 2017, the Group continued to recognize the financial assets with carrying amount of RMB 2,101 million (31 December 2016: Nil) based on its extent of continuing involvement in the assets, and recognized assets and liabilities with continuing involvement as other assets and other liabilities.

3.2 Transfer of Non-performing Loans

In 2017, the Group disposed non-performing loans of the carrying amount amounting to RMB 5,851 million (2016: RMB 11,108 million) by way of transfer to third parties. The Group has transferred substantially all the risks and rewards of ownership of the above non-performing loans, and the loans are therefore derecognized.

3.3 Repurchase agreements

Repurchase agreements refer to agreements made by the Group with the counter-parities that financial assets (or financial assets that share the same substance) are settled a fixed price of repurchasing when they are sold at a fixed date. Due to the fixed repurchasing price, the Group takes almost all the credit and market risks and benefit of the assets. The sold financial assets (cannot be used within the period) should not be derecognized in the financial statements of the Group, but should be regarded as guarantees because the

XII. OTHER SIGNIFICANT EVENTS - continued

3. Transfer of Financial Assets - continued

3.3 Repurchase agreements - continued

Group retains all the risks and benefits. Besides, the Group recognizes the financial liabilities by the price received. In these trading, the counter-parties' right to the Group is not limited within the transferred financial assets.

At 31 December 2017 and 2016, the Group conducted trading of the bonds and bills under repurchase agreements. The price of selling these financial assets is called financial assets sold under repurchase agreements price (Note VIII, 23).

Included in the repurchase agreement, the carrying value of the financial assets which had been transferred but continued to be recognized by the Group and relevant liabilities are as follows:

The Group

	31/12/2017		31/12/2016	
	RMB Million		RMB Million	
	Bond	Bill	Bond	Bill
Assets carrying value	214,353	20,136	149,137	24,037
Liabilities carrying value	209,658	20,136	143,440	24,037

XIII. FINANCIAL RISK MANAGEMENT

1. Overview

The Group is exposed to various types of risks due to its financing businesses including banking business. The Group identifies, assesses and monitors various risks on an on-going basis. The most significant types of risk to which the Group is exposed are credit risk, market risk, liquidity risk and operation risk. Market risk includes interest rate risk, foreign currency risk and other price risk.

The Group's risk management objectives are to achieve a proper balance between risks and benefits and run business safely and prudently under reasonable level of risk.

2. Risk management framework

Risk management is the basic safeguard of survival and development of commercial banks. The Group has taken risk management as one of its core competitiveness, formulated development strategy focusing on business operation as well as risk management, established pre-during-post events risk control system with a core of risk asset management, and improved the risk management and operation instructions for various businesses; completed the mechanism of risk responsibilities and punishment, implemented credit business operation responsibilities, established risk fund for credit post personnel, enhanced risk constraints; taking credit risk, market risk, liquidity risk, operational risk and other risks undertaken in or by various business and customers into the scope of risk management and continuously improve the risk management mechanism to wholly-owned and holding subsidiaries; further defined the specific responsibilities of board of directors, board of supervisors, senior management and operation executives in respect of risk management, formed a defined, clear and effective overall risk management system. In daily risk management work, the Group's business sector, risk management department and internal audit department build up the "three defences"; they perform their respective functions and work together to achieve the objective of risk management. Among them, operation institutions and business line management sector form the first line of defences to conduct risk management. Operation institutions take precautions against all the business and operating risk, while business line management sector is in charge of making its risk management policy, evaluating the effectiveness of risk management regularly and taking corrective actions if necessary. The risk management department is the second line of defences, which is responsible for constituting the Group's risk management regulation and policy, analysing overall risk management situation, inspecting, evaluating and supervising the compliance and effectiveness of risk management conducted by all the sectors and departments, conducting overall risk reporting, continuously improving risk management modules and instruments and strengthening independency. The internal audit department is the third line of defences. It is responsible for all process audits, continuously providing independent and prospective audit and supervision with emphasis.

3. Credit risk

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligation. Credit risk can also arise from operational failures that result in an unauthorised or inappropriate advance, commitment or investment of funds. The Group's major credit risks come from loans and receivables (enterprises and personal credit loans), treasury operations (including creditors' investment) and off-balance sheet related credit risk exposures. The Group manages and controls credit risk according to the following processes: customer investigation before granting of credit limits, credit review and approval and post- lending loan monitoring and collection.

The Group establish the risk management department, which is responsible for organizing, implementing the credit risk management strategies and policies of the Group, it is also responsible for making basic rules for the Group risk management affairs, in addition, it is also professionally managing, evaluating, guiding the general operation of the Group risk management together with inspecting and supervising the activities mentioned above. As the leading party, the risk management department formulates unified standards, responsible for the credit management on the whole. All the actions taken are to ensure the overall credit risk under control. The Group set up risk management department in all the three major lines called enterprise financial line, retail financial line, investment bank and financial markets line. Each of the risk departments is responsible for the credit management in its own line, and it is also responsible for making detailed regulation and operating rules and approving projects within the approving authority; meanwhile, the investment bank and financial market risk management department assigns interbank risk management and review office to the interbank business line for risk management and review and approval of the credit business of traditional interbank clients. The Group also sets up several specialized committees such as Credit Approval Committee and Credit Accountability Committee. The first one is responsible for the examination and approval of the loans within the authority. The other one is responsible for determining the responsibility of related loans.

The Group has formulated a whole set of credit policies on approval process and management procedure, and implemented throughout the Group. The credit management procedure for corporate and personal loans can be classified as credit investigation, credit examination, credit approval, credit disbursement, and post lending monitoring and recovery process. In addition, the Group issued *Due Diligence of Credit approval* to clarify the duties of different positions, to effectively control the credit risk, and to strengthen compliance of credit business.

The Group set up credit granting policy under the principle of "controllable risks, aggregated resources and sustainable development" to promote reasonable layout and balanced development in respect of credit resources in industries, regions, clients and products etc. In line with the access conditions and effective control of risks, the Group has intensified its support to green financial business and accelerate the pace of development of small and medium-sized enterprises and small and medium-sized industries; and to support credit financing demands from entities within advanced manufacturing, domestic consumption and livelihood sectors and national strategic emerging industries of the state. Meanwhile, the Group cut down and exit projects with outdated production capacity so as to further promote structure optimization and adjustment of credit asset.

The Group has established a customer credit rating system which comprehensively and systematically investigated various factors and variation trends that influence customer solvency in future; disclosed and evaluated customers' credit risks and capabilities based on qualitative and quantitative analysis. Credit rating results become an important foundation to draw up credit service polices, adjust and optimize client structure, as well as identify credit service of individual customer. According to new Basel Capital Accord and relevant guides of the CBRC, the Group developed and established customer internal rating system and had completed the first comprehensive verification of internal rating. In 2017, in connection with the economic environment and the Company's actual demand of application etc., the Group optimized the non-retail rating model and established a stereoscopic rating structure which is of different clients and multi-dimension indexes and made up of 22 sub-models and promoted the ability to identify risks comprehensively. Since January 2014 when the credit risk weighted assets ("CRWA") measurement system was completed and launched, the Group had the capacity to measure CRWA using internal rating junior method. The related results of internal rating had continuously entered into various risk management areas including credit management, industry entrance, limit management, loan pricing etc. As the new capital accords related projects were completed successively, the Group got promoted in capacity of identification, measurement and control of credit risk.

XIII. FINANCIAL RISK MANAGEMENT - continued

3. Credit risk - continued

The Group developed risk warning system (Stage I), applying big data technology to fully integrate both internal and external risk information and analysing as per certain rules so as to form a warning indicator. With customers' potential risks disclosed in time by monitoring the indicator, the active push, tracking, feedback and report generating by level of warning indicator can be achieved and the timeliness and accuracy of risk warning can be improved effectively. The risk warning system (Stage I) realized the online posting of warning information and carried out system hard control over processes including warning adjustment, cancellation etc. and provided basic guarantee for credit management.

The Group accurately identified risks conditions of credit asset, reasonably reflected the income after risk adjustment to guide capital allocation optimization in operation institutions and allocation of credit resources to strengthen risk awareness in operation institutions. Therefore, *Credit Asset Risks Classification Implementation Method* and *Credit Asset Risks Classification Implementation Standards* and others have been established to make sure branches adjust credit asset risks classification according to real conditions of projects. Based on 5 levels classified by the CBRC, the Group has classified its credit asset risks into nine levels as level one (normal), level 2 (normal), level 3 (normal), level 4 (attention), level 5 (attention), level 6 (attention), sublevel, doubtful and loss. The Group has various management policies to each level.

Risks arising from credit commitments are similar to risks of loans and advances to customers in substance. Therefore, requirements for application, post-lending management and pledge and guarantees are the same with those in loans and advances to customers. According to substance-over-form principle, the Group includes the non-standard credit loans in the comprehensive risk management system and manages them by comparing to traditional loans. The Group provides uniform credit, carries out general control on risks, executes uniform credit policy in nationwide, carries out whole-process responsibilities management by comparing to traditional loans, implements risk classification and provides risk reserves.

3.1 Concentration of credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio of financial instrument is diversified along geographic, industry and product sectors.

The Group mainly operates the lending and guarantee business in the PRC mainland. Since there are different economic development characteristics in the different regions in China, the characteristics of credit risks are also different.

For the geographical and industrial concentration of the loans and advances to customers please refer to Note VIII 8.

3.2 Maximum exposure to credit risk

Without considering any usable collaterals, and other credit enhancement measures, the max credit risk exposure of the Group and the Bank at balance sheet date is the sum of the carrying amounts of related financial assets (including derivative instrument and deducted equity instrument) in the balance sheet and the off-balance sheet items in Note XI 2. As at 31 December 2017, the max credit risk exposures of the Group and the Bank are RMB 6,815,370 million (31 December 2016: RMB 6,427,123 million) and RMB 6,609,727 million (31 December 2016: RMB 6,252,698 million) respectively.

XIII. FINANCIAL RISK MANAGEMENT - continued

3. Credit risk - continued

3.3 Analysis of exposure to credit risk of the Group and the Bank about loans and advances to customers, inter-bank placements, investments and finance lease receivables

The Group

	31/12/2017				
	Loans and advances to customers	Inter-bank placements[(1)]	Investments[(2)]	Finance lease receivables	Total
	RMB million	RMB million	RMB million	RMB million	RMB million
Impaired:					
Individual assessment					
Total assets	31,346	76	15,268	1,573	48,263
Allowance for impairment losses	(16,378)	(76)	(8,083)	(355)	(24,892)
Net value of assets	14,968	—	7,185	1,218	23,371
Collective assessment					
Total assets	7,308	—	—	—	7,308
Allowance for impairment losses	(5,154)	—	—	—	(5,154)
Net value of assets	2,154	—	—	—	2,154
Past due but not impaired:					
Total assets	9,031	1,133	1,913	3,303	15,380
Including:					
Within 90 days	8,951	—	1,328	789	11,068
90 to 360 days	80	—	480	1,239	1,799
360 days to 3 years	—	1,133	105	1,275	2,513
Collectively assessed allowance for impairment losses	(1,805)	—	(126)	(365)	(2,296)
Net value of assets	7,226	1,133	1,787	2,938	13,084
Neither past due nor impaired:					
Total assets	2,383,010	200,723	2,810,890	102,041	5,496,664
Collectively assessed allowance for impairment losses	(58,527)	—	(11,054)	(2,702)	(72,283)
Net value of assets	2,324,483	200,723	2,799,836	99,339	5,424,381
Total of net value of assets	2,348,831	201,856	2,808,808	103,495	5,462,990

XIII. FINANCIAL RISK MANAGEMENT - continued

3. Credit risk - continued

3.3 Analysis of exposure to credit risk of the Group and the Bank about loans and advances to customers, inter-bank placements, investments and finance lease receivables - continued

The Group - continued

	31/12/2016				
	Loans and advances to customers	Inter-bank placement[(1)]	Investment[(2)]	Finance lease receivables	Total
	RMB million	RMB million	RMB million	RMB million	RMB million
Impaired:					
Individual assessment					
Total assets	27,412	85	15,528	1,177	44,202
Allowance for impairment losses	(12,669)	(85)	(6,700)	(344)	(19,798)
Net value of assets	14,743	—	8,828	833	24,404
Collective assessment					
Total assets	7,004	—	—	—	7,004
Allowance for impairment losses	(3,940)	—	—	—	(3,940)
Net value of assets	3,064	—	—	—	3,064
Past due but not impaired:					
Total assets	14,059	5,661	5,962	1,921	27,603
Including:					
Within 90 days	13,201	—	2,285	—	15,486
90 to 360 days	682	30	3,677	1,162	5,551
360 days to 3 years	176	5,631	—	759	6,566
Collectively assessed allowance for impairment losses	(2,161)	—	(84)	(193)	(2,438)
Net value of assets	11,898	5,661	5,878	1,728	25,165
Neither past due nor impaired:					
Total assets	2,031,339	95,333	2,972,173	89,701	5,188,546
Collectively assessed allowance for impairment losses	(53,678)	—	(9,528)	(2,423)	(65,629)
Net value of assets	1,977,661	95,333	2,962,645	87,278	5,122,917
Total of net value of assets	2,007,366	100,994	2,977,351	89,839	5,175,550

XIII. FINANCIAL RISK MANAGEMENT - continued

3. Credit risk - continued

3.3 Analysis of exposure to credit risk of the Group and the Bank about loans and advances to customers, inter-bank placements, investments and finance lease receivables - continued

The Bank

	31/12/2017			
	Loans and advances to customers	Inter-bank placement(1)	Investment(2)	Total
	RMB million	RMB million	RMB million	RMB million
Impaired:				
Individual assessment				
Total assets	31,346	76	15,238	46,660
Allowance for impairment losses	(16,378)	(76)	(8,065)	(24,519)
Net value of assets	14,968	—	7,173	22,141
Collective assessment				
Total assets	7,084	—	—	7,084
Allowance for impairment losses	(4,996)	—	—	(4,996)
Net value of assets	2,088	—	—	2,088
Past due but not impaired:				
Total assets	8,836	1,133	1,913	11,882
Including:				
Within 90 days	8,756	—	1,328	10,084
90 to 360 days	80	—	480	560
360 days to 3 years	—	1,133	105	1,238
Collectively assessed allowance for impairment losses	(1,786)	—	(126)	(1,912)
Net value of assets	7,050	1,133	1,787	9,970
Neither past due nor impaired:				
Total assets	2,375,629	192,221	2,749,819	5,317,669
Collectively assessed allowance for impairment losses	(58,338)	—	(11,000)	(69,338)
Net value of assets	2,317,291	192,221	2,738,819	5,248,331
Total of net value of assets	2,341,397	193,354	2,747,779	5,282,530

XIII. FINANCIAL RISK MANAGEMENT - continued

3. Credit risk - continued

3.3 Analysis of exposure to credit risk of the Group and the Bank about loans and advances to customers, inter-bank placements, investments and finance lease receivables - continued

The Bank - continued

	31/12/2016			
	Loans and advances to customers	Inter-bank placement[(1)]	Investment[(2)]	Total
	RMB million	RMB million	RMB million	RMB million
Impaired:				
Individual assessment				
Total assets	27,412	85	15,498	42,995
Allowance for impairment losses	(12,669)	(85)	(6,682)	(19,436)
Net value of assets	14,743	—	8,816	23,559
Collective assessment				
Total assets	6,898	—	—	6,898
Allowance for impairment losses	(3,872)	—	—	(3,872)
Net value of assets	3,026	—	—	3,026
Past due but not impaired:				
Total assets	14,001	5,661	5,962	25,624
Including:				
Within 90 days	13,143	—	2,285	15,428
90 to 360 days	682	30	3,677	4,389
360 days to 3 years	176	5,631	—	5,807
Collectively assessed allowance for impairment losses	(2,155)	—	(84)	(2,239)
Net value of assets	11,846	5,661	5,878	23,385
Neither past due nor impaired:				
Total assets	2,025,989	85,051	2,925,038	5,036,078
Collectively assessed allowance for impairment losses	(53,567)	—	(9,528)	(63,095)
Net value of assets	1,972,422	85,051	2,915,510	4,972,983
Total of net value of assets	2,002,037	90,712	2,930,204	5,022,953

(1) Inter-bank placements includes deposits with banks and other financial institutions, placements with banks and other financial institutions and financial assets purchased under resale agreements.

(2) Investments includes financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt investments of investments classified as receivables.

3.4 Collateral and other credit enhancements

The amount and type of collateral required depend on the assessment of the credit risk of the counterparty. The pledge rate depends on the credit information, operation and management, and financial position of pledgers, the condition of collateral, the market price, the pledged periods, and the convertibility of collateral. In addition, the Collateral Guideline of the Group set an upper limit of the pledged rate. Furthermore, the Group classifies and manages collateral by the difficulty of appraisal and management, the stability of market price and the convertibility of collateral. Following are the main types of collateral:

- For reverse repurchase agreements, collateral mainly includes bills, loans and securities
- For commercial loans, collateral mainly includes land, properties, equipment and shares, etc.
- For retail loans, collateral mainly includes properties

The management will monitor the market value of the collateral, ask the borrowers to increase collateral if necessary according to the agreements and monitor the change in the market value of the collateral when reviewing the adequacy of impairment.

XIII. FINANCIAL RISK MANAGEMENT - continued

3. Credit risk - continued

3.5 Analysis of collateral value

3.5.1 The Group evaluates the fair value of collateral periodically

1) As at 31 December 2017, the fair value of collateral that related to loans past due but not impaired amounted to RMB 12,139 million (31 December 2016: RMB 17,776 million). The collateral includes land, properties, equipment and shares assets etc.

2) As at 31 December 2017, the fair value of collateral that related to loans individually assessed to be impaired amounted to RMB 26,517 million (31 December 2016: RMB 23,540 million). The collateral includes land, properties, equipment and shares assets.

3.5.2 The carrying value of foreclosed assets the Group obtained during 2017 amounted to RMB 115 million (2016: RMB 102 million).

3.6 Rescheduled loans

Reschedule including the extension of payment time, approval of external management plans and modification and extension of payment. After rescheduling, the customers who were overdue are now back to normal and managed with other similar customers. Rescheduled policies are made under the criteria of local management's judgement that the payment is highly possible to continue. These policies' appliance should be checked constantly. The Group included the rescheduled loans in the scope of key monitoring and closely tracking the changes in clients' operation and repayment ability after the reschedule so as to promote the quality and efficiency of the rescheduled loans. As at 31 December 2017, the carrying amount of rescheduled loans and advances to customers amounted to RMB 34,242 million (31 December 2016: RMB 38,954 million). The carrying amount of rescheduled loans and advances to customers past due over 90 days amounted to RMB 3,377 million (31 December 2016: RMB 1,987 million).

4. Market risk

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk arises from both the Group's proprietary and customer driven business. The Group's market risk management objective is to control the market risk within a reasonable scope in order to achieve the optimal risk adjusted benefit.

According to the Group's market risk management structure, market risk management is critical for the risk management of the Group. Any major events should be reported to the Asset and Liability Management Committee for review and then authorized by President of the Bank. The planning and financial department is responsible for implementing the Group's asset and liability and interest rate management policy, analysing and monitoring the implementation status of each type of indicators.

For daily control and management of treasury business, the risk management department of the treasure centre built up mid-stage risk control system to carry out an implanting risk management and report to the risk management department of the Group.

4.1 Interest rate risk

The interest rate risk of the Group includes repricing risk, yield curve risk, benchmark risk and optional risk, among which repricing risk is the main risk. It is the risk arising from the mismatch between the agreed maturity date (fixed interest rate day) and the repricing date (floating interest rate) of interest bearing assets and interest payment liabilities. Currently, the Group has fully carried out the internal capital transfer pricing. The Group determined the transfer pricing by different products and terms, and gradually centralized the interest rate risk to the Head Office, so as to improve the efficiency of management and control the interest rate risk.

For the interest risk management of bank accounts, the Group mainly evaluates the interest rate risk of the statement of financial position through gap analysis. The Group dynamically monitors and controls the interest rate sensitive gap of the statement of financial position through information systems like assets-liabilities management system, and simply calculates the interest rate sensitivity affected by revenue and

XIII. FINANCIAL RISK MANAGEMENT - continued

4. Market risk - continued

4.1 Interest rate risk - continued

economic value on the basis of gap analysis. The revenue analysis emphasizes on the effect of the interest rate fluctuation on short-term income, while the economic value analysis emphasizes on the effect of the interest rate fluctuation on present value of net cash flow.

For the interest risk management of transaction accounts, the Group mainly achieves the real-time monitoring of the interest rate risk of the trading accounts through the quota system, the use of financial transactions and analysis system and the scientific exposure measurement models. According to regulatory requirement, the Group has strengthened the management of market risk measurement models, standardized the developing, testing and commissioning process, and built on regular evaluation mechanisms to ensure the accuracy of measurement models. The Group applies the on-line trading and analysis system to timely measure and control the interest rate risk exposure of transaction accounts, which provides effective technical support to control the interest rate risk of transaction accounts.

At the balance sheet date, an analysis of contractual reprising date or maturity date, whichever is earlier, of the financial assets and liabilities are as follows:

The Group

	31/12/2017					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Financial assets:						
Cash and balances with Central Bank	444,872	—	—	—	21,531	466,403
Deposits with banks and other financial institutions	71,995	5,564	—	—	—	77,559
Placements with banks and other financial institutions	24,238	6,940	—	—	—	31,178
Financial assets at fair value through profit or loss	34,292	36,186	64,385	10,170	217,039	362,072
Derivative financial assets	—	—	—	—	28,396	28,396
Financial assets purchased under resale agreements	89,817	3,302	—	—	—	93,119
Loans and advances to customers	1,809,718	488,679	43,072	7,362	—	2,348,831
Available-for-sale financial assets	56,731	120,365	190,414	45,400	91,311	504,221
Investments classified as receivables	459,926	581,934	602,819	268,703	—	1,913,382
Finance lease receivables	100,370	2,395	593	137	—	103,495
Held-to-maturity investments	10,681	27,181	161,432	138,189	—	337,483
Other assets	17,540	1,890	166	321	43,320	63,237
Total financial assets	3,120,180	1,274,436	1,062,881	470,282	401,597	6,329,376
Financial liabilities:						
Borrowing from Central Bank	35,500	209,500	—	—	—	245,000
Deposits from banks and other financial institutions	1,140,642	305,417	—	—	—	1,446,059
Placements from banks and other financial institutions	171,287	16,642	—	—	—	187,929
Financial liabilities at fair value through profit or loss	3,685	2,040	—	—	838	6,563
Derivative financial liabilities	—	—	—	—	29,514	29,514
Financial assets sold under repurchase agreements	220,845	8,949	—	—	—	229,794
Due to customers	2,168,179	560,115	356,148	6	2,445	3,086,893
Debt securities issued	316,718	209,369	63,988	72,883	—	662,958
Other liabilities	—	—	—	—	71,626	71,626
Total financial liabilities	4,056,856	1,312,032	420,136	72,889	104,423	5,966,336
Net position	(936,676)	(37,596)	642,745	397,393	297,174	363,040

XIII. FINANCIAL RISK MANAGEMENT - continued

4. Market risk - continued

4.1 Interest rate risk - continued

The Group - continued

	31/12/2016					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Financial assets:						
Cash and balances with Central Bank	436,078	—	—	—	21,576	457,654
Deposits with banks and other financial institutions	48,928	5,328	1,950	—	—	56,206
Placements with banks and other financial institutions	10,190	6,661	—	—	—	16,851
Financial assets at fair value through profit or loss	16,501	31,666	32,016	8,353	266,059	354,595
Derivative financial assets	—	—	—	—	16,137	16,137
Financial assets purchased under resale agreements	17,660	4,298	5,979	—	—	27,937
Loans and advances to customers	1,299,536	643,847	56,945	7,038	—	2,007,366
Available-for-sale financial assets	128,499	174,310	185,411	47,966	48,664	584,850
Investments classified as receivables	458,186	823,908	572,388	248,319	—	2,102,801
Finance lease receivables	86,419	2,962	458	—	—	89,839
Held-to-maturity investments	7,963	22,931	106,657	112,277	—	249,828
Other assets	15,869	1,710	150	290	35,335	53,354
Total financial assets	2,525,829	1,717,621	961,954	424,243	387,771	6,017,418
Financial liabilities:						
Borrowing from Central Bank	36,000	162,000	—	—	—	198,000
Deposits from banks and other financial institutions	1,470,818	247,010	2,730	450	—	1,721,008
Placements from banks and other financial institutions	61,021	66,268	2,715	—	—	130,004
Financial liabilities at fair value through profit or loss	459	8	—	—	27	494
Derivative financial liabilities	—	—	—	—	16,479	16,479
Financial assets sold under repurchase agreements	166,805	672	—	—	—	167,477
Due to customers	1,773,379	433,322	459,567	26,196	2,287	2,694,751
Debt securities issued	277,824	273,209	92,057	70,876	—	713,966
Other liabilities	—	—	279	308	60,140	60,727
Total financial liabilities	3,786,306	1,182,489	557,348	97,830	78,933	5,702,906
Net position	(1,260,477)	535,132	404,606	326,413	308,838	314,512

XIII. FINANCIAL RISK MANAGEMENT - continued

4. Market risk - continued

4.1 Interest rate risk - continued

The Bank

	31/12/2017					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Financial assets:						
Cash and balances with Central Bank	444,861	—	—	—	21,531	466,392
Deposits with banks and other financial institutions	62,080	5,398	—	—	—	67,478
Placements with banks and other financial institutions	24,382	12,030	—	—	—	36,412
Financial assets at fair value through profit or loss	25,316	29,988	37,943	7,462	237,256	337,965
Derivative financial assets	—	—	—	—	28,396	28,396
Financial assets purchased under resale agreements	86,162	3,302	—	—	—	89,464
Loans and advances to customers	1,812,517	485,679	35,839	7,362	—	2,341,397
Available-for-sale financial assets	54,033	120,120	190,066	45,399	106,398	516,016
Investments classified as receivables	449,532	581,270	600,514	268,653	—	1,899,969
Held-to-maturity investments	10,681	27,181	161,432	138,189	—	337,483
Other assets	—	—	—	—	38,129	38,129
Total financial assets	2,969,564	1,264,968	1,025,794	467,065	431,710	6,159,101
Financial liabilities:						
Borrowing from Central Bank	35,500	209,500	—	—	—	245,000
Deposits from banks and other financial institutions	1,143,516	305,537	—	—	—	1,449,053
Placements from banks other financial institutions	68,507	16,642	—	—	—	85,149
Financial liabilities at fair value through profit or loss	3,685	2,040	—	—	—	5,725
Derivative financial liabilities	—	—	—	—	29,514	29,514
Financial assets sold under repurchase agreements	217,269	6,616	—	—	—	223,885
Due to customers	2,168,964	560,356	356,148	6	2,445	3,087,919
Debt securities issued	316,701	203,974	56,474	70,883	—	648,032
Other liabilities	—	—	—	—	53,231	53,231
Total financial liabilities	3,954,142	1,304,665	412,622	70,889	85,190	5,827,508
Net position	(984,578)	(39,697)	613,172	396,176	346,520	331,593

XIII. FINANCIAL RISK MANAGEMENT - continued

4. Market risk - continued

4.1 Interest rate risk - continued

The Bank - continued

	31/12/2016					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Financial assets:						
Cash and balances with Central Bank	436,050	—	—	—	21,576	457,626
Deposits with banks and other financial institutions	41,835	1,438	—	—	—	43,273
Placements with banks and other financial institutions	12,098	10,011	—	—	—	22,109
Financial assets at fair value through profit or loss	5,945	21,527	15,893	6,282	308,246	357,893
Derivative financial assets	—	—	—	—	16,137	16,137
Financial assets purchased under resale agreements	15,053	4,298	5,979	—	—	25,330
Loans and advances to customers	1,299,324	643,379	52,296	7,038	—	2,002,037
Available-for-sale financial assets	128,587	174,343	184,240	47,966	55,141	590,277
Investments classified as receivables	455,097	822,254	569,973	248,269	—	2,095,593
Held-to-maturity investments	7,963	22,931	106,657	112,277	—	249,828
Other assets	—	—	—	—	31,554	31,554
Total financial assets	2,401,952	1,700,181	935,038	421,832	432,654	5,891,657
Financial liabilities:						
Borrowing from Central Bank	36,000	162,000	—	—	—	198,000
Deposits from banks and other financial institutions	1,478,309	247,210	2,730	450	—	1,728,699
Placements from banks other financial institutions	24,180	18,417	—	—	—	42,597
Financial liabilities at fair value through profit or loss	459	—	—	—	—	459
Derivative financial liabilities	—	—	—	—	16,479	16,479
Financial assets sold under repurchase agreements	165,021	670	—	—	—	165,691
Due to customers	1,773,471	433,322	459,567	26,196	2,287	2,694,843
Debt securities issued	277,323	273,209	86,816	70,876	—	708,224
Other liabilities	—	—	—	—	45,902	45,902
Total financial liabilities	3,754,763	1,134,828	549,113	97,522	64,668	5,600,894
Net position	(1,352,811)	565,353	385,925	324,310	367,986	290,763

4. Market risk - continued

4.1 Interest rate risk - continued

The following tables illustrate the potential impact of a parallel upward or downward shift of 100 basis points in all currencies' yield curves on the net interest income and other comprehensive income, based on the positions of financial assets and liabilities at the balance sheet date.

The Group

	31/12/2017		31/12/2016	
	Net interest income	Other comprehensive income	Net interest income	Other comprehensive income
	increase (decrease) RMB million	increase (decrease) RMB million	increase (decrease) RMB million	increase (decrease) RMB million
+100 basis points	2,446	(5,244)	1,346	(5,446)
- 100 basis points	(2,446)	5,522	(1,346)	5,742

The Bank

	31/12/2017		31/12/2016	
	Net interest income	Other comprehensive income	Net interest income	Other comprehensive income
	increase (decrease) RMB million	increase (decrease) RMB million	increase (decrease) RMB million	increase (decrease) RMB million
+100 basis points	2,711	(5,239)	652	(5,437)
- 100 basis points	(2,711)	5,517	(652)	5,732

The sensitivity analysis on net interest income is based on reasonably possible changes in interest rates with the assumption that the structure of financial assets and financial liabilities held at the period end remains unchanged.

The sensitivity analysis on other comprehensive income is the effect on changes of fixed rate available-for-sale financial assets at the period end after adjusting in accordance with the reasonably possible changes in interest rates.

The above prediction assumes that all yield curves of assets and liabilities, except demand deposit, shift upward or downward parallel. Therefore it does not reflect the potential impact of non-parallel shift in yield curves. The prediction also assumes that all positions are held to maturity. The Group anticipates that the amount of sensitivity analysis is insignificant if a position is not held to maturity.

The assumption does not represent the group's capital and interest rate risk management policy. Therefore the above analysis may differ from the actual situation.

In addition, the impact of interest rate fluctuation is only for illustrating purpose, showing the anticipated net interest income and other comprehensive income of the Group under the current interest rate risk situation. And such impact has not taken into account the potential interest rate risk control activities carried out by the management.

4.2 Foreign currency risk

The Group conducts its businesses mainly in RMB, with certain businesses denominated in USD and other currencies. RMB is the functional currency. The foreign exchange rate is regulated by the PBOC.

The Group is mainly exposed to currency risk resulting from currency mismatches of assets and liabilities, foreign currency transactions and foreign currency capital, etc.

The capital operation department of the Bank centrally manages the currency risk. The currency risk that arises from all types of foreign exchange transactions at the branch level should be centralized to head office to manage the risk exposure and squares positions through the core business system.

XIII. FINANCIAL RISK MANAGEMENT - continued

4. Market risk - continued

4.2 Foreign currency risk - continued

The currency risk exposure between foreign currencies is managed on the basis of "overnight position limit" and "day time self-trading positions". The positions are centralized to the capital operation department in a timely way and managed centrally. This kind of position is relatively small compared to the Group's asset scale and is controllable.

Regarding the currency risk exposure between RMB and foreign currencies, the Group is mainly exposed to currency risk resulting from the comprehensive positions of the RMB market maker and the position of the foreign currency capital. As an active RMB market maker, the Group controls the position limit properly. The comprehensive positions of the market maker are managed close to zero and the overnight positions are kept at low level.

The following tables are the structure analysis of the relevant financial assets and liabilities by currency.

The Group

	31/12/2017			
	RMB	USD RMB equivalent	Other currencies RMB equivalent	Total
	RMB million	RMB million	RMB million	RMB million
Financial assets:				
Cash and balances with Central Bank	449,299	16,716	388	466,403
Deposits with banks and other financial institutions	61,927	11,686	3,946	77,559
Placements with banks and other financial institutions	17,389	10,551	3,238	31,178
Financial assets at fair value through profit or loss	320,654	40,282	1,136	362,072
Derivative financial assets	26,894	980	522	28,396
Financial assets purchased under resale agreements	93,119	—	—	93,119
Loans and advances to customers	2,203,353	145,224	254	2,348,831
Available-for-sale financial assets	398,337	99,562	6,322	504,221
Investments classified as receivables	1,889,674	19,354	4,354	1,913,382
Finance lease receivables	102,268	1,227	—	103,495
Held-to-maturity investments	325,436	7,679	4,368	337,483
Other assets	60,942	2,049	246	63,237
Total financial assets	5,949,292	355,310	24,774	6,329,376

	31/12/2017			
	RMB	USD RMB equivalent	Other currencies RMB equivalent	Total
	RMB million	RMB million	RMB million	RMB million
Financial liabilities:				
Borrowing from Central Bank	245,000	—	—	245,000
Deposits from banks and other financial institutions	1,360,795	74,865	10,399	1,446,059
Placements from banks and other financial institutions	117,683	59,913	10,333	187,929
Financial liabilities at fair value through profit or loss	1,834	4,729	—	6,563
Derivative financial liabilities	5,938	23,224	352	29,514
Financial assets sold under repurchase agreements	210,219	18,743	832	229,794
Due to customers	2,853,772	183,614	49,507	3,086,893
Debt securities issued	638,985	16,759	7,214	662,958
Other liabilities	68,548	2,757	321	71,626
Total financial liabilities	5,502,774	384,604	78,958	5,966,336
Net position	446,518	(29,294)	(54,184)	363,040

XIII. FINANCIAL RISK MANAGEMENT - continued

4. Market risk - continued

4.2 Foreign currency risk - continued

The Group - continued

	31/12/2016			
	RMB	USD RMB equivalent	Other currencies RMB equivalent	Total
	RMB million	RMB million	RMB million	RMB million
Financial assets:				
Cash and balances with Central Bank	440,649	15,683	1,322	457,654
Deposits with banks and other financial institutions	29,846	21,908	4,452	56,206
Placements with banks and other financial institutions	7,425	8,979	447	16,851
Financial assets at fair value through profit or loss	345,040	9,555	—	354,595
Derivative financial assets	6,408	9,352	377	16,137
Financial assets purchased under resale agreements	23,415	54	4,468	27,937
Loans and advances to customers	1,912,162	64,743	30,461	2,007,366
Available-for-sale financial assets	491,145	92,030	1,675	584,850
Investments classified as receivables	2,094,013	7,939	849	2,102,801
Finance lease receivables	88,361	1,478	—	89,839
Held-to-maturity investments	242,346	5,226	2,256	249,828
Other assets	51,394	1,823	137	53,354
Total financial assets	5,732,204	238,770	46,444	6,017,418

	31/12/2016			
	RMB	USD RMB equivalent	Other currencies RMB equivalent	Total
	RMB million	RMB million	RMB million	RMB million
Financial liabilities:				
Borrowing from Central Bank	198,000	—	—	198,000
Deposits from banks and other financial institutions	1,650,483	69,308	1,217	1,721,008
Placements from banks and other financial institutions	97,825	23,669	8,510	130,004
Financial liabilities at fair value through profit or loss	494	—	—	494
Derivative financial liabilities	13,307	825	2,347	16,479
Financial assets sold under repurchase agreements	161,228	5,902	347	167,477
Due to customers	2,524,261	127,304	43,186	2,694,751
Debt securities issued	692,762	17,827	3,377	713,966
Other liabilities	58,287	2,284	156	60,727
Total financial liabilities	5,396,647	247,119	59,140	5,702,906
Net position	335,557	(8,349)	(12,696)	314,512

XIII. FINANCIAL RISK MANAGEMENT - continued

4. Market risk - continued

4.2 Foreign currency risk - continued

The Bank

	31/12/2017			
	RMB	USD RMB equivalent	Other currencies RMB equivalent	Total
	RMB million	RMB million	RMB million	RMB million
Financial assets:				
Cash and balances with Central Bank	449,288	16,716	388	466,392
Deposits with banks and other financial institutions	51,846	11,686	3,946	67,478
Placements with banks and other financial institutions	22,061	11,113	3,238	36,412
Financial assets at fair value through profit or loss	296,547	40,282	1,136	337,965
Derivative financial assets	26,894	980	522	28,396
Financial assets purchased under resale agreements	89,464	—	—	89,464
Loans and advances to customers	2,195,919	145,224	254	2,341,397
Available-for-sale financial assets	410,132	99,562	6,322	516,016
Investments classified as receivables	1,876,261	19,354	4,354	1,899,969
Held-to-maturity investments	325,436	7,679	4,368	337,483
Other assets	35,834	2,049	246	38,129
Total financial assets	5,779,682	354,645	24,774	6,159,101

	31/12/2017			
	RMB	USD RMB equivalent	Other currencies RMB equivalent	Total
	RMB million	RMB million	RMB million	RMB million
Financial liabilities:				
Borrowing from Central Bank	245,000	—	—	245,000
Deposits from banks and other financial institutions	1,363,789	74,865	10,399	1,449,053
Placements from banks and other financial institutions	14,903	59,913	10,333	85,149
Financial liabilities at fair value through profit or loss	996	4,729	—	5,725
Derivative financial liabilities	5,938	23,224	352	29,514
Financial assets sold under repurchase agreements	204,310	18,743	832	223,885
Due to customers	2,854,798	183,614	49,507	3,087,919
Debt securities issued	624,059	16,759	7,214	648,032
Other liabilities	50,153	2,757	321	53,231
Total financial liabilities	5,363,946	384,604	78,958	5,827,508
Net position	415,736	(29,959)	(54,184)	331,593

	31/12/2016			
	RMB	USD RMB equivalent	Other currencies RMB equivalent	Total
	RMB million	RMB million	RMB million	RMB million
Financial assets:				
Cash and balances with Central Bank	440,621	15,683	1,322	457,626
Deposits with banks and other financial institutions	16,913	21,908	4,452	43,273
Placements with banks and other financial institutions	12,683	8,979	447	22,109
Financial assets at fair value through profit or loss	348,338	9,555	—	357,893
Derivative financial assets	6,408	9,352	377	16,137
Financial assets purchased under resale agreements	20,808	54	4,468	25,330
Loans and advances to customers	1,906,833	64,743	30,461	2,002,037
Available-for-sale financial assets	496,572	92,030	1,675	590,277
Investments classified as receivables	2,086,805	7,939	849	2,095,593
Held-to-maturity investments	242,346	5,226	2,256	249,828
Other assets	29,594	1,823	137	31,554
Total financial assets	5,607,921	237,292	46,444	5,891,657

XIII. FINANCIAL RISK MANAGEMENT - continued

4. Market risk - continued

4.2 Foreign currency risk - continued

The Bank - continued

	31/12/2016			
	RMB	USD RMB equivalent	Other currencies RMB equivalent	Total
	RMB million	RMB million	RMB million	RMB million
Financial liabilities:				
Borrowing from Central Bank	198,000	—	—	198,000
Deposits from banks and other financial institutions	1,658,174	69,308	1,217	1,728,699
Placements from banks and other financial institutions	10,418	23,669	8,510	42,597
Financial liabilities at fair value through profit or loss	459	—	—	459
Derivative financial liabilities	13,307	825	2,347	16,479
Financial assets sold under repurchase agreements	159,442	5,902	347	165,691
Due to customers	2,524,353	127,304	43,186	2,694,843
Debt securities issued	687,020	17,827	3,377	708,224
Other liabilities	43,462	2,284	156	45,902
Total financial liabilities	5,294,635	247,119	59,140	5,600,894
Net position	313,286	(9,827)	(12,696)	290,763

The table below indicates the potential effect of an appreciation or depreciation of RMB spot and forward exchange rate against all other currencies by 5% on the foreign exchange gains or losses.

The Group

	2017	2016
	Foreign exchange increase/(decrease)	Foreign exchange increase/(decrease)
	RMB million	RMB million
5% appreciation	(235)	(2,435)
5% depreciation	235	2,435

The Bank

	2017	2016
	Foreign exchange increase/(decrease)	Foreign exchange increase/(decrease)
	RMB million	RMB million
5% appreciation	(201)	(2,362)
5% depreciation	201	2,362

The above sensitivity analysis is measured on the basis that all assets and liabilities have a static currency risk structure. The relevant assumptions are:

(1) The exchange rate sensitivity represents the exchange gains or losses arisen from a 5% change of the closing exchange rates (middle price) of the different foreign currencies against RMB at the balance sheet date;

(2) The exchange rate changes of different foreign currencies against RMB move in the same direction simultaneously.

The effect on foreign exchange gains or loss is based on the assumption that the Group's net positions of foreign exchange sensitivity and foreign exchange derivative instruments at the end of the reporting period

4. Market risk - continued

4.2 Foreign currency risk - continued

remain unchanged. The Group mitigates its foreign currency risk through active management of its foreign currency exposures and appropriate use of derivative instruments, based on the management expectation of future foreign currency movements, and therefore the above sensitivity analysis may differ from the actual situation.

4.3 Other price risk

Other price risk mainly derives from equity investments, held-for-trading precious metals investments and other bonds and derivatives linked to commodity price.

The Group believes that the market risk of commodity price or stock price from portfolio is insignificant.

5. Liquidity risk

Liquidity risk refers to the risk of being unable to acquire sufficient funds in time or failing to acquire sufficient funds at a reasonable cost to meet repayment obligations for asset growth or other business. The Group's liquidity risk mainly derives from advanced or concentrated withdrawal, principal-guaranteed wealth management products redemption, deferred loan repayment and mismatches of assets and liabilities.

The assets and liabilities management committee of the Group monitors and manages the liquidity risk of the Group. The committee will determine the liquidity risk management strategy, the monitoring indicators and the alarming index, regularly analyse and discuss the liquidity risk assessment report submitted, and determine the liquidity risk management measures.

The planning and financial department is responsible for: (1) drafting liquidity risk management policies and measures; (2) monitoring different types of liquidity ratios and exposure indicators. The planning and financial department monitors the liquidity risk ratios monthly by reviewing the assets' and liabilities' structure. If there are any ratios close to or over the alarming limits, the department has to investigate the reasons and make recommendations to adjust the assets' and liabilities' structure accordingly; (3) analysing the liquidity risk and reporting to the assets and liability management committee regularly; and (4) daily operation of liquidity management, establishment of a cash position forecast system at the Group level in order to meet the cash payment needs and assure the liquidity for the business development requirements.

The Group regularly monitors the surplus reserve ratio, liquidity ratio, loan-to-deposit ratio and sets alarming and security limits for each ratio. The Group also prepares general and comprehensive liquidity analysis report based on liquidity indicators recorded and net cash flow position of assets and liabilities, incorporating the consideration of macro economy and interbank liquidity status. The report is submitted to the assets and liabilities management committee for assessment. The assessment report will be submitted together with credit risk, interest rate risk and operation risk to the risk management committee of the Board of Directors for the analysis of the Group's overall risk assessment to determine the management strategy accordingly.

5.1 A maturity analysis of financial assets and liabilities of the Group as follows

The following tables are the structure analysis of non-derivative financial assets and liabilities by contractual maturities at the balance sheet date. The amounts disclosed in each term are the undiscounted contractual cash flows.

XIII. FINANCIAL RISK MANAGEMENT - continued

5. Liquidity risk - continued

5.1 A maturity analysis of financial assets and liabilities of the Group as follows - continued

The Group

	31/12/2017							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Past due/ undated	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Non-derivative financial assets:								
Cash and balances with Central Bank	22,311	—	—	—	—	—	444,313	466,624
Deposits with banks and other financial institutions	53,703	17,504	907	6,708	—	—	16	78,838
Placements with banks and other financial institutions	—	18,207	6,202	7,113	—	—	60	31,582
Financial assets at fair value through profit or loss	216,630	13,293	16,055	38,291	80,958	25,664	986	391,877
Financial assets purchased under resale agreements	—	88,494	315	3,430	—	—	1,133	93,372
Loans and advances to customers	—	246,365	168,339	789,211	668,488	1,088,414	38,930	2,999,747
Available-for-sale financial assets	82,210	14,135	19,701	134,007	240,051	76,121	4,689	570,914
Investments classified as receivables	—	59,411	141,161	540,040	1,040,426	434,119	13,891	2,229,048
Financial lease receivables	—	2,290	6,409	26,036	71,470	10,419	3,446	120,070
Held-to-maturity investments	—	243	12,477	37,529	199,430	178,594	131	428,404
Other non-derivative financial assets	8,654	2,430	1,890	2,406	15,015	2,112	324	32,831
Total non-derivative financial assets:	383,508	462,372	373,456	1,584,771	2,315,838	1,815,443	507,919	7,443,307
Non-derivative financial liabilities:								
Borrowing from Central Bank	—	5,154	31,476	216,322	—	—	—	252,952
Deposits from banks and other financial institutions	464,357	431,095	253,602	314,982	—	—	—	1,464,036
Placements from banks and other financial institutions	—	139,203	32,445	16,992	—	—	—	188,640
Financial liabilities at fair value through profit or loss	756	1,673	2,066	2,082	81	—	—	6,658
Financial assets sold under repurchase agreements	—	208,957	12,841	9,026	—	—	—	230,824
Due to customers	1,436,517	453,409	295,874	576,424	406,982	7	—	3,169,213
Debt securities issued	—	112,841	186,118	224,346	101,603	84,060	—	708,968
Other non-derivative financial liabilities	19,981	563	749	2,379	4,332	1,890	439	30,333
Total non-derivative financial liabilities	1,921,611	1,352,895	815,171	1,362,553	512,998	85,957	439	6,051,624
Net position	(1,538,103)	(890,523)	(441,715)	222,218	1,802,840	1,729,486	507,480	1,391,683

XIII. FINANCIAL RISK MANAGEMENT - continued

5. Liquidity risk - continued

5.1 A maturity analysis of financial assets and liabilities of the Group as follows - continued

The Group - continued

	31/12/2016							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Past due/ undated	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Non-derivative financial assets:								
Cash and balances with Central Bank	72,843	—	—	—	—	—	385,005	457,848
Deposits with banks and other financial institutions	30,559	13,676	8,343	3,756	—	—	21	56,355
Placements with banks and other financial institutions	—	7,901	2,410	6,827	—	—	64	17,202
Financial assets at fair value through profit or loss	265,802	6,600	8,634	34,742	39,128	15,801	702	371,409
Financial assets purchased under resale agreements	—	10,920	5,441	162	6,120	—	5,661	28,304
Loans and advances to customers	—	187,986	157,130	733,734	549,889	639,007	33,758	2,301,504
Available-for-sale financial assets	46,397	10,508	83,664	194,345	230,043	73,035	6,075	644,067
Investments classified as receivables	—	159,752	173,202	803,109	862,103	517,877	16,026	2,532,069
Financial lease receivables	—	2,880	5,240	23,954	65,251	4,350	1,789	103,464
Held-to-maturity investments	—	2,560	7,037	30,647	135,267	152,357	139	328,007
Other non-derivative financial assets	3,027	2,921	1,496	5,086	15,661	3,994	460	32,645
Total non-derivative financial assets:	418,628	405,704	452,597	1,836,362	1,903,462	1,406,421	449,700	6,872,874
Non-derivative financial liabilities:								
Borrowing from Central Bank	—	10,312	26,413	162,824	—	—	—	199,549
Deposits from banks and other financial institutions	491,813	474,313	512,516	253,407	3,054	550	—	1,735,653
Placements from banks and other financial institutions	—	18,275	43,963	65,185	5,223	—	—	132,646
Financial liabilities at fair value through profit or loss	26	—	460	—	9	—	—	495
Financial assets sold under repurchase agreements	—	149,986	17,158	678	—	—	—	167,822
Due to customers	1,308,657	186,730	212,655	525,804	502,066	27,012	—	2,762,924
Debt securities issued	—	91,932	152,345	309,582	128,229	85,809	—	767,897
Other non-derivative financial liabilities	9,715	1,675	1,000	3,792	7,145	1,490	10	24,827
Total non-derivative financial liabilities	1,810,211	933,223	966,510	1,321,272	645,726	114,861	10	5,791,813
Net position	(1,391,583)	(527,519)	(513,913)	515,090	1,257,736	1,291,560	449,690	1,081,061

Assets available to meet all of the liabilities and outstanding loan commitments include cash and balances with Central Bank, deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets purchased under resale agreements and financial assets at fair value through profit or loss, etc.. In the normal course of business, the majority of customer deposits repayable on demand are expected to be revolved. In addition, the Group is able to sell the available-for-sale financial assets to repay the matured liabilities if necessary.

XIII. FINANCIAL RISK MANAGEMENT - continued

5. Liquidity risk - continued

5.1 A maturity analysis of financial assets and liabilities of the Group as follows - continued

The Bank

	31/12/2017							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Past due/ undated	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Non-derivative financial assets:								
Cash and balances with Central Bank	22,311	—	—	—	—	—	444,302	466,613
Deposits with banks and other financial institutions	45,336	16,800	—	6,529	—	—	16	68,681
Placements with banks and other financial institutions	—	18,922	5,643	12,378	—	—	60	37,003
Financial assets at fair value through profit or loss	237,256	7,246	12,695	30,631	47,519	22,089	600	358,036
Financial assets purchased under resale agreements	—	85,104	13	3,430	—	—	1,133	89,680
Loans and advances to customers	—	245,587	166,947	783,227	668,380	1,088,414	38,519	2,991,074
Available-for-sale financial assets	106,094	8,710	18,306	130,830	233,466	76,048	3,124	576,578
Investments classified as receivables	—	54,953	139,896	536,113	1,036,281	434,063	13,891	2,215,197
Held-to-maturity investments	—	243	12,477	37,529	199,430	178,594	131	428,404
Other non-derivative financial assets	1,903	1,836	1,281	598	2,957	296	—	8,871
Total non-derivative financial assets:	412,900	439,401	357,258	1,541,265	2,188,033	1,799,504	501,776	7,240,137
Non-derivative financial liabilities:								
Borrowing from Central Bank	—	5,154	31,476	216,322	—	—	—	252,952
Deposits from banks and other financial institutions	466,413	431,209	254,317	315,108	—	—	—	1,467,047
Placements from banks and other financial institutions	—	36,423	32,445	16,992	—	—	—	85,860
Financial liabilities at fair value through profit or loss	—	1,673	2,066	2,082	—	—	—	5,821
Financial assets sold under repurchase agreements	—	205,857	11,943	6,688	—	—	—	224,488
Due to customers	1,437,302	306,623	295,874	712,887	406,983	7	—	3,159,676
Debt securities issued	—	112,841	186,001	218,405	93,134	81,545	—	691,926
Other non-derivative financial liabilities	10,565	450	558	1,119	510	84	—	13,286
Total non-derivative financial liabilities	1,914,280	1,100,230	814,680	1,489,603	500,627	81,636	—	5,901,056
Net position	(1,501,380)	(660,829)	(457,422)	51,662	1,687,406	1,717,868	501,776	1,339,081

XIII. FINANCIAL RISK MANAGEMENT - continued

5. Liquidity risk - continued

5.1 A maturity analysis of financial assets and liabilities of the Group as follows - continued

The Bank - continued

	31/12/2016							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Past due/ undated	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Non-derivative financial assets:								
Cash and balances with Central Bank	72,842	—	—	—	—	—	384,977	457,819
Deposits with banks and other financial institutions	27,046	10,091	4,731	1,469	—	—	21	43,358
Placements with banks and other financial institutions	—	8,687	3,603	10,274	—	—	64	22,628
Financial assets at fair value through profit or loss	308,246	2,224	2,903	22,795	18,948	12,249	600	367,965
Financial assets purchased under resale agreements	—	8,920	4,832	162	6,120	—	5,661	25,695
Loans and advances to customers	—	187,644	156,460	731,411	547,786	639,007	33,609	2,295,917
Available-for-sale financial assets	54,832	10,071	82,793	194,227	228,652	73,035	5,487	649,097
Investments classified as receivables	—	159,685	170,104	801,288	859,553	517,817	16,026	2,524,473
Held-to-maturity investments	—	2,560	7,037	30,647	135,267	152,357	139	328,007
Other non-derivative financial assets	1,302	2,277	1,117	863	2,577	266	—	8,402
Total non-derivative financial assets:	464,268	392,159	433,580	1,793,136	1,798,903	1,394,731	446,584	6,723,361
Non-derivative financial liabilities:								
Borrowing from Central Bank	—	10,312	26,413	162,824	—	—	—	199,549
Deposits from banks and other financial institutions	495,055	478,215	512,872	253,617	3,054	550	—	1,743,363
Placements from banks and other financial institutions	—	7,328	17,315	18,434	—	—	—	43,077
Financial liabilities at fair value through profit or loss	—	—	460	—	—	—	—	460
Financial assets sold under repurchase agreements	—	148,205	17,154	677	—	—	—	166,036
Due to customers	1,308,749	186,730	212,655	525,804	502,066	27,012	—	2,763,016
Debt securities issued	—	91,932	152,228	308,710	122,868	85,809	—	761,547
Other non-derivative financial liabilities	6,875	1,490	877	833	456	76	—	10,607
Total non-derivative financial liabilities	1,810,679	924,212	939,974	1,270,899	628,444	113,447	—	5,687,655
Net position	(1,346,411)	(532,053)	(506,394)	522,237	1,170,459	1,281,284	446,584	1,035,706

XIII. FINANCIAL RISK MANAGEMENT - continued

5. Liquidity risk - continued

5.2 Liquidity risk analysis of derivative instruments

(i) Derivative settled on a net basis

Derivatives that were settled on a net basis by the Group include: interest rate derivatives, exchange rate derivatives and credit derivatives, etc. The tables below set forth the Group's net derivative financial instruments positions by remaining contractual maturities at the balance sheet date. The amounts disclosed in the tables are the undiscounted contractual cash flows.

The Group and the Bank	31/12/2017					
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Interest rate derivatives	23	30	209	591	3	856
Exchange rate derivatives	(661)	(1,217)	(1,744)	16	—	(3,606)
Other derivatives	—	223	17	31	(2)	269
Total	(638)	(964)	(1,518)	638	1	(2,481)

	31/12/2016					
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Interest rate derivatives	13	4	56	315	—	388
Exchange rate derivatives	—	—	(8)	—	—	(8)
Other derivatives	—	—	69	16	—	85
Total	13	4	117	331	—	465

(ii) Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis refer to exchange rate derivatives and precious metals forward with delivery precious metals. The tables below set forth the Group's positions by remaining contractual maturities at the balance sheet date. The amounts disclosed in the tables are the undiscounted contractual cash flows.

The Group and the Bank	31/12/2017					
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Exchange rate derivatives						
- Cash inflow	327,630	226,750	378,064	19,935	—	952,379
- Cash outflow	(327,003)	(225,744)	(377,231)	(20,122)	—	(950,100)
Other derivatives						
- Cash inflow	3,659	18,053	26,794	726	—	49,232
- Cash outflow	(2,995)	(14,428)	(6,204)	—	—	(23,627)
Total	1,291	4,631	21,423	539	—	27,884

	31/12/2016					
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Exchange rate derivatives						
- Cash inflow	369,626	311,882	407,056	10,609	—	1,099,173
- Cash outflow	(369,732)	(312,597)	(406,693)	(10,625)	—	(1,099,647)
Other derivatives						
- Cash inflow	7,403	15,890	13,313	5,224	—	41,830
- Cash outflow	(6,899)	(11,981)	3,655	(364)	—	(15,589)
Total	398	3,194	17,331	4,844	—	25,767

5. Liquidity risk - continued

5.3 Off-balance sheet items

The Group's off-balance sheet items mainly include credit card commitment, letters of credit, letters of guarantee and bank acceptances. The tables below set forth the amounts of the off-balance sheet items by remaining maturity.

The Group and the Bank

	31/12/2017				31/12/2016			
	Less than 1 year	1-5 years	Over 5 years	Total	Less than 1 year	1-5 years	Over 5 years	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Credit card commitments	208,127	—	—	208,127	140,375	—	—	140,375
Letter of credit	85,048	96	—	85,144	79,091	311	—	79,402
Letter of guarantee	42,822	44,408	33,029	120,259	43,200	29,965	46,138	119,303
Bank acceptances	384,247	—	—	384,247	391,154	—	—	391,154
Total	720,244	44,504	33,029	797,777	653,820	30,276	46,138	730,234

6. Capital Management

During the year, the Group had conscientiously implemented the capital management policy according to the regulations of China Banking Regulatory Commission *Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)*. As per "2016-2020 Group Development Strategy Plan" and "2016-2018 Capital Adequacy Standards Planning of Transition Period", the Group will achieve healthy and sustainable development as well as make sure capital adequacy ratio meet requirements by well performing capital management policies.

In 2017, on the basis of balance among assets growth, capital demand and capital supplementing channels, as well as fully demonstrated the necessity and feasibility of capital supplementing, the Group successfully issued additional tailed core tier 1 capital bonds amounting RMB 26,000 million. After the capital supplementing, the Group's capital capacity was further strengthened, and risk resistance capacity and capacity of serving real economy are also further enhanced.

The Group implements capital intensive operation and management, and properly arrange and control the size of the total risk weighted assets of the whole bank, with the endogenous balance development of core tier 1 capital as the main target and on the basis of the annual business operation plan, capital retention capacity and assets and liabilities management strategies. Optimize risk-weighted asset amount allocation and governing system, and improve the evaluation on economic capital yield of each branch and subsidiary, and reasonably adjust the asset business structure, and promote harmonious development of in and off balance sheet activities.

According to related guidelines of the CBRC, "Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)" and other regulations, the Group promotes the implementation of new capital agreement, establishes the nearly completed first support work system and seriously implements various works, and monitors the capital adequacy of the Group and its legal person and capital application in real time. As at 31 December 2017, the net book value of the Group's core tier one capital, tier one capital and capital are RMB 391,425 million, RMB 417,360 million and RMB 526,117 million respectively.

7. Fair value of financial instruments

7.1 Method of fair value recognition

Part of the financial assets and financial liabilities of the Group is measured at fair value. Fair value are measured through appropriate method and parameters, and regularly reviewed by the board of directors to keep its applicability.

XIII. FINANCIAL RISK MANAGEMENT - continued

7. Fair value of financial instruments - continued

7.1 Method of fair value recognition - continued

When recognizing the fair value of the financial instrument, to those financial instruments which can obtain unadjusted price of same assets and liabilities in the active market, the Group regards the unadjusted price in the active market as the best evidence of fair value. And then the Group recognizes the fair value and classifies it to level 1.

If the parameters of the estimation are observable and acquirable in the active market, such financial instruments (including equity instrument and derivative financial instrument) should be classified to level 2. The Group uses internal or external professionals to estimate the value with techniques including Black-Scholes option pricing model for option derivative financial instrument and discounted cash flow model for non-derivative financial instrument and part of the derivative financial instrument (including interest swaps, forward foreign exchange etc.) which cannot obtain prices in the active market. The main parameters used in the discounted cash flow model include the recent trading price, the relevant yield curve, exchange rates, prepayment rates and counterparty credit spreads, the main parameters of Black-Scholes option pricing model used include relevant yield curve, exchange rates, fluctuations level, and counterparty credit spreads, etc.

To loans and advances to customers and part of investments classified as receivables, their fair value is based on discounted cash flow model, and confirmed by unobservable discount rate which reflects credit risk. Such financial instruments are classified to level 3.

To unlisted equity (private equity) owned by the Group, the measure of fair value may adopt the unobservable input parameters which have significant influence over the estimation. Therefore, such financial instruments are classified to level 3. The management estimates the fair value of level 3 financial instruments by a series of method, including unobservable parameters such as discount rate which lacks market liquidity. If one or more unobservable parameters change based on reasonably possible alternative hypothesis, the fair value of such financial instruments will changed accordingly. The Group has established related internal control process in order to supervise the exposure of the financial instrument.

7.2 Financial assets and financial liabilities at fair value on recurring basis

For financial assets and financial liabilities at fair value on recurring basis, three levels of fair value measurement are analysed as follows:

The Group

	31/12/2017				31/12/2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Financial assets:								
Financial assets at fair value through profit or loss	216,627	145,445	—	362,072	265,802	88,793	—	354,595
Derivative financial assets	—	28,396	—	28,396	—	16,137	—	16,137
Available-for-sale financial assets	86,287	398,742	17,352	502,381	46,397	380,128	157,458	583,983
Total	302,914	572,583	17,352	892,849	312,199	485,058	157,458	954,715
Financial liabilities:								
Financial liabilities at fair value through profit or loss	756	5,807	—	6,563	26	468	—	494
Derivative financial liabilities	—	29,514	—	29,514	—	16,479	—	16,479
Total	756	35,321	—	36,077	26	16,947	—	16,973

XIII. FINANCIAL RISK MANAGEMENT - continued

7. Fair value of financial instruments - continued

7.2 Financial assets and financial liabilities at fair value on recurring basis - continued

For financial assets and financial liabilities at fair value on recurring basis, three levels of fair value measurement are analysed as follows - continued:

The Bank

	31/12/2017				31/12/2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Financial assets:								
Financial assets at fair value through profit or loss	237,256	100,709	—	337,965	308,246	49,647	—	357,893
Derivative financial assets	—	28,396	—	28,396	—	16,137	—	16,137
Available-for-sale financial assets	106,094	392,490	17,128	515,712	54,832	377,877	157,259	589,968
Total	343,350	521,595	17,128	882,073	363,078	443,661	157,259	963,998
Financial liabilities:								
Financial liabilities at fair value through profit or loss	—	5,725	—	5,725	—	459	—	459
Derivative financial liabilities	—	29,514	—	29,514	—	16,479	—	16,479
Total	—	35,239	—	35,239	—	16,938	—	16,938

There are no transfers from Level 1 and Level 2 to Level 3, and no transfers between Level 1 and Level 2 for the fair value measurements of the Group's financial instruments in 2017 and in 2016.

Information of Level 2:

The Group

	Fair value in 31/12/2017	Fair value in 31/12/2016	Valuation Tech	Inputs
	RMB million	RMB million		
Financial assets:				
Debt instrument investments	540,591	467,194	Discounted cash flow method	Yield rate of bonds
Equity instrument investments	3,596	1,727	Discounted cash flow method	Weighted average capital cost
Derivative financial instruments	28,396	16,137	Discounted cash flow method	Credit of counter-party
Total	572,583	485,058	Option pricing model	Credit premium, volatility
Financial liabilities:				
Debt instrument investments	5,807	468	Discounted cash flow method	Yield rate of bonds
Derivative financial instruments	29,514	16,479	Discounted cash flow method	Credit of counter-party
Total	35,321	16,947	Option pricing model	Credit premium, volatility

The Bank

	Fair value in 31/12/2017	Fair value in 31/12/2016	Valuation Tech	Inputs
	RMB million	RMB million		
Financial assets:				
Debt instrument investments	493,199	427,524	Discounted cash flow method	Yield rate of bonds
Derivative financial instruments	28,396	16,137	Discounted cash flow method	Credit of counter-party
Total	521,595	443,661	Option Pricing Model	Credit premium, volatility
Financial liabilities:				
Debt instrument investments	5,725	459	Discounted cash flow method	Yield rate of bonds
Derivative financial instruments	29,514	16,479	Discounted cash flow method	Credit of counter-party
Total	35,239	16,938	Option Pricing Model	Credit premium, volatility

XIII. FINANCIAL RISK MANAGEMENT - continued

7. Fair value of financial instruments - continued

7.2 Financial assets and financial liabilities at fair value on recurring basis - continued

Information of Level 3:

The Group

	Fair value in 31/12/2017	Fair value in 31/12/2016	Value Tech
	RMB million	RMB million	
Debt instrument investment	17,352	157,458	Discounted cash flow method

The Bank

	Fair value in 31/12/2017	Fair value in 31/12/2016	Value Tech
	RMB million	RMB million	
Debt instrument investment	17,128	157,259	Discounted cash flow method

As for these debt instruments, using the discounted cash flow model for evaluating, the main significant unobservable inputs is the discount rate, the weighted average of 5.30%(31 December 2016: 5.24%), and the significant unobservable inputs are inversely proportional to the fair value.

Adjustment of financial assets and liabilities in level 3 at fair value:

The Group

Available-for-sale financial assets	31/12/2017	31/12/2016
	RMB million	RMB million
Opening	157,458	201,689
Total profit and loss	5,873	6,399
Interest income	5,873	6,399
Bought/Sold	(40,802)	61,034
Settle	(99,304)	(105,265)
Closing	17,352	157,458
Unrealized gains or losses for the period included in profit or loss for assets held at the end of the reporting period	—	—

The Bank

Available-for-sale financial assets	31/12/2017	31/12/2016
	RMB million	RMB million
Opening	157,259	201,573
Total profit and loss	5,693	6,287
Interest income	5,693	6,287
Bought/Sold	(40,829)	60,871
Settle	(99,302)	(105,185)
Closing	17,128	157,259
Unrealized gains or losses for the period included in profit or loss for assets held at the end of the reporting period	—	—

XIII. FINANCIAL RISK MANAGEMENT - continued

7. Fair value of financial instruments - continued

7.3 Financial assets and liabilities measured not by fair value

The table below shows the carrying value of financial assets and financial liabilities at non-fair value and the corresponding fair value on the balance sheet date. The carrying value approximates the fair value of financial assets and financial liabilities, such as balance with Central Bank, deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets purchased under resale agreements, borrowing from the Central Bank, placements from banks and other financial institutions, financial assets sold under repurchase agreements not included in the table below.

The Group

	31/12/2017		31/12/2016	
	Carrying value	Fair value	Carrying value	Fair value
	RMB million	RMB million	RMB million	RMB million
Financial assets:				
Loans and advances to customers	2,348,831	2,349,228	2,007,366	2,008,311
Held-to-maturity investments	337,483	335,885	249,828	259,596
Investments classified as receivables	1,913,382	1,899,068	2,102,801	2,096,135
Total	4,599,696	4,584,181	4,359,995	4,364,042
Financial liabilities:				
Due to customers	3,086,893	3,099,828	2,694,751	2,698,569
Debt securities issued	662,958	655,928	713,966	712,117
Total	3,749,851	3,755,756	3,408,717	3,410,686

The Bank

	31/12/2017		31/12/2016	
	Carrying value	Fair value	Carrying value	Fair value
	RMB million	RMB million	RMB million	RMB million
Financial assets:				
Loans and advances to customers	2,341,397	2,341,794	2,002,037	2,002,980
Held-to-maturity investments	337,483	335,885	249,828	259,596
Investments classified as receivables	1,899,969	1,885,655	2,095,593	2,088,927
Total	4,578,849	4,563,334	4,347,458	4,351,503
Financial liabilities:				
Due to customers	3,087,919	3,100,854	2,694,843	2,698,661
Debt securities issued	648,032	641,002	708,224	706,374
Total	3,735,951	3,741,856	3,403,067	3,405,035

XIII. FINANCIAL RISK MANAGEMENT - continued

7. Fair value of financial instruments - continued

7.3 Financial assets and liabilities measured not by fair value - continued

Level of financial assets and liabilities measured not by fair value on balance sheet date:

The Group

	31/12/2017			
	Level 1	Level 2	Level 3	Total
	RMB million	RMB million	RMB million	RMB million
Financial assets:				
Loans and advances to customers	—	—	2,349,228	2,349,228
Held-to-maturity investments	—	335,885	—	335,885
Investments classified as receivables	—	468,806	1,430,262	1,899,068
Total	—	804,691	3,779,490	4,584,181
Financial liabilities:				
Due to customers	—	3,099,828	—	3,099,828
Debt securities issued	—	655,928	—	655,928
Total	—	3,755,756	—	3,755,756

	31/12/2016			
	Level 1	Level 2	Level 3	Total
	RMB million	RMB million	RMB million	RMB million
Financial assets:				
Loans and advances to customers	—	—	2,008,311	2,008,311
Held-to-maturity investments	—	259,596	—	259,596
Investments classified as receivables	—	346,195	1,749,940	2,096,135
Total	—	605,791	3,758,251	4,364,042
Financial liabilities:				
Due to customers	—	2,698,569	—	2,698,569
Debt securities issued	—	712,117	—	712,117
Total	—	3,410,686	—	3,410,686

The Bank

	31/12/2017			
	Level 1	Level 2	Level 3	Total
	RMB million	RMB million	RMB million	RMB million
Financial assets:				
Loans and advances to customers	—	—	2,341,794	2,341,794
Held-to-maturity investments	—	335,885	—	335,885
Investments classified as receivables	—	469,316	1,416,339	1,885,655
Total	—	805,201	3,758,133	4,563,334
Financial liabilities:				
Due to customers	—	3,100,854	—	3,100,854
Debt securities issued	—	641,002	—	641,002
Total	—	3,741,856	—	3,741,856

XIII. FINANCIAL RISK MANAGEMENT - continued

7. Fair value of financial instruments - continued

7.3 Financial assets and liabilities measured not by fair value - continued

The Bank - continued

	31/12/2016			
	Level 1	Level 2	Level 3	Total
	RMB million	RMB million	RMB million	RMB million
Financial assets:				
Loans and advances to customers	—	—	2,002,980	2,002,980
Held-to-maturity investments	—	259,596	—	259,596
Investments classified as receivables	—	346,954	1,741,973	2,088,927
Total	—	606,550	3,744,953	4,351,503
Financial liabilities:				
Due to customers	—	2,698,661	—	2,698,661
Debt securities issued	—	706,374	—	706,374
Total	—	3,405,035	—	3,405,035

Quantitative information of level 2, 3 at fair value:

The Group

	Fair value at 31/12/2017	Fair value at 31/12/2016	Valuation Technique	Inputs
	RMB million	RMB million		
Loans and advances to customers	2,349,228	2,008,311	Discounted cash flow method	Default rate, loss given default, discount rate
Held-to-maturity investments	335,885	259,596	Discounted cash flow method	Yield rate of bonds
Investments classified as receivables	1,899,068	2,096,135	Discounted cash flow method	Default rate, loss given default, discount rate
Due to customers	3,099,828	2,698,569	Discounted cash flow method	Market deposit rate
Debt securities issued	655,928	712,117	Discounted cash flow method	Yield rate of bonds
Total	8,339,937	7,774,728		

The Bank

	Fair value at 31/12/2017	Fair value at 31/12/2016	Valuation Technique	Inputs
	RMB million	RMB million		
Loans and advances to customers	2,341,794	2,002,980	Discounted cash flow method	Default rate, loss given default, discount rate
Held-to-maturity investments	335,885	259,596	Discounted cash flow method	Yield rate of bonds
Investments classified as receivables	1,885,655	2,088,927	Discounted cash flow method	Default rate, loss given default; discount rate
Due to customers	3,100,854	2,698,661	Discounted cash flow method	Market deposit rate
Debt securities issued	641,002	706,374	Discounted cash flow method	Yield rate of bonds
Total	8,305,190	7,756,538		

All of the above-mentioned assumptions and methods provide a consistent basis for the calculation of the fair values of the Group's assets and liabilities. However, other institutions may use different assumptions and methods. Therefore, the fair values disclosed by different financial institutions may not be entirely comparable.

XIV. NON-ADJUSTING EVENTS AFTER BALANCE SHEET DATE

As approved by China Banking Regulatory Commission and the People's Bank of China, the Bank issued four different types of mid-term notes totalling USD 1,658 million in international capital market, including three-year fixed interest rate USD bonds of USD600 million, with issue price of the yield rate of three-year U.S. Treasury Securities plus 115 base points and coupon rate of 3.500%; five-year fixed interest rate USD bonds of USD 250 million, with issue price of 3 month LIBOR plus 105 base points; and three-year EUR variable interest rate bonds totalling EUR 250 million, with issue price of three months EURIBOR plus 75 base points.

In February 2018, the Bank increased the registered capital of the holding subsidiary CIB Fund Management Co., Ltd. by RMB 450 million. After the capital increase, the registered capital of CIB Fund Management Co., Ltd. is RMB 1,200 million.

XV. FINANCIAL STATEMENTS APPROVED

The financial statements were approved by the Board of Directors of the Bank on 24 April 2018.

*** END OF FINANCIAL STATEMENTS***

SUPPLEMENTARY INFORMATION
YEAR 2017

1. Breakdown of non-recurring profit or loss

The following table is in accordance with the requirement of *Information Disclosure and Presentation Rules for Companies Making Public Offering of Securities No. 1 — Non-recurring Profit or Loss (2008)* (ZJHGG [2008] No. 43) issued by China Securities Regulatory Commission.

The Group

	2017	2016
	RMB million	RMB million
Gains and losses on the disposal of non-current assets	70	27
Government grants recognised in profit or loss	362	340
Recovery of assets written-off in previous years	3,544	1,414
Net non-operating income and expenses in addition to the above	(166)	176
Subtotal	3,810	1,957
Impact on income tax expenses	(1,053)	(501)
Total	2,757	1,456
Total non-recurring profit or loss attributable to ordinary shareholders of the Bank	2,736	1,451
Total non-recurring profit or loss attributable to non-controlling interests	21	5
Net profit attributable to ordinary shareholders of the Bank, after deduction of non-recurring profit or loss	52,982	51,252

Non-recurring profit or loss refers to the profit or loss not related to normal business or the profit or loss which is related to normal business but affects the user of financial statements to make correct judgement for the Bank's financial position and financial performance because of its distinctiveness and non-recurring. Considering the nature of its normal business, Industrial Bank Co., Ltd. (hereinafter referred to as "the Bank") does not include "investment income from financial assets at fair value through profit or loss, financial liabilities at fair value through profit or loss and available-for-sale financial assets" in non-recurring profit or loss.

2. Return on net assets and earnings per share ("EPS")

The related data is calculated in accordance with the provisions in the Rule *No. 9 for the Preparation of Information Disclosure of Companies with Public Offering – the Calculation and Disclosure of ROE and EPS (revised in 2010)*. In the related period, basic EPS is calculated by dividing net profit by weighted average ordinary shares issued.

The Group

2017

	Weighted average ROE (%)	Basic EPS (RMB Yuan per share)
Net profit attributable to ordinary shareholders of the Bank	15.35	2.74
Net profit attributable to s ordinary shareholders of the Bank, after deduction of non-recurring profit or loss	14.59	2.60

2016

	Weighted average ROE (%)	Basic EPS (RMB Yuan per share)
Net profit attributable to ordinary shareholders of the Bank	17.28	2.77
Net profit attributable to ordinary shareholders of the Bank, after deduction of non-recurring profit or loss	16.80	2.69

The RMB 26,000 million domestic preference shares of the Bank as approved in November 2014 were successfully issued in June 2015. When calculating the earnings per share, the current net profit attributed to ordinary shareholders did not include preference shares dividends declared for distribution. Besides, it had no further influence on basic earnings per share and diluted earnings per share in 2017 and 2016.

AUDITORS' REPORT

De Shi Bao (Shen) Zi (17) No. P [02306]
[Translation]

TO THE SHAREHOLDERS OF INDUSTRIAL BANK CO., LTD.

We have audited the accompanying financial statements of Industrial Bank Co., Ltd. (the "Bank"), which comprise the Bank's and consolidated statement of financial position as at 31 December 2016, and the Bank's and consolidated statements of comprehensive income, the Bank's and consolidated statements of changes in equity and the Bank's and consolidated cash flow statements for the year then ended, and the notes to the financial statements.

1. Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements. The responsibilities include: (1) preparing the financial statements in accordance with *Accounting Standards for Business Enterprises* to achieve fair presentation of the financial statements; (2) designing, implementing and maintaining internal control which is necessary to enable that the financial statements are free from material misstatements, whether due to fraud or error.

2. Auditors' responsibility

Our responsibility is to express an audit opinion on these financial statements based on our audit. We conducted our audit in accordance with *China Standards on Auditing*. *China Standards on Auditing* require that we comply with the *Code of Ethics for Chinese Certified Public Accountants*, plan and perform the audit to obtain reasonable assurance about the fact of whether the financial statements are free from material misstatement.

An audit includes performing audit procedures to obtain audit evidence about the amounts and disclosures in financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, Certified Public Accountants consider the internal controls relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

3. Opinion

In our opinion, the financial statements of the Bank present fairly, in all material respects, the Bank's and consolidated financial position as of 31 December 2016, and the Bank's and consolidated results of operations and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

Deloitte Touche Tohmatsu CPA LLP
Shanghai, China

Chinese Certified Public Accountant

Liu Ming Hua
Zhang Hua

27 April 2017

The auditors' report and the accompanying financial statements are English translations of the Chinese auditors' report and statutory financial statements prepared under accounting principles and practices generally accepted in the People's Republic of China. These financial statements are not intended to present the financial position and results of operations in accordance with accounting principles and practices generally accepted in other countries and jurisdictions. In case the English version does not conform to the Chinese version, the Chinese version prevails.

THE BANK'S AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AT 31 DECEMBER 2016 UNIT: RMB IN MILLION

		The Group		The Bank	
	Note VIII	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Assets					
Cash and balances with Central Bank	1	457,654	417,911	457,626	417,854
Deposits with banks and other financial institutions	2	56,206	42,347	43,273	40,032
Precious metals		17,431	42,010	17,431	42,010
Placements with banks and other financial institutions	3	16,851	56,336	22,109	60,552
Financial assets at fair value through profit or loss	4	354,595	128,685	357,893	126,324
Derivative financial assets	5	16,137	13,933	16,137	13,933
Financial assets held under resale agreements	6	27,937	225,924	25,330	225,924
Interest receivable	7	23,899	21,743	23,152	21,430
Loans and advances to customers	8	2,007,366	1,724,822	2,002,037	1,722,667
Available-for-sale financial assets	9	584,850	426,634	590,277	419,582
Held-to-maturity investments	10	249,828	206,802	249,828	206,702
Investments classified as receivables	11	2,102,801	1,834,906	2,095,593	1,829,171
Finance lease receivables	12	89,839	74,146	—	—
Long-term equity investments	13	2,418	1,918	14,106	13,763
Fixed assets	14	15,581	11,368	10,673	10,701
Construction in progress	15	6,390	6,461	6,388	6,453
Intangible assets		556	519	526	499
Goodwill	16	532	532	—	—
Deferred tax assets	17	23,456	14,532	22,576	13,952
Other assets	18	31,568	47,351	10,472	13,885
Total assets		6,085,895	5,298,880	5,965,427	5,185,434

(Continued)

THE BANK'S AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - continued
AT 31 DECEMBER 2016 UNIT: RMB IN MILLION

		The Group		The Bank	
	Note VIII	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Liabilities					
Borrowing from Central Bank		198,000	67,700	198,000	67,700
Deposits from banks and other financial institutions	20	1,721,008	1,765,713	1,728,699	1,768,591
Placements from banks and other financial institutions	21	130,004	103,672	42,597	20,268
Financial liabilities at fair value through profit or loss	22	494	1	459	—
Derivative financial liabilities	5	16,479	10,563	16,479	10,563
Financial assets sold under repurchase agreements	23	167,477	48,016	165,691	48,016
Due to customers	24	2,694,751	2,483,923	2,694,843	2,483,923
Employee benefits payable	25	13,916	11,262	12,732	10,484
Tax payable	26	11,488	10,802	10,809	10,070
Interest payable	27	35,900	36,443	35,295	35,796
Debt securities issued	28	713,966	414,834	708,224	409,853
Other liabilities	29	28,002	28,574	11,732	13,990
Total liabilities		5,731,485	4,981,503	5,625,560	4,879,254
Equity					
Share capital	30	19,052	19,052	19,052	19,052
Other equity instruments	31	25,905	25,905	25,905	25,905
Including: preference shares		25,905	25,905	25,905	25,905
Capital reserve	32	50,861	50,861	51,081	51,081
Other comprehensive income	47	1,085	5,685	1,105	5,623
Surplus reserve	33	9,824	9,824	9,824	9,824
General and regulatory reserve	34	69,878	60,665	67,744	59,217
Retained earnings	35	173,524	141,656	165,156	135,478
Equity attributable to equity holders of the Bank		350,129	313,648	339,867	306,180
Non-controlling interests in equity		4,281	3,729	—	—
Total equity		354,410	317,377	339,867	306,180
Total liabilities and equity		6,085,895	5,298,880	5,965,427	5,185,434

The accompanying notes form part of the financial statements.

The financial statements on pages 3 to 132 were signed by the following:

Gao Jian Ping	Tao Yi Ping	Li Jian
Chairman of the Board Legal Representative	President Financial Director	Person in Charge of the Accounting Body

THE BANK'S AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016 UNIT: RMB IN MILLION

		The Group		The Bank	
	Note VIII	2016	2015	2016	2015
1. Operating income		157,060	154,348	149,796	148,107
Net interest income	36	112,319	119,834	107,671	117,241
Interest income	36	236,279	255,972	228,382	249,749
Interest expense	36	(123,960)	(136,138)	(120,711)	(132,508)
Net fee and commission income	37	36,552	32,190	32,539	28,786
Fee and commission income	37	38,682	33,592	34,775	30,200
Fee and commission expense	37	(2,130)	(1,402)	(2,236)	(1,414)
Investment income	38	11,836	3,482	12,619	3,235
Including: income from investments in an associate		246	275	238	263
(Losses) gains from changes in fair values	39	(3,756)	1,378	(3,301)	1,394
Foreign exchange (losses) gains		(105)	(2,850)	79	(2,808)
Other operating income		214	314	189	259
2. Operating expenses		(93,678)	(91,538)	(90,597)	(88,762)
Business taxes and surcharges	40	(5,667)	(12,955)	(5,400)	(12,617)
General and administrative expenses	41	(36,401)	(32,849)	(34,353)	(31,438)
Impairment losses on assets	42	(51,276)	(45,260)	(50,510)	(44,233)
Other operating expenses		(334)	(474)	(334)	(474)
3. Operating profit		63,382	62,810	59,199	59,345
Add: Non-operating income	43	669	561	414	278
Less: Non-operating expenses	44	(126)	(127)	(121)	(122)
4. Total profit		63,925	63,244	59,492	59,501
Less: Income tax expenses	45	(9,598)	(12,594)	(8,518)	(11,621)
5. Net profit		54,327	50,650	50,974	47,880
Net profit attributable to					
Equity holders of the Bank		53,850	50,207	50,974	47,880
Non-controlling interests		477	443	—	—
6. Earnings per share:					
Basic earnings per share (RMB Yuan)	46	2.77	2.63	—	—
Diluted earnings per share (RMB Yuan)	46	2.77	2.63	—	—
7. Other comprehensive income	47	(4,628)	3,466	(4,518)	3,466
Other comprehensive income attributable to:					
Equity holders of the Bank		(4,600)	3,471	(4,518)	3,466
(1) Items that may be reclassified subsequently to profit or loss:					
Fair value (losses) gains on available-for-sale financial assets					
(2) Items that will not be reclassified subsequently to profit or loss:		(4,627)	3,750	(4,545)	3,745
Actuarial (losses) profits on defined benefit plans		27	(279)	27	(279)
Other comprehensive income attributable to non-controlling interests		(28)	(5)	—	—
8. Total comprehensive income		49,699	54,116	46,456	51,346
Total comprehensive income attributable to:					
Equity holders of the Bank		49,250	53,678	46,456	51,346
Non-controlling interests		449	438	—	—

THE BANK'S AND CONSOLIDATED CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 UNIT: RMB IN MILLION

	Note VIII	The Group 2016	The Group 2015	The Bank 2016	The Bank 2015
Cash flows from operating activities:					
Net increase in due to customers and deposits from banks and other financial institutions		166,123	713,708	171,028	714,625
Net decrease in balances with Central Bank and deposits with banks and other financial institutions		—	65,698	—	65,622
Net increase in borrowing from banks and other financial institutions and financial assets sold under repurchase agreements		145,793	—	140,004	—
Net decrease in placements with banks and other financial institutions and financial assets held under resale agreements		138,496	407,618	137,554	403,552
Net increase in borrowing from Central Bank		130,300	37,700	130,300	37,700
Cash receipts from interest, fee and commission		152,359	184,314	143,557	176,884
Other cash receipts relating to operating activities		26,041	8,623	3,747	2,073
Sub-total of cash inflows from operating activities		759,112	1,417,661	726,190	1,400,456
Net increase in loans and advances to customers		328,950	212,181	325,975	209,952
Net increase in finance leases		15,693	32,367	—	—
Net increase in balances with Central Bank and deposits with banks and other financial institutions		24,907	—	18,465	—
Net decrease in placements from banks and other financial institutions and financial assets sold under repurchase agreements		—	27,963	—	54,576
Cash payments to interest, fee and commission		121,075	120,179	117,906	116,432
Cash payments to and on behalf of employees		19,930	18,602	18,886	17,715
Cash payments of various types of taxes		27,429	29,764	25,612	29,000
Other cash payments relating to operating activities		18,111	157,912	8,457	152,002
Sub-total of cash outflows from operating activities		556,095	598,968	515,301	579,677
Net cash flow from operating activities	48	203,017	818,693	210,889	820,779
Cash flows from investing activities					
Cash receipts from disposal/redemption of investments		4,141,695	2,280,944	3,957,618	2,015,037
Cash receipts from returns on investment income		115,688	106,434	116,168	104,988
Cash receipts from disposals of fixed assets, intangible assets and other long-term assets		283	195	283	195
Cash receipts from subsidiaries and other operation companies		—	785	—	—
Other cash receipts relating to investing activities		459	—	458	—
Sub-total of cash inflows from investing activities		4,258,125	2,388,358	4,074,527	2,120,220
Cash payments for investments		4,617,498	3,459,278	4,409,078	3,189,014
Cash payments for purchasing fixed assets, intangible assets and other long-term assets		6,758	5,902	2,184	5,845
Other cash payments relating to investing activities		—	1,685	—	1,685
Sub-total of cash outflows from investing activities		4,624,256	3,466,865	4,411,262	3,196,544
Net cash flow from investing activities		(366,131)	(1,078,507)	(336,735)	(1,076,324)

(Continued)

THE BANK'S AND CONSOLIDATED CASH FLOW STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2016 UNIT: RMB IN MILLION

		The Group		The Bank	
	Note VIII	2016	2015	2016	2015
Cash flows from financing activities:					
Proceeds from capital contributions		103	13,170	—	13,000
Including: proceeds from capital contributions from non-controlling shareholders of subsidiary		103	170	—	—
Proceeds from issuance of bonds		1,049,126	586,454	1,047,211	581,475
Other proceeds relating to financing activities		117	—	—	—
Sub-total of cash inflows from financing activities		1,049,346	599,624	1,047,211	594,475
Cash repayments of borrowings		734,521	363,300	733,550	363,300
Cash payments for distribution of dividends, profits or settlement of interest expenses		32,557	22,203	33,611	22,076
Including: payments for distribution of dividends to non-controlling shareholders of subsidiary		—	81	—	—
Other cash payments relating to financing activities		—	330	—	53
Sub-total of cash outflows from financing activities		767,078	385,833	767,161	385,429
Net cash flow from financing activities		282,268	213,791	280,050	209,046
Effect of foreign exchange rate changes on cash and cash equivalents		1,557	1,247	1,553	1,247
Net increase (decrease) in cash and cash equivalents	48	120,711	(44,776)	155,757	(45,252)
Add: Opening balance of cash and cash equivalents		312,352	357,128	310,026	355,278
Closing balance of cash and cash equivalents	48	433,063	312,352	465,783	310,026

The accompanying notes form part of the financial statements.

INDUSTRIAL BANK CO., LTD.

THE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

UNIT: RMB IN MILLION

		2016								
		Attributable to equity holders of the Bank								
	Note VIII	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General and regulatory reserve	Retained earnings	Non-controlling interests	Total
I. As at 1 January 2016		19,052	25,905	50,861	5,685	9,824	60,665	141,656	3,729	317,377
II. Changes for the year										
(I) Net profit		—	—	—	—	—	—	53,850	477	54,327
(II) Other comprehensive income	47	—	—	—	(4,600)	—	—	—	(28)	(4,628)
Subtotal of (I) and (II)		—	—	—	(4,600)	—	—	53,850	449	49,699
(III) Capital contribution from shareholders		—	—	—	—	—	—	—	103	103
1. Contribution from non-controlling shareholders		—	—	—	—	—	—	—	103	103
(IV) Profit distribution		—	—	—	—	—	9,213	(21,982)	—	(12,769)
1. Appropriation to general and regulatory reserve		—	—	—	—	—	9,213	(9,213)	—	—
2. Dividends paid to ordinary shareholders		—	—	—	—	—	—	(11,622)	—	(11,622)
3. Dividends paid to preference shares		—	—	—	—	—	—	(1,147)	—	(1,147)
III. As at 31 December 2016		19,052	25,905	50,861	1,085	9,824	69,878	173,524	4,281	354,410

THE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - continued
FOR THE YEAR ENDED 31 DECEMBER 2016

UNIT: RMB IN MILLION

		2015								
		Attributable to equity holders of the Bank								
	Note VIII	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General and regulatory reserve	Retained earnings	Non-controlling interests	Total
I. As at 1 January 2015		19,052	12,958	50,861	2,214	9,824	43,418	119,607	3,162	261,096
II. Changes for the year										
(I) Net profit		—	—	—	—	—	—	50,207	443	50,650
(II) Other comprehensive income	47	—	—	—	3,471	—	—	—	(5)	3,466
(III) Addition through acquisition		—	—	—	—	—	—	—	40	40
Subtotal of (I), (II) and (III)		—	—	—	3,471	—	—	50,207	478	54,156
(IV) Capital contribution from shareholders		—	12,947	—	—	—	—	—	170	13,117
1. Contribution from non-controlling shareholders		—	—	—	—	—	—	—	170	170
2. Issuance of preference shares		—	12,947	—	—	—	—	—	—	12,947
(V) Profit distribution		—	—	—	—	—	17,247	(28,158)	(81)	(10,992)
1. Appropriation to general and regulatory reserve		—	—	—	—	—	17,247	(17,247)	—	—
2. Dividends paid to ordinary shareholders		—	—	—	—	—	—	(10,860)	(81)	(10,941)
3 Dividends paid to preference shares		—	—	—	—	—	—	(51)	—	(51)
III. As at 31 December 2015		19,052	25,905	50,861	5,685	9,824	60,665	141,656	3,729	317,377

The accompanying notes form part of the financial statements.

INDUSTRIAL BANK CO., LTD.

THE BANK'S STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

UNIT: RMB IN MILLION

		2016							
	Note VIII	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General and regulatory reserve	Retained earnings	Total owners' equity
I. As at 1 January 2016		19,052	25,905	51,081	5,623	9,824	59,217	135,478	306,180
II. Changes for the year									
(I) Net profit		—	—	—	—	—	—	50,974	50,974
(II) Other comprehensive income	47	—	—	—	(4,518)	—	—	—	(4,518)
Subtotal of (I) and (II)		—	—	—	(4,518)	—	—	50,974	46,456
(III) Capital contribution from shareholders		—	—	—	—	—	—	—	—
1. Contribution from shareholders		—	—	—	—	—	—	—	—
(IV) Profit distribution		—	—	—	—	—	8,527	(21,296)	(12,769)
1. Appropriation to general and regulatory reserve		—	—	—	—	—	8,527	(8,527)	—
2. Dividends paid to ordinary shareholders		—	—	—	—	—	—	(11,622)	(11,622)
3. Dividends paid to preference shares		—	—	—	—	—	—	(1,147)	(1,147)
III. As at 31 December 2016		19,052	25,905	51,081	1,105	9,824	67,744	165,156	339,867

THE BANK'S STATEMENT OF CHANGES IN EQUITY - continued
FOR THE YEAR ENDED 31 DECEMBER 2016

UNIT: RMB IN MILLION

		2015							
	Note VIII	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General and regulatory reserve	Retained earnings	Total owners' equity
I. As at 1 January 2015		19,052	12,958	51,081	2,157	9,824	42,043	115,683	252,798
II. Changes for the year									
(I) Net profit		—	—	—	—	—	—	47,880	47,880
(II) Other comprehensive income	47	—	—	—	3,466	—	—	—	3,466
Subtotal of (I) and (II)		—	—	—	3,466	—	—	47,880	51,346
(III) Capital contribution from shareholders		—	12,947	—	—	—	—	—	12,947
1. Issuance of preference shares		—	12,947	—	—	—	—	—	12,947
(IV) Profit distribution		—	—	—	—	—	17,174	(28,085)	(10,911)
1. Appropriation to general and regulatory reserve		—	—	—	—	—	17,174	(17,174)	—
2. Dividends paid to ordinary shareholders		—	—	—	—	—	—	(10,860)	(10,860)
3. Dividends paid to preference shares		—	—	—	—	—	—	(51)	(51)
III. As at 31 December 2015		19,052	25,905	51,081	5,623	9,824	59,217	135,478	306,180

INDUSTRIAL BANK CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

I. GENERAL INFORMATION

Industrial Bank Co., Ltd. (hereinafter referred to as "the Bank") which was formerly referred to as Fujian Industrial Bank Co., Ltd., is a joint-stock commercial bank approved by the People's Bank of China (the "PBOC"), with the document YF [1988] No. 347 issued on 20 July 1988, in accordance with the *Ratification for Deepening Reform and Opening and Accelerating the Development of Export-oriented Economy in Fujian Province* (GH [1988] No.58) approved by the State Council, the Bank was listed on the Shanghai Stock Exchange on 5 February 2007 with the stock code 601166.

The Bank operates under financial services certificate No. B0013H135010001 issued by from China Banking Regulatory Commission (the "CBRC"), and business license No. 350000100009440 issued by Fujian Provincial Administration of Industry and Commerce, the registered office of the Bank is located at 154 Hudong Road, Fuzhou, Fujian Province, the PRC. The legal representative of the Bank is Mr. Gao Jian Ping.

The principal activities of the Bank comprise the provision of banking service, which includes accepting deposits from the public; granting short-term, medium-term and long-term loans; domestic and overseas settlement services; issuance of discount and acceptance bills and notes; issuing financial bonds; agency issue and encashment, underwriting and trading of government bonds; trading of government and financial bonds and debentures; agency trading and trading of marketable securities except stock; asset custody business; inter-bank lending and borrowings; sale and purchase of foreign exchange; bank card business; letters of credit and letters of guarantee; remittance and insurance agent services; safety deposit box services; financial advisory services; credit investigation, advisory and attestation services and other banking activities approved by the CBRC.

The principal activities of the Bank's subsidiaries comprise finance leasing, trust services, fund raising and marketing, asset management for specific clients, asset management, consumer finance, equity investment, industrial investment, investment management and consulting(excluding brokerage); financial consulting, business consulting, enterprise management consulting, financial data processing, commodity futures brokerage, financial futures brokerage, futures investment consulting, economic information consulting service, application software development and operational services, system integration services; other banking activities approved by the CBRC as well as other businesses permitted by China Securities Regulatory Commission (the "CSRC").

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Bank and its subsidiaries (collectively, "the Group") has adopted the Accounting Standards for Business Enterprises (the "ASBE") issued by the Ministry of Finance of People's Republic of China (the "MOF").

In addition, the Group has disclosed relevant financial information in accordance with *Information Disclosure and Presentation Rules for Companies Offering Securities to the Public No. 15 — General Provisions on Financial Reporting* (*Revised in 2014*) and the relevant regulations released by the China Securities Regulatory Commission.

The report is prepared on a going concern basis.

III. STATEMENT OF COMPLIANCE WITH THE ASBE

The financial statements of the Bank have been prepared in accordance with ASBE, and present truly and completely, the Bank's and consolidated financial position as of 31 December 2016, and the Bank's and consolidated results of operations and cash flows for the year then ended.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Accounting period

The Group has adopted the calendar year as its accounting year, i.e. from 1 January to 31 December.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

2. Basic of accounting and principle of measurement

The Group has adopted the accrual basis of accounting. Except for certain financial instruments which are measured at fair value, the Group adopts the historical cost as the principle of measurement in the financial statements. Where assets are impaired, allowance for impairment losses are made in accordance with relevant requirements.

Under historical cost, assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds or assets received in exchange for the present obligation, or the amount payable under contract for assuming the present obligation, or at the amount of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement and disclosure of fair value in the financial statements are based on the fair value regardless of whether it is directly observable or estimated using valuation technique.

The fair value measurement is categorized into 3 levels subject to the observability of input and the significance of the input to the entire measurement:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

3. Functional currency

The Bank and its domestic subsidiaries choose Renminbi ("RMB") as their functional currency, while its subsidiaries overseas choose their functional currency depends on the primary economic environment in which the subsidiaries operate. The Group adopts RMB to prepare its financial statements.

4. The accounting treatment of business combinations involving enterprises under common control and business combinations not involving enterprises under common control

Business combinations are classified into business combinations involving enterprises under common control and business combinations not involving enterprises under common control.

4.1 Business combinations involving enterprises under common control

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory. The Group has no business combination involving enterprises under common control in the reporting period.

4.2 Business combinations not involving enterprises under common control and goodwill

A business combination not involving enterprises under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or parties before and after the combination.

The cost of combination is the aggregation of the fair values, at the acquisition date, of the assets given, liabilities incurred or assumed, and the equity securities issued by the acquirer in exchange for control of the acquire. Where a business combination not involving enterprises under common control is achieved in stages that involve multiple transactions, the cost of combination is the sum of the consideration paid at the acquisition date and the fair value at the acquisition date of the acquirer's previously held interest in the acquiree. The intermediary expenses incurred by the acquirer in respect of auditing, legal services, valuation and consultancy services, etc. and other associated administrative expenses attributable to the business combination are recognised in profit or loss when they are incurred.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

4. The accounting treatment of business combinations involving enterprises under common control and business combinations not involving enterprises under common control - continued

4.2 Business combinations not involving enterprises under common control and goodwill - continued

The acquiree's identifiable assets, liabilities and contingent liabilities acquired by the acquirer in a business combination that meet the recognition criteria shall be measured at fair value at the acquisition date.

Where the cost of combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is treated as an asset and recognised as goodwill, which is measured at cost on initial recognition. Where the cost of combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer firstly reassesses the measurement of the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities and measurement of the cost of combination. If after that reassessment, the cost of combination is still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer recognises the remaining difference immediately in profit or loss for the current period.

Goodwill arising on a business combination is measured at cost less accumulated impairment losses, and is presented separately in the consolidated financial statements. It is tested for impairment at least at the end of each year.

5. Preparation of consolidated financial statements

The scope of consolidated financial statements is determined on the basis of control. Control refers to the power an investor has over an investee, by virtue of which the investor enjoys variable returns by participating in related activities of the investee, and has the ability to use its power over the investee to influence the amount of its returns. Once the change in relevant facts and circumstances leads to a change in relevant elements involved in the definition of control, the Group will conduct reassessment.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of subsidiary.

For subsidiaries acquired through a business combination not involving enterprises under common control, their results of operation and cash flows from the acquisition date(the date when control is obtained) are included in the consolidated statements of comprehensive income and consolidated statement of cash flows, as appropriate.

The significant accounting policies and accounting periods adopted by the subsidiaries are determined based on the uniform accounting policies and accounting periods set out by the Bank.

All significant intergroup accounts and transactions between the Bank and its subsidiaries or between subsidiaries are eliminated in full amount on consolidation.

The portion of subsidiaries' equity that is not attributable to the Bank is treated as non-controlling interests in equity and presented as "non-controlling interests in equity" in the consolidated statements of financial position within shareholders' equity. The portion of net profits or losses of subsidiaries for the period attributable to non-controlling interests is presented as "non-controlling interests" in the consolidated statements of comprehensive income below the "net profit" line item.

When the amount of loss for the period attributable to the non-controlling shareholders of a subsidiary exceeds the non-controlling shareholders' portion of the opening balance of owners' equity of the subsidiary, the excess amount are still allocated against non-controlling interests.

Acquisition of non-controlling interests or disposal of interest in a subsidiary that does not result in the loss of control over the subsidiary is accounted for as equity transactions. The carrying amounts of the equity attributable to equity holders of the bank and non-controlling interests in equity are adjusted to reflect the changes in their relative interests in the subsidiary. The difference between the amount by which the non-controlling interests in equity are adjusted and the fair value of the consideration paid or received is adjusted to capital reserve. If the capital reserve is not sufficient to absorb the difference, the excess are adjusted against retained earnings.

When the Group loses control over a subsidiary due to disposal of certain equity interest or other reasons, any retained interest is re-measured at its fair value at the date when control is lost. The difference between (i) the aggregate of the consideration received on disposal and the fair value of any retained interest and

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

5. Preparation of consolidated financial statements - continued

(ii) the share of the former subsidiary's net assets cumulatively calculated from the acquisition date according to the original proportion of ownership interest is recognised as investment income in the period in which control is lost. Other comprehensive income associated with investment in the former subsidiary is reclassified to investment income in the period in which control is lost.

Structured entities refers to the entities that voting rights or similar rights do not constitute decisive factors when recognise the controlling party, such as when voting rights are associated with the administration, or related activities are led by the contractual arrangements. Wealth management products, fund, trust fund plans and fund management plans could be used as examples of the structured entities.

6. Recognition criteria of cash and cash equivalents

Cash comprises cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are the Group's short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

7. Transactions denominated in foreign currencies and translation of foreign currency financial statements

7.1 Transactions denominated in foreign currencies

A foreign currency transaction is recorded, on initial recognition, by applying the spot exchange rate on the date of the transaction.

At the balance sheet date, foreign currency monetary items are translated into functional currency using the spot exchange rates at the balance sheet date. Exchange differences arising from the differences between the spot exchange rates prevailing at the balance sheet date and those on initial recognition or at the previous balance sheet date are recognised in profit or loss for the period, except that exchange differences arising from changes in the carrying amounts (other than the amortised cost) of available-for-sale monetary items are recognised as other comprehensive income.

Involving in business overseas when preparing consolidated financial statements, such as foreign currency monetary items which essentially constitute net investment in a foreign operation, exchange differences arising from changes in exchange rate interests is presented as "foreign currency report translation differences" item in other comprehensive income and recognized in profit or loss disposal when disposing business overseas.

Foreign currency non-monetary items measured at historical cost are translated to the amounts in functional currency at the spot exchange rates on the dates of the transactions and the amounts in functional currency remain unchanged. Foreign currency non-monetary items measured at fair value are re-translated at the spot exchange rate on the date the fair value is determined. Difference between the re-translated functional currency amount and the original functional currency amount is treated as changes in fair value (including changes of exchange rate) and is recognised in profit and loss or as other comprehensive income.

7.2 Transactions for foreign currency financial statements

When preparing consolidated financial statements, financial statements of overseas operations in foreign currency are translated into financial statements in RMB in the following methods: All assets and liabilities in the statements of financial position are translated by applying the spot exchange rates at the balance sheet date; shareholders' equities except retained earnings are translated by applying the spot exchange rate on the date of the transaction; statements of comprehensive income and items reflecting profit distribution occurred are translated by exchange rates similar with the spot exchange rate on the date of the transaction; retained earnings at the beginning of this yeas equal to the retained earnings after translation at the end of previous year; retained earnings at the end of period are presented as profit distributions after translation; differences between assets after translation and liabilities &shareholders' equity after translation are presented as "other comprehensive income" in shareholders' equity.

Cash flow in foreign currency and cash flow of overseas institutions are translated by applying the spot exchange rates at the cash flow occurred date. Affected amount of cash and cash equivalents by exchange rate changes is presented separately as "effect of exchange rate changes on cash and cash equivalents" in the cash flow statement, as an adjustment item.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

8. Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. For financial assets and financial liabilities at fair value through profit or loss, transaction costs are immediately recognised in profit or loss. For other financial assets and financial liabilities, transaction costs are included in their initial recognised amounts.

8.1 Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period, using the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or financial liability or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial asset or financial liability (without considering future credit losses), and also considers all fees paid or received between the parties to the contract giving rise to the financial asset and financial liability that are an integral part of the effective interest rate, transaction costs, and premiums or discounts, etc.

8.2 Classification, recognition and measurement of financial assets

On initial recognition, the Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.

8.2.1 Financial Assets at Fair Value through Profit or Loss ("FVTPL")

Financial assets at FVTPL include financial assets held for trading and those assigned as at fair value through profit or loss.

A financial asset is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of selling in the near term or repurchasing; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) it is a derivative that is not designated and effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

A financial asset is assigned as financial assets at fair value through profit or loss, on initial recognition, if one of the following conditions is satisfied: (1) the recognition could eliminate or significantly reduce profit or loss differences in recognition or measurement due to the difference in measurement basis of financial assets; or (2) It has been stated in formal written document of the Group's risk management or investment strategy, that managing and evaluating the group of financial assets or financial assets & financial liabilities on the basic of fair value, and reporting it to key management personnel; or (3) The hybrid financial instrument combines financial asset with embedded derivatives.

Financial assets at fair value through profit or loss are subsequently measured at fair value. Any gains or losses arising from changes in the fair value and any dividend or interest income earned on the financial assets are recognized in profit or loss.

8.2.2 Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group's management has the positive intention and ability to hold to maturity.

Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method. Gain or loss arising from derecognition, impairment or amortisation is recognised in profit or loss.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

8. Financial instruments - continued

8.2 Classification, recognition and measurement of financial assets - continued

8.2.3 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables by the Group include balances with Central Bank, deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements, interest receivables, loans and advances to customers, investments classified as receivables, finance lease receivables and other receivables etc.

Loans and receivables are subsequently measured at amortised cost using the effective interest method. Gain or loss arising from derecognition, impairment or amortisation is recognised in profit or loss.

8.2.4 Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated on initial recognition as available for sale, and financial assets that are not assigned as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are subsequently measured at fair value, and gains or losses arising from changes in the fair value are recognised as other comprehensive income, except that impairment losses and exchange differences related to amortised cost of monetary financial assets denominated in foreign currencies are recognised in profit or loss, until the financial assets are derecognised, at which time the gains or losses are released and recognised in profit or loss.

Interests obtained and the cash dividends declared by the investee during the period in which the available-for-sale financial assets are held, are recognised in interest income and investment gains, respectively.

For investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivative financial assets that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost.

8.3 Impairment of financial assets

The Group assesses at each balance sheet date the carrying amounts of financial assets other than those at fair value through profit or loss. If there is objective evidence that a financial asset is impaired, the Group determines the amount of any impairment provision. Objective evidence that a financial asset is impaired is evidence that, arising from one or more events that occurred after the initial recognition of the asset, the estimated future cash flows of the financial asset, which can be reliably measured, have been affected.

Objective evidence that a financial asset is impaired includes the following observable events:

(1) Significant financial difficulty of the issuer or obligor;

(2) A breach of contract by the borrower, such as a default or delinquency in interest or principal payments;

(3) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting a concession to the borrower;

(4) It becoming probable that the borrower will enter bankruptcy or other financial reorganisations;

(5) The disappearance of an active market for that financial asset because of financial difficulties of the issuer;

(6) Upon an overall assessment of a group of financial assets, observable data indicates that there is a measurable decrease in the estimated future cash flows from the group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. Such observable data includes:

- Adverse changes in the payment status of borrower in the group of assets;
- Economic conditions in the country or region of the borrower which may lead to a failure to pay the group of assets;

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

8. Financial instruments - continued

8.3 Impairment of financial assets - continued

(7) Significant adverse changes in the technological, market, economic or legal environment in which the issuer operates, indicating that the cost of the investment in the equity instrument may not be recovered by the investor;

(8) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

(9) Other objective evidence indicating there is an impairment of a financial asset.

8.3.1 Impairment of financial assets measured at amortised cost

If financial assets carried at amortised cost are impaired, the carrying amounts of the financial assets are reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of reduction is recognised as an impairment loss in profit or loss. If, subsequent to the recognition of an impairment loss on financial assets carried at amortised cost, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed. However, the reversal is made to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For a financial asset that is individually significant, the Group assesses the asset individually for impairment. For a financial asset that is not individually significant, the Group assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment. Assets for which an impairment loss is individually recognised are not included in a collective assessment of impairment.

8.3.2 Impairment of available-for-sale financial assets

Objective evidence that an available-for-sale financial asset is impaired includes significant or prolonged decline in the fair value of an investment in an equity instrument below its cost. The Group assesses each available-for-sale equity instrument investment individually on balance sheet date. Impairment is indicated when the fair value of an equity instrument is lower than its initial investment cost over 50% (including 50%) or the fair value has been lower than its initial investment cost for over 12 months (including 12 months).

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value previously recognised directly in other comprehensive income is reclassified from the other comprehensive income to profit or loss. The amount of the cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

If, subsequent to the recognition of an impairment loss on available-for-sale financial assets, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed. The amount of reversal of impairment loss on available-for-sale equity instruments is recognised as other comprehensive income, while the amount of reversal of impairment loss on available-for-sale debt instruments is recognised in profit or loss.

8.3.3 Impairment of financial assets measured at cost

If an impairment loss has been incurred on an investment in unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, or on a derivative financial asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the carrying amount

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

8. Financial instruments - continued

8.3 Impairment of financial assets - continued

8.3.3 Impairment of financial assets measured at cost - continued

of the financial asset is reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The amount of reduction is recognised as an impairment loss in profit or loss. The impairment loss on such financial asset is not reversed once it is recognised.

8.4 Transfer of financial assets and derecognition of financial assets

The Group's financial assets are transferred if one of the following conditions is satisfied:

(1) Contractual rights to receive cash flow of the financial asset has been transferred; or

(2) Although the financial asset has been transferred, the Group keeps the contractual rights to receive cash flow of the financial asset and undertake the obligation to pay the received cash flow to the final transferee, and if the following conditions are satisfied simultaneously:

- The Group has the obligation to pay to the final recipient when receiving peer cash flow from the financial asset. It's deemed to satisfy this condition when the Group pays short-term advances, but it is entitled to recover the full amount of the advances and receive interest accrued in accordance with the market interest rate of bank loan.
- According to the contract, the financial asset could not be sold or pledged, but it could be offered as guarantee for paying cash flow to the final recipient.
- The Group has the obligation to pay the received cash flow to the final recipient promptly. The Group is not entitled to reinvest with the cash flow, except for the investment in cash or cash equivalent in accordance with the contract during the interval between two consecutive payments. If the Group reinvests according to the contract, it should pay the investment income to the final recipient in accordance with the provisions of the contract.

The Group derecognises a financial asset if one of the following conditions is satisfied:

(1) The contractual rights to the cash flows from the financial asset expire; or

(2) The financial asset has been transferred, and if one of the following conditions is satisfied:

- All the risks and rewards of ownership of the financial asset is transferred to the transferee; or
- The Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but has not retained control of the financial asset.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, and it retains control of the financial asset, it recognises the financial asset to the extent of its continuing involvement in the transferred financial asset.

For a transfer of a financial asset that satisfies the derecognition criteria, the difference between (1) the carrying amount of the financial asset transferred; and (2) the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised in other comprehensive income, is recognised in profit or loss.

8.5 Asset-backed securities business

The Group securitises a portion of assets by selling these assets to structured entities, and then issue securities to its investors. Conditions of derecognising the relevant financial assets refer to Note IV 8.4. When applying the derecognising conditions of financial assets, the Group has already taken into account the extent of transfer of the risks and rewards of those assets transferred to the other structured entity, as well as the extent of control over such entity by the Group. If the derecognising conditions of securities are not satisfied, the related financial assets are not derecognised, but the funds raising from third party investors will be treated as financial liabilities.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

8. Financial instruments - continued

8.6 Classification, recognition and measurement of financial liabilities

The Group recognises a financial liability if one of the following conditions is satisfied: (1) Contractual obligations to deliver cash or other financial assets to other parties, or (2) Contractual obligations to exchange financial assets or financial liabilities with other parties under potential adverse conditions, or (3) Non-derivative contracts provide the Group shall or may measure business with its own equity instruments in the future, and will deliver a variable number of its own equity instruments, or (4) Derivative contracts provide the Group shall or may settle business with its own equity instruments in the future, except for the derivative contracts deliver a fixed number of its own equity instruments to exchange a fixed amount of cash or other financial assets.

At initial recognition, the Group classified financial instrument as financial liabilities or equity instruments according to the contractual terms of issued financial instruments and the reflected economic substance rather than its legal form only, combining with the definition of financial liabilities and equity instruments.

On initial recognition, financial liabilities are classified into financial liabilities at fair value through profit or loss and other financial liabilities.

8.6.1 Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL consist of financial liabilities held for trading and those assigned as at FVTPL on initial recognition.

A financial liability is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of repurchasing in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative, except for a derivative that is a designated as effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

A financial liability is assigned as financial assets at fair value through profit or loss, on initial recognition, if one of the following conditions is satisfied: (1) the recognition could eliminate or significantly reduce profit or loss differences in recognition or measurement due to the difference in measurement basis of financial liability; or (2) It has been stated in formal written document of the Group's risk management or investment strategy, that managing and evaluating the group of financial liabilities or financial assets & financial liabilities on the basic of fair value, and reporting it to key management personnel; or (3) The hybrid financial instrument embedded with derivatives.

Financial liabilities at FVTPL are subsequently measured at fair value. Any gains or losses arising from changes in the fair value or any dividend or interest expenses related to the financial liabilities are recognised in profit or loss.

8.6.2 Other financial liabilities

For a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, it is subsequently measured at cost. Other financial liabilities except those arising from financial guarantee contracts or loan commitments are subsequently measured at amortised cost using the effective interest method, with gain or loss arising from derecognition or amortisation recognised in profit or loss.

8.6.3 Financial guarantee contracts and loan commitments

A financial guarantee contract is a contract by which the guarantor and the lender agree that the guarantor would settle the debts or bear obligations in accordance with terms of the contract in case the borrower fails to settle the debts. Financial guarantee contracts that are not assigned as financial liabilities at fair value through profit or loss, or loan commitments to provide a loan at a below-market interest rate, which are not designated at fair value through profit or loss, are initially measured at their fair values less the directly attributable transaction costs. Subsequent to initial recognition, they are measured at the higher of: (i) the amount determined in accordance with Accounting Standard for Business Enterprises No. 13 — Contingencies; and (ii) the amount initially recognised less cumulative amortisation recognised in accordance with the principles set out in Accounting Standard for Business Enterprises No. 14 — Revenue.

8.7 Derecognition of financial liabilities

The Group derecognises a financial liability (or part of it) only when the underlying present obligation (or part of it) is discharged. An agreement between the Group (an existing borrower) and an existing lender to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

When the Group derecognises a financial liability or a part of it, it recognises the difference between the carrying amount of the financial liability (or part of the financial liability) derecognised and the consideration paid (including any non-cash assets transferred or new financial liabilities assumed) in profit or loss.

8.8 Derivatives and embedded derivatives

Derivative financial instruments include forward exchange contracts, currency swaps, debenture income swaps, interest rate swaps and foreign exchange options, etc. Derivatives are initially measured at fair value at the date when the derivative contracts are entered into and are subsequently re-measured at fair value. The resulting gain or loss is recognized in profit or loss.

An embedded derivative is separated from the hybrid instrument, where the hybrid instrument is not assigned as a financial asset or financial liability at fair value through profit or loss, and treated as a standalone derivative if 1) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; and 2) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. If the Group is unable to measure the embedded derivative separately either at acquisition or at a subsequent balance sheet date, it assigns the entire hybrid instrument as a financial asset or financial liability at fair value through profit or loss.

8.9 Offsetting financial assets and financial liabilities

Where the Group has a legal right that is currently enforceable to set off the recognised financial assets and financial liabilities, and intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously, a financial asset and a financial liability shall be offset and the net amount is presented in the statements of financial position. Except for the above circumstances, financial assets and financial liabilities shall be presented separately in the statements of financial position and shall not be offset.

8.10 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group classified financial instruments as equity instruments when all of the following conditions is satisfied: (1) the financial instruments should not include contractual obligations to deliver cash or other financial assets to other parties or to exchange financial assets or financial liabilities with other parties under potential adverse conditions; and (2) the Group shall or may measure business with its own equity instruments in the future. If it is a non-derivative instrument, contractual obligations settled by delivering its own variable equity instruments shall not be included; if it is a derivative instrument, the Group can settle the financial instrument only through exchanging fixed amount of cash or other financial assets with fixed amount of its own equity instruments. Equity instruments issued (including refinanced),

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

8. Financial instruments - continued

8.10 Equity instruments - continued

repurchased, sold and written off by the Group are recognized as changes of equity. Change of fair value of equity instruments is not recognized by the Group. Transaction costs related to equity transaction are deducted from equity.

The Group recognizes the distribution to holders of the equity instruments as distribution of profits, and dividends paid do not affect total amount of shareholders equity.

9. Precious metal

Non-trading precious metal of the Group is initially measured at cost at acquisition, and subsequently re-measured at the lower of cost and realizable value. Trading precious metal of the Group is initially measured and subsequently re-measured at fair value. The changes in fair value arising from re-measurement is recognized in profit or loss.

10. Long-term equity investments

10.1 Determination of joint control or significant influence over investee

Control refers to the power an investor has over an investee, by virtue of which the investor enjoys variable returns by participating in related activities of the investee, and has the ability to use its power over the investee to influence the amount of its returns. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. When determining whether an investing enterprise is able to exercise control or significant influence over an investee, the effect of potential voting rights of the investee (for example, warrants and convertible debts) held by the investing enterprises or other parties that are currently exercisable or convertible shall be considered.

10.2 Determination of initial investment cost

For the acquisition of long-term equity investments involving enterprises under the common control, the Group measures the initial cost of the long-term equity investment as the share of the carrying amount of the owner's equity of the acquired enterprise at that date. The difference between the initial costs of the long-term equity investment and cash paid or non-cash assets transferred as well as the carrying amount of the debts borne by the Group shall offset against the capital reserve. If the capital reserve is insufficient to observe the difference, the retained earnings shall be adjusted. The investment cost which adopts the equity securities issued as the consideration should be adopted as the initial investment cost of the long-term equity investment according to the proportion carrying amount of combined party's shareholder equity in the consolidated financial statement of the final controlling part, and adjust the capital reserves by the difference between the initial investment cost of long-term equity investment and the amount of issued stock's face value, which is regarded as capital stock. If the capital reserves are insufficient to absorb the difference, retained income should be adjusted. For the acquisition of enterprises under the common control through several steps of trading, it should be confirmed whether it's a package deal. If it is, these deals should be measured as one acquiring-control deal. If not, the Group measures the initial cost of the long-term equity investment as the share of the carrying amount of the owner's equity of the acquired enterprise at that date. The difference between the initial costs of the long-term equity investment and the carrying amount of long-term equity investment before acquiring control as well as the carrying amount of the debts for more shares on the acquisition date shall offset against the capital reserve. If the capital reserve is insufficient to absorb the difference, the retained earnings shall be adjusted.

For a long-term equity investment acquired through business combination not involving enterprises under common control, the initial investment cost of the long-term equity investment is the cost of acquisition on the acquisition date. For the acquisition of enterprises under the common control through several steps of trading, it should be confirmed whether it's a package deal. If it is, these deals should be measured as one acquiring-control deal. If not, the carrying amount of long-term equity investment before acquiring control and the cost of new investment is the cost of acquisition measured under cost method.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

10. Long-term equity investments - continued

10.2 Determination of initial investment cost - continued

Acquisition-related costs including auditing fees, legal services fees, valuation advice fees and other relevant management fees are generally recognised in profit or loss as incurred.

Long-term equity investments other than those arising from business combination, is initially measured at cost. When the Group increases its ownership interest in the investee to the extent that the Group has joint control or significant influence, but not control, over the investee, the cost of the long-term equity investment is the aggregation of fair value of its prior ownership interest recognized in accordance with the *Accounting Standards for Enterprises No. 22 — Recognition and Measurement of Financial Instruments* and the additional investment cost at that date.

10.3 Subsequent measurement and recognition of profit or loss

10.3.1 Long-term equity investment accounted for using the cost method

The Bank uses the cost method for the long-term equity investment in subsidiaries in the financial statements. The subsidiary refers to the investee that controlled by the group.

Under the cost method, a long-term equity investment is measured at initial investment cost. Increasing or reducing investment will adjust the cost of long term equity investment accordingly. Investment income is recognised in the period in accordance with the attributable share of cash dividends or profit distributions declared by the investee.

10.3.2 Long-term equity investment accounted for using the equity method

The Group accounts for investment in associates using the equity method. Associates are those that the group is able to exercise significant influence over the investee.

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, no adjustment is made to the initial investment cost. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the initial cost of the investment, after reassessment of the long-term equity investment, is recognised immediately in profit or loss in the period in which the investment is acquired.

Under the equity method, the Group recognizes investment income and other comprehensive income based on the Group's share of net profit or loss and other comprehensive income of the investee and adjust the carrying amount of long-term equity investment accordingly. The carrying amount of the investment decreases regarding the attributable share of cash dividends or profit distributions declared by the investee. Changes in shareholders' equity of the investee other than net profits or losses, other comprehensive income or profit distribution are correspondingly adjusted to the carrying amount of the long-term equity investment, and recognized as capital reserve. The Group recognizes its share of the investee's net profit or loss based on the fair value of the investee's identifiable assets after the adjustment of investee's net profit. When the accounting policy and accounting period adopted by the investee are inconsistent with the Group's, the investment income and other comprehensive income are recognized based on the adjusted financial statements of the investee in accordance with the Group's accounting policies and accounting period. Unrealized profits or losses resulting from the Group's transactions with its associates and joint ventures are recognized as investment income or loss to the extent that those attributable to the Group's equity interest are eliminated. However, unrealized losses resulting from the Group's transactions with its investees in respect of impairment losses on the transferred assets shouldn't be eliminated.

The Group discontinues recognising its share of net losses of the investee after the carrying amount of the long-term equity investment together with any long-term interests that in substance form part of its net investment in the investee is reduced to zero. If the Group has incurred obligations to assume additional losses of the investee, a provision is recognized according to the expected obligation, and recorded as investment loss for the period. Where net profits are subsequently made by the investee, the Group resumes recognising its share of those profits only after its share of the profits exceeds the share of losses previously not recognized.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

10. Long-term equity investments - continued

10.3 Subsequent measurement and recognition of profit or loss - continued

10.3.3 Disposal of long-term equity investments

On disposal of a long term equity investment, the difference between the proceeds actually received and the carrying amount is recognised in profit or loss for the period. When the Group reduces its ownership interest in investee but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the investee's disposal of the related assets or liabilities. Then the equity recognized by the Group other than the change of the net profits and loss, other comprehensive income and profit distribution of the invested entity is reclassified to profit and losses on proportion. When the Group reduces its ownership interest but the Group continues to use the cost method, for the other comprehensive income recognized by the Group using equity method prior to the control over the investee or under financial instrument recognition and measurement standard, the Group reclassifies to profit or loss the proportion of the gain or loss relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the investee's disposal of the related assets or liabilities. Then the other changes in owners'' equity recognized by the Group using equity method, not arising from the change of the net profits and loss, other comprehensive income or profit distribution of the invested entity is reclassified to profit and loss on proportion.

11. Fixed assets

11.1 Recognition criteria for fixed assets

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and have useful lives of more than one accounting year. A fixed asset is recognised only when it is probable that economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Fixed assets are initially measured at cost.

Subsequent expenditures incurred for the fixed asset are included in the cost of the fixed asset if it is probable that economic benefits associated with the asset will flow to the Group and the cost can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognised. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

11.2 Depreciation of each category of fixed assets

A fixed asset is depreciated over its useful life using the straight-line method since the month subsequent to the one in which it is ready for intended use. The depreciation period, estimated net residual value rate and annual depreciation rate of each category of fixed assets are as follows:

Category	Depreciation period	Estimated Residual value rate	Annual depreciation rate
Buildings	20-30 years	0-3%	3.23-5.00%
Fixed assets improvement	the lower of improvement period and remaining useful life	0%	
Office equipment	3-10 years	0-3%	10.00-33.33%
Transportation vehicles	5-8 years	0-3%	12.50-20.00%

Estimated net residual value of a fixed asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

11.3 Other explanations

If a fixed asset is upon disposal or no future economic benefits are expected to be generated from its use or disposal, the fixed asset is derecognised. When a fixed asset is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes is recognised in profit or loss for the period.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

11. Fixed assets - continued

11.3 Other explanations - continued

The Group reviews the useful life and estimated net residual value rate of a fixed asset and the depreciation method applied at least once at each financial year-end, and accounts for any change as a change in an accounting estimate.

12. Construction in progress

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a fixed asset or other asset when it is ready for intended use.

13. Intangible assets

13.1 Intangible assets

Intangible assets include land use rights, franchising, etc.

An intangible asset is measured initially at cost. Expenses related to the intangible assets are recognised in the cost of intangible assets when (i) it is probable that the associated economic benefits will flow to the Group; and (ii) the associated costs can be measured reliably. Other expenses related to the intangible assets are recognized in profit or loss for the period in which it is incurred.

The acquired land use right is recognized as intangible assets. Expenses related to land use right and construction cost from buildings such as self-built factory, etc. are recognized as intangible assets and fixed assets, respectively. In the case of purchased buildings, it allocates related cost between land use right and buildings. If related cost cannot be allocated reasonably, it is recognized as fixed assets.

When an intangible asset with a finite useful life is available for use, its original cost is amortised over its estimated useful life using the straight-line method. An intangible asset with an indefinite useful life is not amortised.

For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at the end of the period, and accounts for any change as a change in an accounting estimate. For an intangible asset with an infinite useful life, the Group reviews the useful life. If it is evident that the duration of associated economic benefits is predictable, then estimate the useful life pursuant to amortization policies for intangible assets with finite useful life.

14. Impairment of long-term assets

The Group checks whether long-term equity investment, fixed assets, construction in progress, and intangible assets with a finite useful life will impair in every balance sheet date. If the indication of impairment of these assets exists, the Group estimates their recoverable amount. Intangible assets with indefinite useful life and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that the assets may be impaired.

Estimation of recoverable amount of the assets is based on individual asset. If the recoverable amount is difficult to estimate, the amount should be estimated by the assets group which the asset belongs to. Recoverable amount is the higher of the two: net fair value of the assets or assets group after disposal expenses, or present value of the expected cash flow from the assets.

If asset's recoverable amount is lower than its carrying amount, the allowance for impairment losses should be recognized by their balances in profit or loss for the period.

The goodwill should be tested of impairment at least in the end of the each year with related assets group or combination of assets group. In purchase date, the carrying amount of goodwill should be allocated reasonably to assets group or combinations which can benefit from the synergy of enterprise merger. If the recoverable amount of assets group or combinations of allocated goodwill is lower than its carrying amount, impairment loss should be recognized. The amount of impairment loss should offset the carrying value

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

14. Impairment of long-term assets - continued

which is allocated to the goodwill of certain assets group or combinations at first, then it should offset the carrying amount of other assets proportionally according to the proportion of other assets' carrying amount of assets group or combination after goodwill.

The impairment losses cannot be reversed once they are recognized.

15. Long-term prepaid expenses

Long-term prepaid expenses represent expenses incurred that should be borne and amortised over the current and subsequent periods (together of more than one year). Long-term prepaid expenses are amortised using the straight-line method over the expected periods in which benefits are derived.

16. Employee benefits

16.1 Accounting method of short-term employee benefits

In an accounting period in which an employee has rendered service to the Group, the Group recognizes the short-term employee benefits for that service as a liability, and the expenditure incurred for the period is recorded in profit or loss The employee's welfare incurred is recognized in the profit or loss for the period as well. Non-monetary benefit included in employee's welfare expenses are recorded at fair value.

Payment made by the Group regarding social security contributions for employees such as contributions on medical insurance, work injury insurance and maternity insurance, etc. and payments of housing funds, as well as trade union fund and employee education fund provided in accordance with relevant requirements, are calculated according to prescribed bases and percentages in determining the amount of employee benefits and recognized as relevant liabilities, with a corresponding charge to the profit or loss for the period in the accounting period in which employees provide services.

16.2 Accounting method of post-employment benefits

Termination benefits are classified as defined contribution pension plans and defined benefit plans.

In an accounting period in which an employee has rendered service to the Group, the Group recognises the employee benefits for that service as a liability and included in profit or loss for the period.

For the defined benefit plan, the Group recognizes the obligations arising from such plan based on formula under estimated cumulated welfare method in the period in which employees render service and included in profit or loss for the period. The classifications of the costs are as follows:

- Service costs (including service costs of the period, service costs in the past, and profit and loss).
- Net value of interests from net liabilities or net assets of defined benefit plans (including interest income of planned assets, obligated interest cost of defined benefit plans and interest of influence of assets upper limit).
- The changes of recalculating the net liabilities and net assets of defined benefit plans.

Net interests of service costs and net liabilities and net assets of defined benefit plans are recorded in the profit and loss. The changes of recalculating the net liabilities and net assets of defined benefit plans, including actuarial gains or loss, planned assets yield deducting net value of interests from net liabilities or net assets of defined benefit plans, change rising from upper limit of assets deducting net value of interests from net liabilities or net assets of defined, are recorded in other comprehensive income.

The difference between the present value of defined benefit obligation and the fair value of defined benefit asset is recognized as a net asset or liability of defined benefit plans. If there is surplus, the net assets of defined benefit plans should be measured by the lower of the two: 1. the surplus of defined benefit plans; 2. upper limit of assets.

16.3 Accounting method of termination benefits

In an accounting period in which an employee has rendered service to the Group, a liability for a termination benefit and an expense accordingly are recognized at the earlier of when the Company entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

17. Assets transferred under repurchase agreements

17.1 Financial assets held under resale agreements

The financial assets are not recognized in the statements of financial position if they are committed to be resold at a specific price at a specific date in the future. The cost of purchasing such assets is presented under "financial assets purchased under resale agreements" in the statements of financial position. The difference between the purchasing price and reselling price is recognized as interest income during the term of the agreement using the effective interest method.

17.2 Financial assets sold under repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date and price are not derecognised in the statements of financial position. The proceeds from selling such assets are presented under "financial assets sold under repurchase agreements" in the statements of financial position. The difference between the selling price and repurchasing price is recognised as interest expense during the term of the agreement using the effective interest method.

18. Provisions

Provisions are recognised when the Group has a present obligation related to a contingency, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

Where all or some of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement is recognised as a separate asset only when it is virtually certain that reimbursement will be received, and the amount of reimbursement recognised does not exceed the carrying amount of the provision.

19. Interest income and expense

Interest income and expense is carried at amortized cost of related financial assets and liabilities using the effective interest rate method, and recognized in profit or loss. If the difference between effective interest rate and contract interest rate is an insignificant amount, contract interest rate also can be applied.

20. Fee and commission income

Fee and commission income is recognized on accrual basis when providing related service.

21. Government grants

Government grants are transfer of monetary assets and non-monetary assets from the government to the Group at no consideration, except the capital from the government as the owner. A government grant is recognised only when the Group can comply with the conditions attaching to the grant and the Group will receive the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a non-monetary asset, it is measured at fair value. If the fair value cannot be reliably determined, it is measured at a nominal amount. A government grant measured at a nominal amount is recognised immediately in profit or loss for the period. Government grants are classified into government grants related to assets and government grants related to income according the subjects required by the Government documents.

A government grant related to an asset is recognised as deferred income, and evenly amortised to profit or loss over the useful life of the related asset. For a government grant related to income, if the grant is a

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

21. Government grants - continued

compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and recognised in profit or loss over the periods in which the related costs are recognised. If the grant is a compensation for related expenses or losses already incurred, the grant is recognised immediately in profit or loss for the period.

For repayment of a government grant already recognised, if there is related deferred income, the repayment is offset against the carrying amount of the deferred income, and any excess is recognised in profit or loss for the period. If there is no related deferred income, the repayment is recognised immediately in profit or loss for the period.

22. Deferred tax assets/deferred tax liabilities

The income tax expenses include current income tax and deferred income tax.

22.1 Current income tax

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods are measured at the amount expected to be paid (or recovered) according to the requirements of tax laws.

22.2 Deferred tax assets and deferred tax liabilities

For temporary differences between the carrying amounts of certain assets or liabilities and their tax base, or between the nil carrying amount of those items that are not recognised as assets or liabilities and their tax base that can be determined according to tax laws, deferred tax assets and liabilities are recognised using the balance sheet liability method.

Deferred tax is generally recognised for all temporary differences. Deferred tax assets for deductible temporary differences are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. However, for temporary differences associated with the initial recognition of goodwill and the initial recognition of an asset or liability arising from a transaction (not a business combination) that affects neither the accounting profit nor taxable profits (or deductible losses) at the time of transaction, no deferred tax asset or liability is recognised.

For deductible losses and tax credits that can be carried forward, deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future. At the balance sheet date, deferred tax assets and liabilities are measured at the tax rates, according to tax laws, that are expected to apply in the period in which the asset is realised or the liability is settled.

Current and deferred tax expenses or income are recognised in profit or loss for the period, except when they arise from transactions or events that are directly recognised in other comprehensive income or in shareholders' equity, in which case they are recognised in other comprehensive income or in shareholders' equity; and when they arise from business combinations, in which case they adjust the carrying amount of goodwill.

At the balance sheet date, the carrying amount of deferred tax assets is reviewed and reduced if it is no longer probable that sufficient taxable profits will be available in the future to allow the benefit of deferred tax assets to be utilised. Such reduction in amount is reversed when it becomes probable that sufficient taxable profits will be available.

When the Group has a legal right to settle on a net basis and intends either to settle on a net basis or to realise the assets and settle the liabilities simultaneously, current tax assets and current tax liabilities are offset and presented on a net basis.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

22. Deferred tax assets/deferred tax liabilities - continued

22.2 Deferred tax assets and deferred tax liabilities - continued

When the Group has a legal right to settle current tax assets and liabilities on a net basis, and deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax assets and liabilities on a net basis or to realise the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be reversed, deferred tax assets and deferred tax liabilities are offset and presented on a net basis.

23. Fiduciary activities and agent business

The Group acts in a fiduciary activities and agent business as a trustee or an agent for customers. Customers should bear the risk and return generated by such activities. The Group only charges fee and commission. The fiduciary activities and agent business are excluded from the financial statements.

24. Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee under operating leases

Operating lease payments are recognized on a straight-line basis over the term of the relevant lease, and are recorded in profit or loss for the period. Initial direct costs incurred are charged to profit or loss for the period. Contingent rents are charged to profit or loss in the period in which they are actually incurred.

The Group as lessor under operating leases

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs with more than an insignificant amount are capitalized when incurred, and are recognized in profit or loss on the same basis as rental income over the lease term. Other initial direct costs with an insignificant amount are charged to profit or loss in the period in which they are incurred. Contingent rents are charged to profit or loss in the period in which they actually arise.

The Group as lessor under finance leases

At the commencement of the lease term, the aggregate of the minimum lease receivable at the inception of the lease and the initial direct costs is recognised as a finance lease receivable, and the unguaranteed residual value is recorded at the same time. The difference between the aggregate of the minimum lease receivable, the initial direct costs and the unguaranteed residual value, and the aggregate of their present values is recognised as unearned finance income. The net amount of financial lease receivables less unearned finance income is listed in "financial lease receivables" for presentation.

Unearned finance income is recognised as finance income for the period using the effective interest method over the lease term. Contingent rents are credited to profit or loss in the period in which they are actually incurred.

25. Other significant accounting policies and accounting estimates

Foreclosed asset

Foreclosed asset is initially measured at its fair value. At the balance sheet date, foreclosed asset is measured at the lower of carrying amount and net realizable value. The difference by which the net realizable value is lower than the carrying amount of the assets shall be provided for the current period.

On disposal of a foreclosed asset, the difference between (i) income from disposal and (ii) the carrying amount of the foreclosed asset is charged to non-operating income or expense.

If the foreclosed asset is transferred for self-use, it should be measured at the carrying amount at the transfer date. Provision is to taken into account if applicable.

V. CRITICAL ACCOUNTING JUDGEMENTS AND KEY ASSUMPTIONS AND UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note IV, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The aforementioned estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The followings are the key items of financial statements that the Group has made critical judgement, estimation and assumption at the balance sheet date.

1. Impairment on loans and advances to customers and investments classified as receivables

The Group reviews its loan and investments classified as receivables portfolio to assess impairment on a periodic basis. In determining whether an impairment loss should be recognized in profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is an objective evidence of impairment which will have a measurable decrease in the estimated future cash flows from a portfolio of loans and advances and investments classified as receivables. When the decrease may not have been identified individually or the individual loan and investments classified as receivables is not significant, management uses estimates based on historical loss experience on a collective basis with similar credit risk characteristics to assess the impairment loss while estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2. Fair value of financial instruments

The Group uses various valuation techniques to determine the fair value of financial instruments which are not quoted in an active market. Valuation techniques include the use of discounted cash flows analysis, option pricing models or other valuation methods as appropriate. To the extent practical, models use only observable data; however areas such as credit risk of the Group and the counterparty, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

3. Impairment of available-for-sale financial assets

The determination of whether an available-for-sale financial asset is impaired requires significant judgement from the management. In making this judgement, the Group evaluates the duration and extent to which the fair value of an investment of equity instrument is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, technology innovation, credit ratings, delinquency rates and counterparty risk etc.

4. Classification of held-to-maturity investments

The Group classifies non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the positive intention and ability to hold to maturity as held-to-maturity investments. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to hold these investments to maturity other than for specific circumstances (such as selling an insignificant amount close to maturity), it will be required to reclassify the entire portfolio of held-to-maturity investments as available-for-sale financial assets.

5. Impairment of held-to-maturity investments

The determination of whether a held-to-maturity financial asset is impaired requires significant judgement from the management. Objective evidence that a financial asset or group of assets is impaired includes a

V. CRITICAL ACCOUNTING JUDGEMENTS AND KEY ASSUMPTIONS AND UNCERTAINTY - continued

5. Impairment of held-to-maturity investments - continued

breach of contract, such as a default or delinquency in interest or principal payments, etc. In making such judgement, the impact of objective evidence for impairment on expected future cash flows of the investment is taken into account.

6. Income taxes

There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. Whether some items can be charged before tax requires assertion from tax authority. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

7. Consolidation of structured entities

As the manager of structured entities, the Group should assess whether the Group is the main charger or an agent in order to evaluate whether the Group has control over the structured entities and should consolidate the structured entities. Factors taken into consideration includes decision scope of asset manager, power of other trust holders, reward from offering management service and the risk exposure to variable return.

8. Derecognition of Transfer of Financial Assets

The Group transfers financial assets in a variety of ways through regular trading, asset securitization, and repurchase agreements in daily operations. The Group needs to make significant judgments and estimates in determining whether a transferred financial asset can be fully or partially derecognized. In assessing and judging, the Group takes into account a wide range of factors and determines whether the conditions for the derecognition of the financial assets are met by using a reasonable model to measure the degree of transfer of risk and return associated with the ownership of financial assets.

VI. TAXATION

1. Enterprise income tax

According to the *Corporate Income Tax Law of the People's Republic of China,* the income tax of domestic branches of the Bank and subsidiaries is calculated and settled at the tax rate of 25%.

The income tax of overseas branches of the Bank is calculated in accordance with the local tax rate, and the difference between the overseas tax rate and domestic tax rate is settled by the head office.

The deductible items of enterprise income tax are calculated in accordance with the relevant regulations. Enterprise income tax is prepaid by domestic branches of the Bank and conducted annual filing by the head office.

2. Business tax

As of 30 April 2016, Business tax of the Bank's domestic branches and subsidiaries is levied at 5% of taxable revenue. Domestic branches and subsidiaries declare and pay the business tax to local tax bureau as required.

3. Value-added tax

According to "*Circular on Nationwide Implementation of Pilot for Change from Business Tax to VAT" (Cai Shui [2016] No.36),* jointly issued by the Ministry of Finance and State Administration of Taxation on 23 March 2016, the Group started paying VAT at the rate of 6% – 17% instead of business tax as required since 1 May 2016.

In accordance with the regulations of the "*Circular on Clarification of Value-added Tax Policies in Finance, Real Estate Development and Education, etc. (Cai Shui [2016] No. 140)*" and the "*Supplementary Circular on Related Issues Concerning the Value-added Tax on Asset Management Products (Cai Shui*

VI. TAXATION - continued

3. Value-added tax - continued

[2017] No. 2)", jointly issued by the Ministry of Finance and the State Administration of Taxation, the manager of asset management products will be the VAT taxpayer for VAT taxable behaviours occurred in the operation of asset management products after 1 July 2017 (inclusive).

4. City maintenance and construction tax

The Group's city maintenance and construction tax is calculated according to 1% ~ 7% of business tax.

5. Education surcharge

The Group's education surcharge and local education surcharge is calculated according to 3% ~ 5% of business tax.

VII. CONSOLIDATION SCOPE

1. Details of the Bank's principal subsidiaries included in the scope of consolidation are set out as follows:

Key subsidiaries	Main business place/ Place of registration	Business nature	Registered capital	Total shareholding by the Group 31/12/2016 Direct	31/12/2016 Indirect	31/12/2015 Direct	31/12/2015 Indirect
			RMB in Million	(%)	(%)	(%)	(%)
Industrial Bank Financial Leasing Co., Ltd.(1)	Tianjin	Financial leasing	7,000	100	—	100	—
China Industrial International Trust Limited	Fuzhou	Trust	5,000	73	—	73	—
CIB Fund Management Co., Ltd.(1)	Fuzhou	Fund management	700	90	—	90	—
Industrial Consumer Finance Co., Ltd.(1)	Quanzhou	Consumer finance	500	66	—	66	—
Industrial Economic Research and Consulting Co., Ltd.	Shanghai	Investment consulting (except brokers), finance consulting, business consulting, management consulting, financial data processing	60	—	66.67	—	66.67
CIIT Asset Management Co., Ltd (2)	Shanghai	Assets management, equity investment, industrial investment, investment management and consulting	300	—	100	—	100
Industrial Wealth Asset Management Co., Ltd (2)(3)	Shanghai	Assets management	380	—	100	—	100
Industrial Future Co., Ltd. (2)	Ningbo	Merchandise, financial futures investment and consulting Service	500	—	92.20	—	92.20

(1) In April 2016, Industrial Bank Financial Leasing Co., Ltd, which is the Bank's wholly-owned subsidiary, increased its registered capital to RMB 7 billion through capitalization of retained earnings amounting RMB 2 billion; In May 2016, CIB Fund Management Co., Ltd., which is the Bank's holding subsidiary, increased its registered capital to RMB 700 million through capitalization of retained earnings amounting RMB 200 million. In December 2016, the Bank increased the registered capital of

VII. CONSOLIDATION SCOPE - continued

1. Details of the Bank's principal subsidiaries included in the scope of consolidation are set out as follows - continued:

its holding subsidiary Industrial Consumer Finance Co., Ltd. by RMB 132 million according to its shareholding proportion. After the capital increase, the registered capital of Industrial Consumer Finance Co., Ltd. is RMB 500 million.

(2) The companies are the subsidiaries of the Bank's holding subsidiaries.

(3) The Bank's holding subsidiary CIB Fund Management Co., Ltd. increased the registered capital of its wholly-owned subsidiary Industrial Wealth Asset Management Co., Ltd. by RMB 180 million. After the capital increase, the registered capital of Industrial Wealth Asset Management Co., Ltd. is RMB 380 million, with 100% shares held by CIB Fund Management Co., Ltd.

2. Refer to No. VIII 50 for information of consolidated structure entities

3. Foreign exchange rate of principle items in financial statements of overseas operating entities

The operating entity of the Group converts the financial statement from foreign currency to RMB based on the following method: all assets and liabilities in the statement of financial position should be converted by spot rate at balance sheet date; equity of shareholders except for the retained earnings should be converted by spot rate when occurs; all subjects in the statements of comprehensive income and subjects which reflect the accrual distributed profit should be converted by approximate spot rate when occurs.

The exchange rate of USD, JPY, EUR, HKD, and GBP to RMB should be determined by the middle rate published by China's State Administration of Foreign Exchange (the "SAFE"). The exchange rate of other currency to RMB should be calculated by the benchmark rate of USD to RMB and rate of USD to other currency offered by SAFE.

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS

1. CASH AND BALANCES WITH CENTRAL BANK

	The Group		The Bank	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	RMB Million	RMB Million	RMB Million	RMB Million
Cash	5,806	5,622	5,806	5,622
Mandatory reserves (1)	384,801	353,620	384,784	353,575
Surplus deposit reserves (2)	66,508	57,994	66,497	57,982
Other reserve (3)	539	675	539	675
Total	457,654	417,911	457,626	417,854

(1) The domestic institution of the Bank places mandatory reserves mainly with the PBOC as required, including RMB reserves and foreign reserves. These reserves are not available for the Group's daily operations and can't be transferred or used without the PBOC's approval. General deposit generates from organizations deposit, non-financial-budget deposit, individual deposit, enterprise deposit, net trust funds and other deposit. On 31 December 2016, the ratio of the Bank's RMB reserves is 14.5% (31 December 2015: 15%), the ratio of foreign reserves is 5% (31 December 2015:5%). According to related regulations from the PBOC, foreign reserves are non-interest bearing. The Group's subsidies' RMB reserve deposit ratio is in accordance with regulations of PBOC. Deposit ratio of mandatory reserve in Hong Kong branch is in accordance with regulations from local regulators.

(2) Surplus reserves are reserve in excess of mandatory reserve maintained with the PBOC mainly for the purpose of clearing, and transferring, etc.

(3) The majority of other deposits are the fiscal deposits placed with the Central Bank. Fiscal deposit at Central Bank refers to the fiscal deposit at PBOC by the Bank according to regulations, including the Bank's agent central budgetary revenues, local treasury deposits, etc. The fiscal deposits placed with the PBOC of institutions in mainland China are non-interest bearing.

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

2. DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group		The Bank	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	RMB Million	RMB Million	RMB Million	RMB Million
Deposits with:				
Domestic banks	37,002	28,082	24,087	25,770
Other domestic financial institutions	2,177	1,187	2,159	1,184
Overseas banks	17,048	13,099	17,048	13,099
Subtotal	56,227	42,368	43,294	40,053
Less: Allowance for impairment losses	(21)	(21)	(21)	(21)
Net value	56,206	42,347	43,273	40,032

3. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group		The Bank	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	RMB Million	RMB Million	RMB Million	RMB Million
Placements with:				
Domestic banks	249	1,997	249	1,997
Other domestic financial institutions	5,499	31,103	10,757	35,319
Overseas financial institutions	11,167	23,304	11,167	23,304
Subtotal	16,915	56,404	22,173	60,620
Less: Allowance for impairment losses	(64)	(68)	(64)	(68)
Net value	16,851	56,336	22,109	60,552

4. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group		The Bank	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	RMB Million	RMB Million	RMB Million	RMB Million
Trading financial assets:				
Debt instrument investments:				
Government bonds	22,761	1,871	11,947	1,871
The Central Bank bills and policy financial bonds	7,072	4,778	2,953	4,778
Bonds issued by financial institutions	3,006	1,122	3,006	1,122
Corporate bonds	34,055	19,179	19,515	19,179
Non-negotiable certificates of deposit	21,043	1,362	12,226	1,362
Subtotal of debt instruments investments	87,937	28,312	49,647	28,312
Equity instrument investments:				
Funds	265,787	98,583	308,246	98,012
Trust plan of assembled funds	4	134	—	—
Stocks	165	10	—	—
Wealth management products	—	500	—	—
Subtotal of equity instrument investment	265,956	99,227	308,246	98,012
Total of trading financial assets	353,893	127,539	357,893	126,324
Financial assets designated at fair value through profit and loss:				
Debt instrument investment	599	1,037	—	—
Equity instrument investment	103	109	—	—
Financial assets designated at fair value through profit and loss:	702	1,146	—	—
Total	354,595	128,685	357,893	126,324

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

5. DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into foreign currency exchange rate, interest rate and precious metals related derivative financial instruments for purposes of trading, asset and liability management and customer driven business.

The notional amounts of derivative instruments represent the value of the underlying asset or the reference rate as a basis to measure changes in derivative financial instruments, which provide an indication of the volume of business transacted by the Group, but don't stand for the relevant future cash flow or current fair value, thus, do not indicate the Group's exposure to credit or market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or precious metal prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The notional amount and fair value of the Group's derivative financial instruments:

The Group and the Bank

	31/12/2016			31/12/2015		
		Fair Value			Fair Value	
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Interest rate derivatives	1,182,679	4,428	4,080	981,942	3,867	3,868
Exchange rate derivatives	1,101,859	10,293	11,039	917,675	7,381	6,352
Precious metal derivatives	60,037	1,319	1,347	56,816	2,626	308
Credit derivatives	11,060	97	13	7,970	59	35
Total		16,137	16,479		13,933	10,563

6. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	The Group		The Bank	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	RMB Million	RMB Million	RMB Million	RMB Million
Bonds	8,261	51,550	5,654	51,550
Bills	3,902	97,839	3,902	97,839
Beneficial rights of trust and others (Note 1)	11,306	76,535	11,306	76,535
Credit assets (Note 2)	4,468	—	4,468	—
Total	27,937	225,924	25,330	225,924

Note 1: Beneficial rights of trust and others mainly comprised of the investment to trust plans and asset management plans operated by trust companies, securities companies and asset management companies.

Note 2: The credit assets purchased under resale agreement are carried out between the Hong Kong Branch of the Bank and overseas counterparties.

7. INTEREST RECEIVABLE

	The Group		The Bank	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	RMB Million	RMB Million	RMB Million	RMB Million
Deposits with Central Bank and financial institutions	339	607	267	635
Placements with banks and other financial institutions	133	161	193	163
Financial assets held under resale agreements	83	1,456	78	1,456
Loans and advances to customers	5,108	4,826	5,059	4,807
Bonds and other investments	18,092	14,290	17,516	14,207
Other	144	403	39	162
Total	23,899	21,743	23,152	21,430

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

8. LOANS AND ADVANCES TO CUSTOMERS

(1) Analysis of loans and advances to customers by personal and corporate:

	The Group		The Bank	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	RMB Million	RMB Million	RMB Million	RMB Million
Personal loans and advances				
Residential and business mortgage loans	517,597	298,309	517,597	298,309
Credit cards	110,330	77,960	110,330	77,960
Others	122,611	135,637	116,896	133,201
Subtotal	750,538	511,906	744,823	509,470
Corporate loans and advances				
Loans and advances	1,271,347	1,197,627	1,271,548	1,197,827
Discounted bills	57,929	69,875	57,929	69,875
Subtotal	1,329,276	1,267,502	1,329,477	1,267,702
Gross loans and advances	2,079,814	1,779,408	2,074,300	1,777,172
Less: Allowance for impairment losses	(72,448)	(54,586)	(72,263)	(54,505)
-Individually assessed	(12,669)	(11,297)	(12,669)	(11,297)
-Collectively assessed	(59,779)	(43,289)	(59,594)	(43,208)
Loans and advances to customers	2,007,366	1,724,822	2,002,037	1,722,667

(2) Analysis of loans and advances to customers by industry distribution:

	The Group				The Bank			
	31/12/2016		31/12/2015		31/12/2016		31/12/2015	
	RMB Million	(%)	RMB Million	(%)	RMB Million	(%)	RMB Million	(%)
Manufacturing	310,297	14.92	295,358	16.60	310,297	14.96	295,358	16.62
Retail and wholesale	196,681	9.46	205,299	11.54	196,681	9.48	205,299	11.55
Real estate	164,351	7.90	201,366	11.32	164,351	7.92	201,366	11.33
Leasing and commercial services	142,608	6.86	90,505	5.09	142,608	6.87	90,505	5.09
Water, environment and public facilities administration	109,135	5.25	92,518	5.20	109,135	5.26	92,518	5.21
Construction	86,707	4.17	73,226	4.12	86,707	4.18	73,226	4.12
Transport, logistics and postal service	66,644	3.20	60,575	3.40	66,644	3.21	60,575	3.41
Extractive industry	64,684	3.11	66,930	3.76	64,684	3.12	66,930	3.77
Production and supply of power, gas and water	60,939	2.93	53,808	3.02	60,939	2.94	53,808	3.03
Information transfer, software and IT services	15,590	0.75	8,782	0.49	15,590	0.75	8,782	0.49
Other corporate industries	53,711	2.57	49,260	2.76	53,912	2.61	49,460	2.78
Discounted bills	57,929	2.79	69,875	3.93	57,929	2.79	69,875	3.93
Personal loans	750,538	36.09	511,906	28.77	744,823	35.91	509,470	28.67
Gross loans and advances	2,079,814	100.00	1,779,408	100.00	2,074,300	100.00	1,777,172	100.00
Less: Allowance for impairment losses	(72,448)		(54,586)		(72,263)		(54,505)	
-Individually assessed	(12,669)		(11,297)		(12,669)		(11,297)	
-Collectively assessed	(59,779)		(43,289)		(59,594)		(43,208)	
Loans and advances to customers	2,007,366		1,724,822		2,002,037		1,722,667	

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

8. LOANS AND ADVANCES TO CUSTOMERS - continued

(3) Analysis of loans and advances to customers by geographical distribution:

	The Group				The Bank			
	31/12/2016		31/12/2015		31/12/2016		31/12/2015	
	RMB Million	(%)	RMB Million	(%)	RMB Million	(%)	RMB Million	(%)
Head office (Note 1)	127,488	6.13	90,589	5.09	127,488	6.15	90,589	5.10
Fujian	268,487	12.91	251,630	14.14	267,344	12.89	250,872	14.12
Beijing	130,925	6.30	95,586	5.37	130,925	6.31	95,586	5.38
Shanghai	116,401	5.60	99,581	5.60	115,133	5.55	99,166	5.58
Guangdong	217,880	10.48	174,734	9.82	217,144	10.47	174,357	9.81
Zhejiang	134,720	6.48	122,778	6.90	134,590	6.49	122,806	6.91
Jiangsu	167,291	8.04	133,444	7.50	166,844	8.04	133,264	7.50
Other (Note 2)	916,622	44.06	811,066	45.58	914,832	44.10	810,532	45.60
Gross loans and advances	2,079,814	100.00	1,779,408	100.00	2,074,300	100.00	1,777,172	100.00
Less: Allowance for impairment losses	(72,448)		(54,586)		(72,263)		(54,505)	
-Individually assessed	(12,669)		(11,297)		(12,669)		(11,297)	
-Collectively assessed	(59,779)		(43,289)		(59,594)		(43,208)	
Loans and advances to customers	2,007,366		1,724,822		2,002,037		1,722,667	

Note 1: Head office contains the credit card centre and the treasury operation centre.

Note 2: As at 31 December 2016, the Bank has 43 tier-1 branches, apart from the tier-1 branches mentioned above, the rest is categorised into "Others". Loans and advances of the subsidiaries of the Bank are presented by geographical distribution.

(4) Analysis of loans and advances to customers by security type:

	The Group		The Bank	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	RMB Million	RMB Million	RMB Million	RMB Million
Unsecured loans	411,300	309,261	405,786	307,025
Guaranteed loans	482,311	401,035	482,311	401,035
Collateralised loans	1,128,274	999,237	1,128,274	999,237
-Secured by mortgage	955,801	826,016	955,801	826,016
-Secured by collaterals	172,473	173,221	172,473	173,221
Discounted bills	57,929	69,875	57,929	69,875
Gross loans and advances	2,079,814	1,779,408	2,074,300	1,777,172
Less: Allowance for impairment losses	(72,448)	(54,586)	(72,263)	(54,505)
-Individually assessed	(12,669)	(11,297)	(12,669)	(11,297)
-Collectively assessed	(59,779)	(43,289)	(59,594)	(43,208)
Loans and advances to customers	2,007,366	1,724,822	2,002,037	1,722,667

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

8. LOANS AND ADVANCES TO CUSTOMERS - continued

(5) Overdue loans

The Group

	31/12/2016					31/12/2015				
	1-90 days (including 90 days)	90-360 days (including 360 days)	360 days to 3 years (including 3 years)	over 3 years	Total	1-90 days (including 90 days)	90-360 days (including (360 days)	360 days to 3 years (including 3 years)	over 3 years	Total
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Unsecured loans	2,144	2,289	469	20	4,922	4,771	2,675	1,429	50	8,925
Guaranteed loans	6,135	5,600	4,845	728	17,308	6,611	9,144	3,935	266	19,956
Collateralised loans	9,284	8,414	4,484	226	22,408	10,440	7,048	2,396	32	19,916
-Secured by mortgage	8,356	8,072	4,129	102	20,659	9,789	6,447	1,984	27	18,247
-Secured by collaterals	928	342	355	124	1,749	651	601	412	5	1,669
Total	17,563	16,303	9,798	974	44,638	21,822	18,867	7,760	348	48,797

The Bank

	31/12/2016					31/12/2015				
	1-90 days (including 90 days)	90-360 days (including 360 days)	360 days to 3 years (including 3 years)	over 3 years	Total	1-90 days (including 90 days)	90-360 days (including 360 days)	360 days to 3 years (including 3 years)	over 3 years	Total
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Unsecured loans	2,086	2,221	431	20	4,758	4,744	2,652	1,429	50	8,875
Guaranteed loans	6,135	5,600	4,845	728	17,308	6,611	9,144	3,935	266	19,956
Collateralised loans	9,283	8,414	4,484	226	22,407	10,440	7,048	2,396	32	19,916
-Secured by mortgage	8,355	8,072	4,129	102	20,658	9,789	6,447	1,984	27	18,247
-Secured by collaterals	928	342	355	124	1,749	651	601	412	5	1,669
Total	17,504	16,235	9,760	974	44,473	21,795	18,844	7,760	348	48,747

Note: The loan will be categorized into overdue when principal or interest is overdue for one day.

(6) Allowance for impairment losses on loans and advances to customers

The Group

	2016			2015		
	Individually	Collectively	Total	Individually	Collectively	Total
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Opening balance	11,297	43,289	54,586	6,581	37,315	43,896
Charge for the year	27,380	18,996	46,376	27,508	9,585	37,093
Write-off/Transfer out	(25,903)	(2,944)	(28,847)	(22,262)	(3,766)	(26,028)
-Recoveries of loans and advances written off in previous years	819	595	1,414	216	295	511
-Unwinding of discount on allowance	(924)	(209)	(1,133)	(746)	(161)	(907)
Fluctuation in exchange rate	—	52	52	—	21	21
Closing balance	12,669	59,779	72,448	11,297	43,289	54,586

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

8. LOANS AND ADVANCES TO CUSTOMERS - continued

(6) Allowance for impairment losses on loans and advances to customers - continued

The Bank

	2016			2015		
	Individually	Collectively	Total	Individually	Collectively	Total
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Opening balance	11,297	43,208	54,505	6,581	37,314	43,895
Charge for the year	27,380	18,892	46,272	27,508	9,505	37,013
Write-off/Transfer out	(25,903)	(2,944)	(28,847)	(22,262)	(3,766)	(26,028)
-Recoveries of loans and advances written off in previous years	819	595	1,414	216	295	511
-Unwinding of discount on allowance	(924)	(209)	(1,133)	(746)	(161)	(907)
Fluctuation in exchange rate	—	52	52	—	21	21
Closing balance	12,669	59,594	72,263	11,297	43,208	54,505

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

(1) Listed by types:

	The Group		The Bank	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	RMB Million	RMB Million	RMB Million	RMB Million
Available-for-sale debt instruments				
Government bonds	85,496	82,224	85,496	82,224
The Central Bank bills and policy financial bonds	17,973	28,547	17,973	28,547
Bonds issued by banks and other financial institutions	81,670	11,426	81,770	11,426
Corporate bonds	132,567	70,466	132,002	68,615
Non-negotiable certificates of deposit	60,636	4,071	60,636	4,071
Trust fund plans and other equity instrument (Note 1)	157,844	201,689	157,259	201,573
Subtotal	536,186	398,423	535,136	396,456
Available-for-sale equity instruments:				
Measured at fair value	47,797	27,881	54,832	23,045
Measured at cost	867	330	309	81
Subtotal	48,664	28,211	55,141	23,126
Total available-for-sale financial assets	584,850	426,634	590,277	419,582

Note 1: Trust fund plans and others are the beneficial rights of trust which are designated as available-for-sale financial assets when initially invested by the Group. These products' investment directions are mainly the trust loans or fund management plans run by the trust companies, asset management companies or securities companies as entrusted fund administrators. According to the liquidity management or operation management, these beneficial rights of trust or fund management plans will be probably for sale.

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS - continued

(2) Related analysis for available-for-sale financial assets at fair value in the year-end:

	The group		The bank	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	RMB Million	RMB Million	RMB Million	RMB Million
Available-for-sale debt instrument:				
Amortized cost	537,691	394,078	536,648	392,158
Fair value	536,186	398,423	535,136	396,456
Accumulative appropriation to other comprehensive income	1,265	6,670	1,240	6,623
Accumulative appropriation to allowance for impairment losses	(2,770)	(2,325)	(2,752)	(2,325)
Available-for-sale equity instrument:				
Cost	47,573	26,857	54,554	22,092
Fair value	47,797	27,881	54,832	23,045
Accumulative appropriation to other comprehensive income	227	1,029	278	953
Accumulative appropriation to allowance for impairment losses	(3)	(5)	—	—
Total:				
Amortized cost of debt instruments/cost of equity instrument	585,264	420,935	591,202	414,250
Fair value	583,983	426,304	589,968	419,501
Accumulative appropriation to other comprehensive income	1,492	7,699	1,518	7,576
Accumulative appropriation to allowance for impairment losses	(2,773)	(2,330)	(2,752)	(2,325)

(3) Related analysis for available-for-sale financial assets at cost in the year-end

The Group

Investee	Book balance			Provision	Proportion of share in Investee	Cash dividends for the year
	Opening	Increase	Closing			
	RMB Million	RMB Million	RMB Million	RMB Million	(%)	RMB Million
China Union Pay Co., Ltd	81	—	81	—	2.13	3
Huafu Securities Co., Ltd.	180	179	359	—	4.35	17
Zijin Mining Group Holding Group Finance Co. Ltd.	25	—	25	—	5.00	5
China Trust Registration Co. Ltd.	—	60	60	—	2.00	—
Others	44	298	342	—		—
Total	330	537	867	—		25

The Bank

Investee	Book balance			Provision	Proportion of share in Investee	Cash dividends for the year
	Opening	Increase	Closing			
	RMB Million	RMB Million	RMB Million	RMB Million	(%)	RMB Million
China Union Pay Co., Ltd	81	—	81	—	2.13	3
Others	—	228	228	—		—
Total	81	228	309	—		3

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS - continued

(4) Related analysis for allowance for impairment losses on available-for-sale financial assets

	The group			The bank		
	Available-for-sale debt instrument	Available-for-sale equity instrument	Total	Available-for-sale debt instrument	Available-for-sale equity instrument	Total
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Opening	2,325	5	2,330	2,325	—	2,325
Provision/(Reversal)	445	(2)	443	427	—	427
Closing	2,770	3	2,773	2,752	—	2,752

10. HELD-TO-MATURITY INVESTMENTS

	The Group		The Bank	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	RMB Million	RMB Million	RMB Million	RMB Million
Government bonds	210,232	170,352	210,232	170,252
The Central Bank bills and policy financial bonds	414	436	414	436
Bonds issued by banks and other financial institutions	9,055	3,951	9,055	3,951
Non-negotiable certificates of deposit	7,095	7,818	7,095	7,818
Corporate bonds	23,171	24,375	23,171	24,375
Subtotal	249,967	206,932	249,967	206,832
Less: Allowance for impairment losses	(139)	(130)	(139)	(130)
Net value	249,828	206,802	249,828	206,702

11. INVESTMENTS CLASSIFIED AS RECEIVABLES

	The Group		The Bank	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	RMB Million	RMB Million	RMB Million	RMB Million
Government bonds	302,475	167,028	302,475	167,028
Bonds issued by banks and other financial institutions	8,306	10,083	8,306	10,083
Corporate bonds	42,333	56,618	43,092	56,108
Wealth management products (Note 1)	460,003	429,400	460,003	429,400
Trust fund plans and others (Note 2)	1,303,087	1,182,050	1,295,120	1,176,825
Subtotal	2,116,204	1,845,179	2,108,996	1,839,444
Less: Allowance for impairment losses	(13,403)	(10,273)	(13,403)	(10,273)
Net value	2,102,801	1,834,906	2,095,593	1,829,171

Note 1: Wealth management products are fixed-period financial products issued by other financial institutions.

Note 2: Trust fund plans and others are the beneficial rights of the trust and fund management plans, etc. These products' investment directions are mainly the trust loans or fund management plans operated by the trust companies, securities companies and asset management companies as entrusted fund administrators.

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

12. FINANCE LEASE RECEIVABLES

The Group

Set out by nature:

	31/12/2016	31/12/2015
	RMB Million	RMB Million
Finance lease receivables	103,464	85,188
Less: unrealized financing income	(10,665)	(9,032)
Subtotal	92,799	76,156
Less: Allowance for impairment losses	(2,960)	(2,010)
-Individually assessed	(344)	(227)
-Collectively assessed	(2,616)	(1,783)
Net value	89,839	74,146

List as follows:

	31/12/2016	31/12/2015
	RMB Million	RMB Million
1st year subsequent to the balance sheet date	33,862	25,437
2nd year subsequent to the balance sheet date	26,375	21,697
3rd year subsequent to the balance sheet date	18,657	16,600
Subsequent periods	24,570	21,454
Subtotal	103,464	85,188
Unrealized financing income	(10,665)	(9,032)
Subtotal	92,799	76,156
Less: Allowance for impairment losses	(2,960)	(2,010)
-Individually assessed	(344)	(227)
-Collectively assessed	(2,616)	(1,783)
Net value	89,839	74,146
-Finance lease receivables due less than 1 year	29,403	22,140
-Finance lease receivables due more than 1 year	60,436	52,006

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

13. LONG-TERM EQUITY INVESTMENTS

Breakdown of long-term equity investments:

The Group

Investee	Accounting method	Initial investment	01/01/2016	Additions	31/12/2016	Proportion of equity interest	Proportion of voting power in the investee	Explanation on inconsistency between the proportion of equity interest and the proportion of voting power in the investee	Provisions	Cash dividends for this year
		RMB Million	RMB Million	RMB Million	RMB Million	(%)	(%)		RMB Million	RMB Million
Bank of Jiujiang Co., Ltd. (1)	Equity method	561	1,720	211	1,931	14.72	14.72	not applicable	—	27
Chongqing Machinery and Electronics Holding Group Finance Company Limited (2)	Equity method	114	147	7	154	19.00	19.00	not applicable	—	—
Others	Equity method	332	51	282	333			not applicable	—	—
Total			1,918	500	2,418				—	27

The Bank

Investee	Accounting method	Initial investment	01/01/2016	Additions	31/12/2016	Proportion of equity interest	Proportion of voting power in the investee	Explanation on inconsistency between the proportion of equity interest and the proportion of voting power in the investee	Provisions	Cash dividends for this year
		RMB Million	RMB Million	RMB Million	RMB Million	(%)	(%)		RMB Million	RMB Million
Bank of Jiujiang Co., Ltd. (1)	Equity method	561	1,720	211	1,931	14.72	14.72	not applicable	—	27
Industrial Bank Financial Leasing Co., Ltd. (Note VII)	Cost method	5,000	5,000	—	5,000	100.00	100.00	not applicable	—	—
China Industrial International Trust Limited (Note VII)	Cost method	6,395	6,395	—	6,395	73.00	73.00	not applicable	—	—
CIB Fund Management Co., Ltd. (Note VII)	Cost method	450	450	—	450	90.00	90.00	not applicable	—	—
Industrial Consumer Finance Co., Ltd (Note VII)	Cost method	198	198	132	330	66.00	66.00	not applicable	—	—
Total			13,763	343	14,106				—	27

(1) In accordance with the YJF [2008] No.449, approved by the CBRC on 4 November 2008, the Bank has acquired 102.2 million shares of Bank of Jiujiang Co., Ltd. (refers to as Bank of Jiujiang hereafter) for the price of RMB2.9 yuan per share. As the result, the Bank holds 20% of the total shares of the Bank of Jiujiang after it expanded its share capital. In 2009, Bank of Jiujiang increases 4 shares for every 10 shares to all recorded shareholders based on the share capital by the end of August 2009 by utilizing capital reserve. The Bank currently holds 143.08 million shares of Bank of Jiujiang. In 2010, Bank of Jiujiang increases its registered capital RMB400.66 million, offered privately and subscribed in cash for the price of RMB3.3 yuan per share. The Bank has acquired 80.12 million shares. After the acquisition, the Bank holds 223.20 million shares and the proportion of equity interest remains 20% of the

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

13. LONG-TERM EQUITY INVESTMENTS - continued

total shares of the Bank of Jiujiang after it expanded its share capital. On 14 December 2011, Bank of Jiujiang increased its registered capital by RMB400 million, none of which was subscribed by the Bank, and the proportion of equity interest of the Bank was diluted to 14.72% after the capital increase. In 2016, Bank of Jiujiang issued 484 million shares through private placement. The Bank subscribed 71.2 million shares at the price of RMB 6.87 per share. After the capital increase, the proportion of shares held by the Bank remained unchanged. As at 31 December 2016, events relating to such capital increase had not yet been approved by regulatory authorities, therefore, the Bank's payment for subscription were temporarily included in other receivables. As of this report presented to the external, events relating to such capital increase have been approved by regulatory authorities and the bank's proportion remains unchanged. The equity investment is accounted for using the equity method for the Bank sent a director to the Bank of Jiujiang and has significant influence over the Bank of Jiujiang.

(2) Chongqing Machinery and Electronics Holding Group Finance Company Limited are the investees of China Industrial International Trust Limited's long-term investments. As China Industrial International Trust Limited holds 19% of the total shares and sends directors to the investee, China Industrial International Trust Limited has significant influence over Chongqing Machinery and Electronics Holding Group Finance Company Limited, therefore the equity investment is accounted by the equity method.

(3) There are no restrictions of the investees' capital transferring capacities to the Group and the Bank on 31 December 2016.

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

14. FIXED ASSETS

The Group

	Buildings	Fixed assets improvement	Office equipment	Transportation vehicles	Total
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Cost					
1/1/2016	9,481	891	6,121	1,072	17,565
Purchase	8	120	3,042	2,339	5,509
Transfers from constructions in progress	591	65	50	—	706
Sales/disposals	(227)	(17)	(337)	(348)	(929)
31/12/2016	9,853	1,059	8,876	3,063	22,851
Accumulated depreciation					
1/1/2016	1,977	371	3,596	250	6,194
Depreciation for the year	326	59	942	95	1,422
Eliminated on sales/disposals	(39)	(16)	(249)	(45)	(349)
31/12/2016	2,264	414	4,289	300	7,267
Net value					
1/1/2016	7,504	520	2,525	822	11,371
31/12/2016	7,589	645	4,587	2,763	15,584
Allowance for impairment losses					
1/1/2016	(3)	—	—	—	(3)
Charged for the year	—	—	—	—	—
Eliminated on sales/disposals	—	—	—	—	—
31/12/2016	(3)	—	—	—	(3)
Net carrying amount					
1/1/2016	7,501	520	2,525	822	11,368
31/12/2016	7,586	645	4,587	2,763	15,581

Buildings cost RMB 1,256 million are in use but the legal ownership registrations were still in process as at 31 December, 2016 (31 December 2015: RMB 512 million).

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

14. FIXED ASSETS - continued

The Bank

	Buildings	Fixed assets improvement	Office equipment	Transportation vehicles	Total
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Cost					
1/1/2016	9,448	891	6,063	416	16,818
Purchase	8	119	711	61	899
Transfers from constructions in progress	591	65	41	—	697
Sales/disposals	(227)	(17)	(337)	(53)	(634)
31/12/2016	9,820	1,058	6,478	424	17,780
Accumulated depreciation					
1/1/2016	1,971	371	3,570	202	6,114
Depreciation for the year	325	59	880	49	1,313
Eliminated on sales/disposals	(39)	(16)	(249)	(19)	(323)
31/12/2016	2,257	414	4,201	232	7,104
Net value					
1/1/2016	7,477	520	2,493	214	10,704
31/12/2016	7,563	644	2,277	192	10,676
Allowance for impairment losses					
1/1/2016	(3)	—	—	—	(3)
Charge for the year	—	—	—	—	—
Eliminated on sales/disposals	—	—	—	—	—
31/12/2016	(3)	—	—	—	(3)
Net carrying amount					
1/1/2016	7,474	520	2,493	214	10,701
31/12/2016	7,560	644	2,277	192	10,673

Buildings cost RMB 1,256 million are in use but the legal ownership registrations were still in process as at 31 December, 2016 (31 December 2015: RMB 512 million).

15. CONSTRUCTION IN PROGRESS

(1) Details of construction in progress are as follows:

The Group

	31/12/2016			31/12/2015		
	Carrying amount	Allowance for impairment loss	Net carrying amount	Carrying amount	Allowance for impairment loss	Net carrying amount
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Operating building, Lujiazui Shanghai	3,683	—	3,683	3,492	—	3,492
Operating building, Tianjin	724	—	724	699	—	699
Operating building, Head office	431	—	431	264	—	264
Operating building, Jinan	407	—	407	407	—	407
Operating building, Qingdao	390	—	390	343	—	343
Operating building, Nanjing	222	—	222	213	—	213
Others	533	—	533	1,043	—	1,043
Total	6,390	—	6,390	6,461	—	6,461

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

15. CONSTRUCTION IN PROGRESS - continued

(1) Details of construction in progress are as follows - continued:

The Bank

	31/12/2016			31/12/2015		
	Carrying amount	Allowance for impairment loss	Net carrying amount	Carrying amount	Allowance for impairment loss	Net carrying amount
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Operating building, Lujiazui Shanghai	3,683	—	3,683	3,492	—	3,492
Operating building, Tianjin	724	—	724	699	—	699
Operating building, Head office	431	—	431	264	—	264
Operating building, Jinan	407	—	407	407	—	407
Operating building, Qingdao	390	—	390	343	—	343
Operating building, Nanjing	222	—	222	213	—	213
Others	531	—	531	1,035	—	1,035
Total	6,388	—	6,388	6,453	—	6,453

(2) Significant changes in construction in progress are as follows:

The Group

	2016				
	1/1/2016	Additions	Transfer to fixed assets	Transfer to long-term prepaid expenses	31/12/2016
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Operating building, Lujiazui Shanghai	3,492	191	—	—	3,683
Operating building, Tianjin	699	25	—	—	724
Operating building, Head office	264	167	—	—	431
Operating building, Jinan	407	—	—	—	407
Operating building, Qingdao	343	47	—	—	390
Operating building, Nanjing	213	9	—	—	222
Others	1,043	538	706	342	533
Total	6,461	977	706	342	6,390

The Bank

	2016				
	1/1/2016	Additions	Transfer to fixed assets	Transfer to long-term prepaid expenses	31/12/2016
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Operating building, Lujiazui Shanghai	3,492	191	—	—	3,683
Operating building, Tianjin	699	25	—	—	724
Operating building, Head office	264	167	—	—	431
Operating building, Jinan	407	—	—	—	407
Operating building, Qingdao	343	47	—	—	390
Operating building, Nanjing	213	9	—	—	222
Others	1,035	531	697	338	531
Total	6,453	970	697	338	6,388

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

16. GOODWILL

The Group

Investee	01/01/2016	Additions	Deductions	31/12/2016	31/12/2016 Provision
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
China Industrial International Trust Limited	532	—	—	532	—

Goodwill arose from acquisition of China Industrial International Trust Limited in February 2011, and the overweight of China Industrial Future Limited by China Industrial International Trust Limited in March 2015.

At the end of the year, the Group performed impairment tests on goodwill based on expected future cash flow of the investee, applying appropriate discount rate, reflecting current time value of money and the risk of specific assets. No evidence shows that the recoverable amount of goodwill is less than the carrying amount as at December 2016, therefore no impairment is recognised.

17. DEFERRED TAX ASSET AND DEFERRED TAX LIABILITY

(1) Recognized deferred tax assets and liabilities

	The Group				The Bank			
	31/12/2016		31/12/2015		31/12/2016		31/12/2015	
	Deductible (taxable) temporary differences	Deferred tax assets (liabilities)	Deductible (taxable) temporary differences	Deferred tax assets (liabilities)	Deductible (taxable) temporary differences	Deferred tax assets (liabilities)	Deductible (taxable) temporary differences	Deferred tax assets (liabilities)
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Deferred tax assets								
Impairment losses on assets	81,995	20,499	57,420	14,355	79,544	19,886	55,664	13,916
Fair value changes of financial assets at fair value through profit or loss	412	103	256	64	412	103	240	60
Accrued but not paid employee benefits	11,757	2,940	9,504	2,376	10,951	2,738	8,860	2,215
Fair value changes of available-for-sale financial assets	46	11	—	—	—	—	—	—
Fair value changes of derivative financial instruments	287	71	—	—	287	71	—	—
Fair value changes of precious metals	695	174	1,290	323	695	174	1,290	323
Others	517	130	824	206	280	70	780	195
Deferred tax assets before offset	95,709	23,928	69,294	17,324	92,169	23,042	66,834	16,709
Deferred tax liabilities								
Fair value changes of derivative financial instruments	—	—	(3,436)	(859)	—	—	(3,436)	(859)
Difference of fixed asset impairment tax	(346)	(87)	(1)	—	(346)	(87)	(1)	—
Fair value changes of available-for-sale financial assets	(1,538)	(384)	(7,699)	(1,924)	(1,518)	(379)	(7,576)	(1,894)
Fair value changes of financial assets at fair value through profit or loss	(2)	(1)	(37)	(9)	—	—	(17)	(4)
Deferred tax liabilities before offset	(1,886)	(472)	(11,173)	(2,792)	(1,864)	(466)	(11,030)	(2,757)
Net amount after offset	93,823	23,456	58,121	14,532	90,305	22,576	55,804	13,952

The tax payment of various domestic branches of Bank can be aggregated, and the deferred tax assets and deferred tax liabilities are presented at the net amount after offset; the overseas branches being individual taxable entity, the deferred tax assets and deferred tax liabilities of the respective entity can be presented at the net amount after offset. When there is net deferred tax/liabilities in overseas branches, they are not offset against those in domestic branches. The subsidiaries of the Bank being individual taxable entity, the deferred tax assets and deferred tax liabilities of the respective entity can be presented at the net amount after offset.

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

17. DEFERRED TAX ASSET AND DEFERRED TAX LIABILITY - continued

(1) Recognized deferred tax assets and liabilities - continued

	The Group	The Bank
	2016	2016
	RMB Million	RMB Million
Opening balance of net value	14,532	13,952
- Deferred tax assets	17,324	16,709
- Deferred tax liabilities	(2,792)	(2,757)
Net changes of deferred tax recognised in income tax expenses	7,373	7,109
Net changes of deferred tax recognised in other comprehensive income	1,551	1,515
Closing balance of net value	23,456	22,576
- Deferred tax assets	23,928	23,042
- Deferred tax liabilities	(472)	(466)

(2) According to the Group's future profit forecast, the Group believes that it is probable that sufficient taxable profits will be available in future periods to offset the deductible temporary differences and deductible losses. Therefore, the Group can recognize the deferred tax assets.

18. OTHER ASSETS

	The Group		The Bank	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	RMB Million	RMB Million	RMB Million	RMB Million
Other receivables (1)	10,686	10,540	6,505	5,302
Prepaid purchase cost of finance lease assets	16,872	28,201	—	—
Foreclosed assets (2)	424	586	424	586
Items in the process of clearance and settlement	1,224	5,770	1,224	5,769
Long term prepaid expenses (3)	1,689	1,898	1,646	1,872
Net assets of defined benefit plan (Note VIII, 49.2)	673	356	673	356
Total	31,568	47,351	10,472	13,885

(1) Other receivables

Listed by aging:

	The Group				The Bank			
Account age	31/12/2016		31/12/2015		31/12/2016		31/12/2015	
	Amount	Proportion	Amount	Proportion	Amount	Proportion	Amount	Proportion
	RMB Million	(%)	RMB Million	(%)	RMB Million	(%)	RMB Million	(%)
Within 1 year	9,047	76.16	10,822	94.21	4,877	63.35	5,595	89.54
1-2 years	2,351	19.79	345	3.00	2,340	30.40	334	5.34
2-3 years	185	1.56	100	0.87	185	2.40	100	1.60
Over 3 years	296	2.49	220	1.92	296	3.85	220	3.52
Subtotal	11,879	100.00	11,487	100.00	7,698	100.00	6,249	100.00
Less: Allowance for impairment losses	(1,193)		(947)		(1,193)		(947)	
Net value	10,686		10,540		6,505		5,302	

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

18. OTHER ASSETS - continued

(2) Foreclosed assets

Analysed by category of the foreclosed assets:

The Group and the Bank

	31/12/2016	31/12/2015
	RMB Million	RMB Million
Buildings	396	298
Land use rights	48	73
Others	3	224
Subtotal	447	595
Less: Allowance for impairment losses	(23)	(9)
Net value	424	586

(3) Long term prepaid expenses

The Group

	1/1/2016	Additions	Transferred from construction in progress	Amortization	31/12/2016
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Leasehold improvements	1,814	95	324	(664)	1,569
Others	84	73	18	(55)	120
Total	1,898	168	342	(719)	1,689

The Bank

	1/1/2016	Additions	Transferred from construction in progress	Amortization	31/12/2016
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Leasehold Improvements	1,788	43	320	(625)	1,526
Others	84	73	18	(55)	120
Total	1,872	116	338	(680)	1,646

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

19. ALLOWANCE FOR IMPAIRMENT LOSSES ON ASSETS

The Group

	2016					
	1/1/2016	Charge/(Reversal)	Transfer in/(out)	Write-off	Exchange rate influence	31/12/2016
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Allowance for impairment losses on deposits with banks and other financial institutions	21	—	—	—	—	21
Allowance for impairment losses on placements with banks and other financial institutions	68	(4)	—	—	—	64
Allowance for impairment losses on loans and advances to customers	54,586	46,376	281	(28,847)	52	72,448
Allowance for impairment losses on held-to-maturity investments	130	—	—	—	9	139
Allowance for impairment losses on for available-for-sale financial assets	2,330	443	—	—	—	2,773
Allowance for impairment losses on investments classified as receivables	10,273	3,130	—	—	—	13,403
Allowance for impairment losses on finance lease receivables	2,010	950	—	—	—	2,960
Allowance for impairment losses on fixed assets	3	—	—	—	—	3
Allowance for impairment losses on foreclosed assets	9	14	—	—	—	23
Allowance for impairment losses on prepaid purchase cost of finance lease assets	742	(304)	—	—	—	438
Allowance for impairment losses on other assets	947	671	40	(465)	—	1,193
Total	71,119	51,276	321	(29,312)	61	93,465

The Bank

	2016					
	1/1/2016	Charge/(Reversal)	Transfer in/(out)	Write-off	Exchange rate influence	31/12/2016
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Allowance for impairment losses on deposits with banks and other financial institutions	21	—	—	—	—	21
Allowance for impairment losses on placements with banks and other financial institutions	68	(4)	—	—	—	64
Allowance for impairment losses on loans and advances to customers	54,505	46,272	281	(28,847)	52	72,263
Allowance for impairment losses on held-to-maturity investments	130	—	—	—	9	139
Allowance for impairment losses on available-for-sale financial assets	2,325	427	—	—	—	2,752
Allowance for impairment losses on investments classified as receivables	10,273	3,130	—	—	—	13,403
Allowance for impairment losses on fixed assets	3	—	—	—	—	3
Allowance for impairment losses on foreclosed assets	9	14	—	—	—	23
Allowance for impairment losses on other assets	947	671	40	(465)	—	1,193
Total	68,281	50,510	321	(29,312)	61	89,861

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

20. DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group		The Bank	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	RMB Million	RMB Million	RMB Million	RMB Million
Deposits from banks:				
Domestic banks	689,202	511,741	689,202	511,741
Foreign banks	53,199	35,993	53,199	35,993
Deposits from other financial institutions				
Other domestic financial institutions	978,607	1,217,979	986,298	1,220,857
Total	1,721,008	1,765,713	1,728,699	1,768,591

21. PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group		The Bank	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	RMB Million	RMB Million	RMB Million	RMB Million
Placements from:				
Domestic banks	99,999	90,365	13,776	8,760
Other domestic financial institutions	4,571	—	4,571	—
Overseas banks	25,434	13,307	24,250	11,508
Total	130,004	103,672	42,597	20,268

22. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group		The Bank	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	RMB Million	RMB Million	RMB Million	RMB Million
Trading financial liabilities: Sold financing bonds	459	—	459	—
Financial liabilities assigned as at fair value through profit or loss	35	1	—	—
Total	494	1	459	—

23. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	The Group		The Bank	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	RMB Million	RMB Million	RMB Million	RMB Million
Bonds	143,440	39,980	141,654	39,980
Bills	24,037	8,036	24,037	8,036
Total	167,477	48,016	165,691	48,016

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

24. DUE TO CUSTOMERS

The Group

	31/12/2016 RMB Million	31/12/2015 RMB Million
Demand deposits		
Corporate	969,658	868,426
Personal	215,305	194,817
Subtotal	1,184,963	1,063,243
Term deposits (including call deposits)		
Corporate	1,176,856	973,107
Personal	135,561	175,994
Subtotal	1,312,417	1,149,101
Guaranteed and margin deposits	194,657	268,879
Others	2,714	2,700
Total	2,694,751	2,483,923

Analysed by business/products for which guaranteed and margin deposits are required:

	31/12/2016 RMB Million	31/12/2015 RMB Million
Bank acceptances	106,059	157,023
Letters of credit	16,328	19,799
Guarantee	11,004	13,551
Others	61,266	78,506
Total	194,657	268,879

The Bank

	31/12/2016 RMB Million	31/12/2015 RMB Million
Demand deposits		
Corporate	969,750	868,426
Personal	215,305	194,817
Subtotal	1,185,055	1,063,243
Term deposits (including call deposits)		
Corporate	1,176,856	973,107
Personal	135,561	175,994
Subtotal	1,312,417	1,149,101
Guaranteed and margin deposits	194,657	268,879
Others	2,714	2,700
Total	2,694,843	2,483,923

Analysed by business/products for which guaranteed and margin deposits are required:

	31/12/2016 RMB Million	31/12/2015 RMB Million
Bank acceptances	106,059	157,023
Letters of credit	16,328	19,799
Guarantee	11,004	13,551
Others	61,266	78,506
Total	194,657	268,879

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

25. EMPLOYEE BENEFITS PAYABLE

	The Group				The Bank			
	1/1/2016	Increase	Decrease	31/12/2016	1/1/2016	Increase	Decrease	31/12/2016
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Salaries and bonus	9,994	17,370	(15,136)	12,228	9,253	16,233	(14,366)	11,120
Labour union expenditure and staff educational funds	1,084	702	(441)	1,345	1,066	670	(425)	1,311
Social insurance	57	1,557	(1,447)	167	45	1,435	(1,332)	148
Housing funds	43	877	(875)	45	38	838	(835)	41
Defined contribution plans	84	2,011	(1,964)	131	82	1,958	(1,928)	112
Total	11,262	22,517	(19,863)	13,916	10,484	21,134	(18,886)	12,732

The salaries, bonus, retirement benefits and other social insurance of employee benefits payable are granted or paid according to time limit set by relevant laws, regulations and the Group's policies. See defined contribution pension plans in Note VIII, 49.1,

26. TAX PAYABLE

	The Group		The Bank	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	RMB million	RMB million	RMB million	RMB million
Income tax	11,077	7,116	10,413	6,516
Value added tax	132	2	136	2
Business tax	—	3,071	—	2,978
City maintenance and construction tax	22	216	18	209
Others	257	397	242	365
Total	11,488	10,802	10,809	10,070

27. INTEREST PAYABLE

	The Group		The Bank	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	RMB million	RMB million	RMB million	RMB million
Interest borrowing from Central Bank	1,565	604	1,565	604
Interest deposits from banks and other financial institutions	6,087	7,035	6,092	7,048
Interest of placements from banks and other financial institutions	732	637	200	49
Interest of debt securities issued	4,309	2,775	4,233	2,704
Interest of financial assets sold under repurchase agreements	200	63	200	63
Interest due to customers	22,679	25,207	22,679	25,207
Others	328	122	326	121
Total	35,900	36,443	35,295	35,796

28. DEBT SECURITIES ISSUED

	The Group		The Bank	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	RMB million	RMB million	RMB million	RMB million
Long term subordinated bonds	20,951	20,952	20,951	20,952
Financial bonds	91,704	72,908	86,816	67,927
Secondary capital bonds	49,925	19,969	49,925	19,969
Hybrid capital bonds	—	4,000	—	4,000
Non-negotiable certificates of deposit	536,722	293,996	536,722	293,996
Certificates of deposit	13,810	3,009	13,810	3,009
Asset-backed securities	854	—	—	—
Total	713,966	414,834	708,224	409,853

Debt securities issued by the Group include long-term subordinated bonds, financial bonds, secondary capital bonds, hybrid capital bonds and certificates of deposit. The hybrid capital bonds are issued to meet

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

28. DEBT SECURITIES ISSUED - continued

the requirement of hybrid capital instrument (debt, equity) according to the Basel Capital Accord, whose liquidation sequence is behind subordinated debts; Secondary capital bonds are issued by commercial banks to supply the secondary capital. The secondary capital bonds and the long term subordinated bonds are in the same liquidation sequence; sequence of hybrid capital bonds is behind them.

Detailed information for debt securities issued as follows:

Category of bonds	Issuing date	Interest payment frequency	The Group	The Bank
			31/12/2016	31/12/2016
			RMB million	RMB million
Long-term subordinate bonds				
09 CIB 02 [(1)]	09/09/2009	Yearly	7,995	7,995
10 CIB debt [(2)]	29/03/2010	Yearly	3,000	3,000
11 CIB subordinated debt [(3)]	28/06/2011	Yearly	10,000	10,000
Less: unamortized issuance cost			(44)	(44)
Subtotal			20,951	20,951
Financial bonds				
15 CIB 01 [(4)]	19/01/2015	Yearly	30,000	30,000
15 CIB leasing debt 01 [(5)]	08/06/2015	Yearly	1,900	—
15 CIB leasing debt 02 [(5)]	20/10/2015	Yearly	3,000	—
16 CIB green financial bond 01 [(6)]	28/01/2016	Yearly	10,000	10,000
16 CIB green financial bond 02 [(6)]	14/07/2016	Yearly	20,000	20,000
USD medium-term notes [(7)]	21/09/2016	Half-year	4,856	4,856
USD medium-term notes [(7)]	21/09/2016	Half-year	2,081	2,081
16 CIB green financial bond 03 [(6)]	15/11/2016	Yearly	20,000	20,000
Less: unamortized issuance cost			(133)	(121)
Subtotal			91,704	86,816
Secondary capital bonds				
14 CIB secondary [(8)]	18/06/2014	Yearly	20,000	20,000
16 CIB secondary [(9)]	11/04/2016	Yearly	30,000	30,000
Less: unamortized issuance cost			(75)	(75)
Subtotal			49,925	49,925

Type-continued	The Group	The Bank
	31/12/2016 RMB million	31/12/2016 RMB million
Non-negotiable certificates of deposit		
Carrying value of Non-negotiable certificate of deposit [(10)]	542,551	542,551
Less: unamortized issuance cost	(5,829)	(5,829)
Subtotal	536,722	536,722
Certificate of deposit		
Carrying value of certificate of deposit [(11)]	13,778	13,778
Accrued interest	58	58
Less: unamortized issuance cost	(26)	(26)
Subtotal	13,810	13,810
Asset-backed securities		
Jinxin 2016 Series 1 leasing asset-backed security [(12)]	501	—
CIB trust•Xingxin series 1 asset-backed special plan [(13)]	353	—
Subtotal	854	—
Total	713,966	708,224

(1) In September 2009, the Group issued RMB 7,995 million subordinated bonds with a 15-year maturity, a fixed interest rate and a redemption option in the end of the tenth year. The annual coupon rate in first ten interest-bearing years is 5.17%, and the rate in late five years is 8.17% if the issuer does not exercise the option of redemption.

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

28. DEBT SECURITIES ISSUED - continued

(2) In March 2010, the Group issued RMB 3,000 million subordinated bond with a 15-year maturity, a fixed interest rate and a redemption right in the end of the tenth year. The annual coupon rate in first ten interest-bearing years is 4.80%, and the rate in late five years is 7.80% if the issuer does not exercise the option of redemption.

(3) In June 2011, the Group issued RMB 10,000 million subordinated bond with a 15-year maturity, a fixed interest rate and a redemption right in the end of the tenth year. The annual coupon rate is 5.75% consistently.

(4) The Group issued RMB 30 billion of 3-year fixed interest rate RMB financial bonds in January 2015. The annual interest rate is 4.95%.

(5) The subsidiary China Industrial Finance Leasing Limited issued RMB 2 billion of 3-year fixed interest rate RMB financial bonds in June 2015 and RMB3 billion in October 2015. The annual interest rate is 4.2% and 3.75% respectively. As at 31 December 2016, the Bank held the “15 CIB leasing debt 01” amounting RMB 100 million issued by Industrial Bank Financial Leasing Co., Ltd.

(6) In January 2016, July 2016 and November 2016, the Group respectively issued green financial bonds of 3-year bonds amounting RMB 10,000 million, 3-year bonds amounting RMB 20,000 million and 5-year bonds amounting RMB 20 billion with fixed rate of 2.95%, 3.20% and 3.40%.

(7) In September 2016, the Group set the medium-term notes issuing plan with limit of USD 5 billion at The Stock Exchange of Hong Kong Ltd.. According to the plan, the Hong Kong branch of the Bank initially issued 3-year medium-term notes amounting USD 700 million and 5-year medium-term notes amounting USD 300 million at fixed annual rate of 2.00% and 2.375% respectively. The annual rate kept constant during the existence of bonds.

(8) In June 2014, the Group issued RMB 20,000 million subordinated bond with a 10-year maturity, a fixed interest rate and a redemption right in the end of the fifth year. The annual coupon rate is 6.15% consistently.

(9) In April 2016, the Group issued RMB 30,000 million subordinated bond with a 10-year maturity, a fixed interest rate and a redemption right at the end of the fifth year. The annual coupon rate is 3.74% consistently.

(10) As at 31 December 2016, the Bank had 374 unpaid Non-negotiable deposits with total amount of RMB 542,551 million, including 3 USD Non-negotiable deposits, of which the issued par value was USD 140 million (RMB 971 million) and the terms are less than 3 months; 371 RMB Non-negotiable deposits, of which the issued par value is RMB 541,580 million, with RMB 524,280 million due within 1 year and the rest due in 2 to 3 years. The annual rate is 2.73% to 4.80%. Except for interest of 50 interest-bearing debts being paid quarterly, the interest of rest is paid upon maturity.

(11) As at 31 December 2016, Hong Kong branch owned 34 unpaid Non-negotiable certificates of deposit, of which the amount was RMB 13,778 million and terms are all less than 1 year. The amount of 14 HKD certificates was HKD 3,770 million (RMB 3,372 million); the amount of 19 USD certificates was USD 1,428 million (RMB 9,906 million). 1 RMB certificate with issued par value of RMB500 million. The annual interest rate was between 0.90% and 4%. The interest of all certificates is paid upon maturity.

(12) The Group’s subsidiary, Industrial Bank Financial Leasing Co., Ltd. issued “Jin Xin 2016 Series 1 leasing asset-backed security” amounting RMB 2,156 million in September 2016. As at 31 December 2016, the existing amount of “Jin Xin 2016 Series 1 leasing asset-backed security” is RMB1, 197 million, including RMB 239 million held by the initiator, Industrial Bank Financial Leasing Co., Ltd. and RMB 457 million held by the Bank. The amount held by the initiator and the bank has been offset in the consolidated financial statements.

(13) In December 2016, the Group’s subsidiary, China Industrial International Trust Limited issued “CIB Trust•Xingxin Series 1 Asset-backed Special Plan” amounting RMB 1,424 million, including RMB71 million held by the initiator, China Industrial International Trust Limited and RMB 1,000 million held by the Bank. The amount held by the initiator and the bank has been offset in the consolidated financial statements.

29. OTHER LIABILITIES

	The Group		The Bank	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	RMB million	RMB million	RMB million	RMB million
Bank promissory notes	1,021	3,207	1,021	3,207
Items in the process of clearance and settlement	1,980	2,739	1,980	2,739
Dividend payables	1	9	1	9
Wealth management and entrusted investment fund	138	733	138	733
Deferred income	3,175	2,973	1,125	806
Other payables	21,687	18,913	7,467	6,496
Total	28,002	28,574	11,732	13,990

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

30. SHARE CAPITAL

The Group and the Bank

	1/1/2016	Change for the year	31/12/2016
	RMB million	RMB million	RMB million
Shares without limited sales restrictions			
RMB ordinary shares (A shares)	16,179	2,873	19,052
Shares with limited sales restrictions			
RMB ordinary shares (A shares)	2,873	(2,873)	—
Total shares	19,052	—	19,052

As at 31 December 2016, the share capital of the Bank is RMB19,052 million (31 December 2015: RMB19,052 million) with par value of RMB 1 Yuan per share.

31. OTHER EQUITY INSTRUMENTS

The Bank are approved by CSRC to non-publicly issue domestic preference shares no further than RMB 26 billion on 24/11/2014, in which RMB 13 billion is initially issued with face value of RMB 100 per share and completed in December 2014, which was verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP In June 2015, the Bank issued the second term of non-publicly domestic preference shares for RMB 13 billion, with face value of RMB 100 per share, which was verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP The Bank completed the issue of RMB 26 billion domestic preference shares, approved in November 2014, successfully in June 2015.

Outstanding preference shares in the end of the year are as follows:

The Group and the Bank

Outstanding financial Instrument	Time	Classification	Rate	Price	Quantity	Amount	Maturity Date	Conversion requirement	Condition
				RMB/Share	RMB Million Share	RMB million			
Preference shares	12/2014	Equity instrument	Note 1	100	130	13,000	N/A	Note 3	N/A
Preference shares	06/2015	Equity instrument	Note 2	100	130	13,000	N/A	Note 3	N/A

Note 1: For the first issue of the preference shares, every five year is an interest-bearing cycle from the payment deadline 8 December 2014, the dividend rate is the same in every interest-bearing cycle. The dividend rate of first cycle is determined to be 6.00% through inquiring, by the Board of Directors in according with the shareholders' meeting authorized combining with some factors such as national policy when issued, market conditions, specific circumstances of the Bank and requirements of investors. The dividend rate of preference shares of this issue is not higher than annual weighted average ROE of ordinary shareholders in the last two fiscal years. The dividend rate of preference shares of this issue is the sum of benchmark interest rate and basic interest rate, the benchmark interest rate of the first interest-bearing cycle is national debt (which period before payment is for 5 years)YTM's arithmetic mean (i.e. 3.45%, rounded off to 0.01%), from the fixed-rate national debt yield curve in Bank Debt published by China Bond Information Website (or any other websites approved by Central Securities Depository Trust and Clearing Corporation Limited), 20 days before 8 December 2014 which is the date of the deadline for payment of preference shares issued (excluding the day). The benchmark interest rate adjusts every 5 years from the deadline for payment of preference shares issued. The basic interest rate is the dividend rate of first cycle deducting the benchmark interest rate, which is 2.55%. The basic interest rate will no longer be adjusted since the issue of determining. The coupon interest rate of follow-up period is current dividend benchmark interest rate plus an interest margin, the benchmark interest rate of current interest-bearing cycle is national debt (which period before payment is for 5 years)YTM's arithmetic mean (rounded off to 0.01%), from the fixed-rate national debt yield curve in Bank Debt published by China Bond Information Website (or any other websites approved by Central Securities Depository Trust and Clearing Corporation Limited), 20 days before benchmark interest rate adjustment date which is the date of each 5 years of the deadline for payment of preference shares issued (which is 8 December). If the YTM of 5-year treasury bonds with 5-year maturity is not available on the benchmark interest adjustment day, the benchmark interest rate or determination principal will be determined under negotiations between the Bank and investors required by regulator.

Note 2: For the second issue of preference shares, every five year is an interest-bearing cycle from the payment deadline 24 June 2015, the dividend rate is the same in every interest-bearing cycle. The dividend rate of first cycle is determined to be 5.40% through inquiring, by the Board of Directors in according with the shareholders' meeting authorized combining with some factors such as national policy when issued, market conditions, specific circumstances of the Bank and requirements of investors. The dividend rate of preference shares of this issue is not higher than annual weighted average ROE of ordinary shareholders in the last two fiscal years. The dividend rate of preference shares of this issue is the sum of benchmark interest rate and basic interest rate, the benchmark interest rate of the first interest-bearing cycle is national debt (which period before payment

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

31. OTHER EQUITY INSTRUMENTS - continued

The Group and the Bank - continued

is for 5 years)YTM's arithmetic mean (i.e. 3.25%, rounded off to 0.01%), from the fixed-rate national debt yield curve in Bank debt published on www.chinabond.com.cn (or any other websites approved by Central Securities Depository Trust and Clearing Corporation Limited), 20 days before 24 June 2015 which is the date of the deadline for payment of preference shares issued (excluding the day).

The benchmark interest rate adjusts every 5 years from the deadline for payment of preference shares issued. The basic interest rate is the dividend rate of first cycle deducting the benchmark interest rate, which is 2.15%. The basic interest rate will no longer be adjusted since the issue of determining. The coupon interest rate of follow-up period is current dividend benchmark interest rate plus an interest margin, the benchmark interest rate of current interest-bearing cycle is national debt (which period before payment is for 5 years)YTM's arithmetic mean (rounded off to 0.01%), from the fixed-rate national debt yield curve in Bank Debt published on www.chinabond.com.cn (or any other websites approved by Central Securities Depository Trust and Clearing Corporation Limited), 20 days before benchmark interest rate adjustment date which is the date of each 5 years of the deadline for payment of preference shares issued (which is 24 June). If the YTM of 5-year national debt with 5-year maturity is not available on the benchmark interest adjustment day, the benchmark interest rate or determination principal will be determined under negotiations between the Bank and investors required by regulator.

Note 3: (1) When the Bank's core tier one capital adequacy ratio fell to 5.125%, the preference shares of this issue will be examined and decided by the CBRC in accordance with the relevant requirements of, in accordance with the full mandatory conversion price into ordinary shares of the Bank, when the preference shares converted into A shares of ordinary share, under any conditions no longer be restored to preference shares.

(2) When triggered event of the secondary capital instruments issued by the Bank occurs, the preference shares of this issue will be examined and decided by the CBRC in accordance with the relevant requirements of, in accordance with the full mandatory conversion price into ordinary shares of the Bank, when the preference shares converted into A shares of ordinary share, under any conditions no longer be restored to preference shares. Among them, the secondary capital instruments triggering event is the earlier of the following two situations: ① the CBRC identifies if it was not conversion or written down, the Bank will be unable to survive; ② Relevant departments identify if the public sectors don't inject or offer the same effect support, the Bank will not survive.

The principal terms of disclosure (applicable to first and second issue of domestic preference shares):

The Bank will pay preferred dividends in cash. The preference shares of this issue use a non-cumulative dividend payment, which means dividend that is not paid in full to preference shareholders do not accrue interest to next year. After the preference shareholders of this issue obtain distribution in accordance with the agreed dividend rate, they can no longer participate in the distribution of profits remaining.

Under the premise of ensuring the capital adequacy ratio from the regulatory requirements, after the Bank covers losses, extracts mandatory reserve and other reserve, under the case of there still is retained earnings in the Bank's financial statements calibre, the Bank could allocate dividends to preference shareholders. The priority of preference shareholders dividends is higher than ordinary shareholders, payment of preference shares dividends is neither linked to ratings of banks, nor adjusted with the rating changes. The Bank could cancel payment of dividend in any case, and it does not constitute an event of default. The Bank can freely cancel the dividends distribution without constituting a breach of contract. The Bank is entitled to arrange cancelled income as payment to other debts with maturity. Cancelling paying dividend shall not constitute any further restrictions on the Bank except income distribution of ordinary shares. When the Bank exercises these rights, it will take full account into the interests of preference shareholders. If payment of dividend for preference shareholders is all or part cancelled, the Bank shall not pay ordinary share dividend for the fiscal year.

The right of redemption for preference shares of this issue belongs to the Bank, the Bank exercised the right of conditional redemption is under the premise of the CBRC's approval, the Bank's preference shareholders do not have the right to request redemption of preference shares and should not form expectations that the preference shares will be redeemed.

The initial mandatory conversion price of the preference shares of this issue is the Bank A shares of ordinary share trading price on the date of 20 days before consideration by the Board of Directors of this preference shares issued, which means that mandatory initial conversion price of preference shares of this issue is RMB9.86 / share. Since the day that the issuance of preference shares program is passed by the Bank's Board of Directors, when the Bank shares change with the delivery of the stock dividend, share capital, issuance of new shares (not including any increasing share capital from conversion of financing instruments with terms that could be converted to ordinary shares) or the allotment of shares, the preference shares will be cumulatively adjusted in turn the forced conversion price in accordance with the established formula , and disclose relevant information in accordance with the provisions.

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

31. OTHER EQUITY INSTRUMENTS - continued

The Bank's preference shareholders are entitled with priority to ordinary shareholders of the remaining property dividing, the amount paid off is the sum of the neither cancelled nor distributed dividends and the total nominal amount of the held preference shares; if it could not cover, then assign by the preference shareholders in proportion to their shareholding.

As of 30 June 2015, the Bank's net proceeds of RMB 25,905 million dollars have been all used to supplement the first level capital.

Changes of outstanding preference shares are as follows:

The Group and the Bank

	1/1/2016		Addition		Less		31/12/2016	
	Quant	Carrying value	Quantity	Carrying value	Quantity	Carrying value	Quantity	Carrying value
	Million	RMB Million	Million	RMB Million	Million	RMB Million	Million	RMB Million
Preference shares	260	26,000	—	—	—	—	260	26,000
Fees		(95)		—		—		(95)
Total	260	25,905	—	—	—	—	260	25,905

Attributing to holders of equity instrument

The Group

	31/12/2016	31/12/2015
	RMB Million	RMB Million
Equities attributable to equity holders of parent company		
Equities attributable to ordinary shareholders of parent company	324,224	287,743
Equities attributable to other equity holders of parent company	25,905	25,905
Net profit	1,147	51
Total comprehensive income	1,147	51
Distributed dividend of the period	(1,147)	(51)
Accumulated retained dividend	—	—
Equities attributable to non-controlling interests in equity	4,281	3,729

32. CAPITAL RESERVE

	The Group				The Bank			
	1/1/2016	Increase	Decrease	31/12/2016	1/1/2016	Increase	Decrease	31/12/2016
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Share premium	50,828	—	—	50,828	51,048	—	—	51,048
Others	33	—	—	33	33	—	—	33
Total	50,861	—	—	50,861	51,081	—	—	51,081

33. SURPLUS RESERVE

The Group and the Bank

	12/31/206	31/12/2015
	RMB million	RMB million
Statutory surplus reserve	9,527	9,527
Discretionary surplus reserve	297	297
Total	9,824	9,824

33. SURPLUS RESERVE - continued

Under relevant PRC law, the Bank is required to transfer 10% of its net profit to a non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of this reserve has reached 50% of share capital. As of 31 December 2016, the Bank ceases to make appropriations as the statutory surplus reserves have reached 50% of the share capital of the Bank.

34. GENERAL AND REGULATION RESERVE

	The Group		The Bank	
	2016	2015	2016	2015
	RMB Million	RMB Million	RMB Million	RMB Million
General and regulatory reserve	69,878	60,665	67,744	59,217

Pursuant to (CJ[2012] No. 20) *Measures on General Provision for Bad and Doubtful Debts for Financial Institutions* promulgated by the MOF, the Bank is required to transfer certain percentage of its net profit to establish and maintain a general reserve within shareholders' equity, through the appropriation of profit to address unidentified potential impairment losses. In principle, the general and regulatory reserve, accounted as profit distribution, should not be lower than 1.5% of the closing balance of gross risk-bearing assets since it is a part of shareholders' equity. Gross risk-bearing assets, include loans and advances to customers, available-for-sale financial assets, held-to-maturity investments, investments classified as receivables, long-term equity investments, deposits with banks and other financial institutions, placements with banks and other financial institutions, foreclosed assets and other receivables and so forth. As at 31 December 2016, the balance of the provision of general risk is 1.5% of the balance of risk-bearing assets at the end of the year. The subsidiaries of the Bank determine the general and regulatory reserve according to the regulation.

35. RETAINED EARNINGS

	The Group		The Bank	
	2016	2015	2016	2015
	RMB million	RMB million	RMB million	RMB million
Opening balance	141,656	119,607	135,478	115,683
Net profit for the year	53,850	50,207	50,974	47,880
Appropriations to general and regulatory reserve	(9,213)	(17,247)	(8,527)	(17,174)
Dividends distribution of ordinary shares	(11,622)	(10,860)	(11,622)	(10,860)
Dividends distribution of preference shares	(1,147)	(51)	(1,147)	(51)
Closing balance	173,524	141,656	165,156	135,478

(1) "2016 Profit Distribution Proposal of the Bank" was approved by the Board of Directors on 27 April 2017 and submitted for approval by the annual general meeting:

(i) Appropriate of RMB 8,527 million to general and regulation reserve. As at 31 December 2016, the general and regulation reserve recommended to transfer has been included in the general and regulation reserve.

(ii) Distribute a cash dividend of RMB 6.1, per 10 shares (tax inclusive) on the basis of 20,774,190,751 ordinary shares of the Bank when this report is presented.

(iii) The interest period of preference shares issued in 2014 is from 1 January 2016 to 31 December 2016 (the annual dividend rate is 6%), the interest period of preference shares issued in 2015 is from 1 January 2016 to 31 December 2016 (the annual dividend rate is 5.4%), the preferred dividends payable is RMB 1,482 million in total.

The profit distribution plan above has not been approved by the Annual General Meeting of the Bank. The accounting treatment of dividend distribution scheme before the approval is not carried out.

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

35. RETAINED EARNINGS - continued

(2) "2015 Profit Distribution Proposal of the Bank" was approved on 23 May 2016 on the Annual General Meeting of the Bank and by the Board of directors meeting on 27 April 2016, the detailed plan are as follows:

(i) Appropriate of RMB17,174 million to general and regulation reserve. As at 31 December 2015, the general and regulation reserve recommended to transfer has been included in the general and regulation reserve.

(ii) Distribute a cash dividend of RMB 6.10 per 10 shares (tax inclusive) on the basis of 19,052,336,751 ordinary shares of the Bank at the end of 2015.

(iii) The interest period of preference shares issued in 2014 is from 1 January 2015 to 31 December 2015 (the annual dividend rate is 6%), the interest period of preference shares issued in 2015 is from 24 June 2015 to 31 December 2015(the annual dividend rate is 5.4%), the preferred dividends payable is RMB 1,147 million in total.

As at 31 December 2016, the above-mentioned dividend distribution scheme has been done.

(3) Surplus reserves appropriated by subsidiaries

As at 31 December 2016, the balance of the Group's retained earnings contained surplus reserves appropriated by subsidiaries: RMB 1,074 million (31 December 2015: RMB 801 million).

36. NET INTEREST INCOME

	The Group		The Bank	
	2016	2015	2016	2015
	RMB million	RMB million	RMB million	RMB million
Interest income				
Balances with Central Bank	5,898	6,497	5,898	6,496
Deposits with banks and other financial institutions	2,052	3,894	1,577	3,852
Placements with banks and other financial institutions	1,132	2,095	1,363	2,170
Financial assets held under resale agreements	4,511	27,382	4,450	27,380
Loans and advances to customers	95,505	101,750	94,845	101,568
Including: Corporate	63,544	74,198	63,558	74,192
Personal	29,346	25,599	28,672	25,423
Discounted bills	2,615	1,953	2,615	1,953
Bonds and other investment	121,147	108,019	119,355	107,315
Finance lease	4,923	5,367	—	—
Others	1,111	968	894	968
Total	236,279	255,972	228,382	249,749
Interest expense:				
Borrowing from Central Bank	(3,972)	(1,801)	(3,972)	(1,801)
Deposits from banks and other financial institutions	(49,291)	(57,897)	(49,360)	(57,978)
Placements from banks and other financial institutions	(3,605)	(3,785)	(641)	(243)
Financial assets sold under repurchase agreements	(2,058)	(2,427)	(2,022)	(2,420)
Due to customers	(42,313)	(57,422)	(42,313)	(57,422)
Debt securities issued	(22,569)	(12,673)	(22,362)	(12,602)
Others	(152)	(133)	(41)	(42)
Total	(123,960)	(136,138)	(120,711)	(132,508)
Net interest income	112,319	119,834	107,671	117,241
Including: Interest income accrued on impaired financial assets	1,133	907	1,133	907

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

37. NET FEE AND COMMISSION INCOME

	The Group		The Bank	
	2016	2015	2016	2015
	RMB million	RMB million	RMB million	RMB million
Fee and commission income Settlement and clearing fee	814	658	814	658
Bank card fee	7,947	6,376	7,947	6,376
Agency fee	4,537	3,394	4,517	3,394
Credit commitment fee	1,551	1,787	1,551	1,787
Transactional service fee	290	198	290	198
Custodian fee	4,345	4,316	4,345	4,316
Consultancy and advisory fee	15,243	13,242	14,346	12,443
Trust service fee	1,847	1,631	—	—
Lease service fee	1,086	931	—	—
Others	1,022	1,059	965	1,028
Subtotal	38,682	33,592	34,775	30,200
Fee and commission expense				
Settlement and clearing expenses	(427)	(90)	(427)	(89)
Bank card expenses	(1,200)	(736)	(1,200)	(735)
Inter-bank expenses	(26)	(57)	(26)	(57)
Others	(477)	(519)	(583)	(533)
Subtotal	(2,130)	(1,402)	(2,236)	(1,414)
Net fee and commission income	36,552	32,190	32,539	28,786

38. INVESTMENT INCOME

	The Group		The Bank	
	2016	2015	2016	2015
	RMB million	RMB million	RMB million	RMB million
Precious metal	8,361	(1,589)	8,361	(1,589)
Financial assets at fair value through profit of loss	4,162	736	4,641	474
Derivative financial instruments	(4,449)	1,757	(4,449)	1,757
Available-for-sale financial assets	3,496	2,323	3,808	2,131
Long-term equity investments (equity method)	246	275	238	263
Long-term equity investments (cost method)	—	—	—	219
Financial liabilities at fair value through profit of loss	20	(20)	20	(20)
Total	11,836	3,482	12,619	3,235

39. GAINS (LOSSES) FROM CHANGES IN FAIR VALUE

	The Group		The Bank	
	2016	2015	2016	2015
	RMB million	RMB million	RMB million	RMB million
Precious metals	595	(1,311)	595	(1,311)
Financial assets at fair value through profit of loss	(627)	(109)	(172)	(93)
Derivative financial instruments	(3,723)	2,781	(3,723)	2,781
Financial liabilities at fair value through profit of loss	(1)	17	(1)	17
Total	(3,756)	1,378	(3,301)	1,394

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

40. BUSINESS TAXES AND SURCHARGES

	The Group		The Bank	
	2016	2015	2016	2015
	RMB million	RMB million	RMB million	RMB million
Business tax	4,132	11,516	3,943	11,230
City maintenance and construction tax	697	813	658	784
Education surcharge	471	517	443	496
Others	367	109	356	107
Total	5,667	12,955	5,400	12,617

41. GENERAL AND ADMINISTRATIVE EXPENSES

	The Group		The Bank	
	2016	2015	2016	2015
	RMB million	RMB million	RMB million	RMB million
Employee benefits	22,517	19,784	21,134	18,789
Depreciation and amortization	2,230	1,937	2,074	1,890
Lease expenses	2,741	2,608	2,631	2,525
Others	8,913	8,520	8,514	8,234
Total	36,401	32,849	34,353	31,438

42. IMPAIRMENT LOSSES ON ASSETS

	The Group		The Bank	
	2016	2015	2016	2015
	RMB million	RMB million	RMB million	RMB million
Loans and advances to customers	46,376	37,093	46,272	37,013
Investments classified as receivables	3,130	5,039	3,130	5,039
Available-for-sale financial assets	443	1,095	427	1,097
Finance lease receivables	950	425	—	—
Others	377	1,608	681	1,084
Total	51,276	45,260	50,510	44,233

43. NON-OPERATING INCOME

	The Group		The Bank	
	2016	2015	2016	2015
	RMB million	RMB million	RMB million	RMB million
Gains from disposal of non-current assets	39	9	38	9
Including: Gains from disposal of fixed assets	39	1	38	1
Gains from disposal of foreclosed assets	—	8	—	8
Penalties and fines received	42	27	42	27
Gains from dormant accounts	13	6	13	6
Government grants	340	334	109	57
Others	235	185	212	179
Total	669	561	414	278

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

44. NON-OPERATING EXPENSES

	The Group		The Bank	
	2016	2015	2016	2015
	RMB million	RMB million	RMB million	RMB million
Losses on disposal of non-current assets	12	—	12	—
Including: Losses on disposal of fixed assets	1	—	1	—
Losses on disposal of foreclosed assets	11	—	11	—
Donation expenses	32	40	30	39
Penalties and fines paid	35	26	35	26
Others	47	61	44	57
Total	126	127	121	122

45. INCOME TAX EXPENSES

	The Group		The Bank	
	2016	2015	2016	2015
	RMB million	RMB million	RMB million	RMB million
Current income tax	17,175	16,911	15,830	15,730
Deferred income tax	(7,373)	(4,423)	(7,109)	(4,215)
Adjustment in respect of income tax of prior year	(204)	106	(203)	106
Total	9,598	12,594	8,518	11,621

The tax charges can be reconciled to the profit as follows:

	The Group		The Bank	
	2016	2015	2016	2015
	RMB million	RMB million	RMB million	RMB million
Accounting profit	63,925	63,244	59,492	59,501
Tax calculated at applicable statutory tax rate of 25%	15,981	15,811	14,873	14,875
Adjustments:				
Income not subject to tax	(6,341)	(3,549)	(6,302)	(3,579)
Items not deductible for tax purposes	162	226	150	219
Adjustment in respect of income tax of prior year	(204)	106	(203)	106
Total	9,598	12,594	8,518	11,621

46. EARNINGS PER SHARE

The Group

	2016	2015
Current net profit attributable to ordinary shareholders of the Bank (RMB million)	52,703	50,156
Weighted average ordinary shares issued by the Bank (shares in million)	19,052	19,052
Basic and diluted earnings per share (RMB)	2.77	2.63

The RMB 26,000 million preference shares of the Bank approved in November 2014 were successfully issued in June 2015. When calculating the earnings per share, the current net profit attributed to ordinary shareholders did not include preference shares dividends announced of insurance. In addition, it had no influence on basic earnings per share and diluted earnings per share in 2016 and 2015.

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

47. OTHER COMPREHENSIVE INCOME

The Group

	31/12/2015	2016 Amount incurred before income tax	2016 Other comprehensive income transferred to profit and loss	2016 Income tax expense	2016 Belong to shareholders of the bank after tax	2016 Belong to non-controlling interests after tax	31/12/2016
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Other comprehensive income that will not be subsequently classified to profit and loss							
Including: Actuarial profits/losses on defined benefit plans	(57)	27	—	—	27	—	(30)
Subtotal	(57)	27	—	—	27	—	(30)
Other comprehensive income that may be subsequently classified to profit and loss							
Including: Profit and loss arising from changes in fair value of available-for-sale financial assets	5,746	(4,618)	(1,588)	1,551	(4,627)	(28)	1,119
Shares of other comprehensive income of associates and joint ventures accounted for under equity method	(4)	—	—	—	—	—	(4)
Subtotal	5,742	(4,618)	(1,588)	1,551	(4,627)	(28)	1,115
Total	5,685	(4,591)	(1,588)	1,551	(4,600)	(28)	1,085

The Bank

	12/31/2015	2016 Amount incurred before income tax	2016 Other comprehensive income transferred to profit and loss	2016 Income tax expense	31/12/2016
	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million
Other comprehensive income that will not be subsequently classified to profit and loss					
Including: Actuarial profits/losses on defined benefit plans	(57)	27	—	—	(30)
Subtotal	(57)	27	—	—	(30)
Other comprehensive income that may be subsequently classified to profit and loss					
Including: Profit and loss arising from changes in fair value of available-for-sale financial assets	5,684	(4,545)	(1,515)	1,515	1,139
Shares of other comprehensive income of associates and joint ventures accounted for under equity method	(4)	—	—	—	(4)
Subtotal	5,680	(4,545)	(1,515)	1,515	1,135
Total	5,623	(4,518)	(1,515)	1,515	1,105

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

48. SUPPLEMENTARY INFORMATION TO THE CASH FLOW STATEMENT

(1) Supplementary information to the cash flow statement

	The Group		The Bank	
	2016	2015	2016	2015
	RMB million	RMB million	RMB million	RMB million
1. Reconciliation of net profit to cash flows from operating activities				
Net profit	54,327	50,650	50,974	47,880
Add: Impairment losses on assets	51,276	45,260	50,510	44,233
Depreciation of fixed assets	1,422	1,260	1,313	1,207
Amortization of intangible assets	89	75	81	71
Amortization of long-term prepaid expenses	719	622	680	612
Gains from disposal of fixed assets, intangible assets and other long-term assets	(27)	(9)	(26)	(9)
Interest income of bonds and other investments	(121,147)	(108,019)	(119,355)	(107,315)
Interest income of impairment financial assets	(1,133)	(907)	(1,133)	(907)
Gains (losses) from changes in fair value	3,756	(1,378)	3,301	(1,394)
Investment income	(11,836)	(3,482)	(12,619)	(3,235)
Interest expense for debt securities issued	22,569	12,673	22,362	12,602
Increase in deferred tax assets	(6,593)	(5,047)	(6,333)	(4,839)
Increase (decrease) in deferred tax liabilities	(780)	624	(776)	624
(Increase) decrease in receivables of operating activities	(203,515)	255,601	(201,006)	256,383
Increase in payables of operating activities	413,890	570,770	422,916	574,866
Net cash flow from operating activities	203,017	818,693	210,889	820,779
2. Changes in cash and cash equivalents				
Closing balance of cash and cash equivalents	433,063	312,352	465,783	310,026
Less: opening balance of cash and cash equivalents	312,352	357,128	310,026	355,278
Net increase (decrease) of cash and cash equivalents	120,711	(44,776)	155,757	(45,252)

(2) Composition of cash and cash equivalents

	The Group		The Bank	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	RMB million	RMB million	RMB million	RMB million
Cash on hand	5,806	5,622	5,806	5,622
Balances with Central Bank that can be withdrawn on demand	66,508	57,994	66,497	57,982
Deposits with banks and other financial institutions with original maturity less than three months	43,428	23,431	36,966	21,117
Placements with banks and other financial institutions with original maturity less than three months	5,783	22,874	5,783	22,874
Financial assets held under resale agreements with original maturity less than three months	15,517	97,402	13,010	97,402
Investment with original maturity less than three months	296,021	105,029	337,721	105,029
Closing balance of cash and cash equivalents	433,063	312,352	465,783	310,026

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

49. POST-EMPLOYMENT COMPENSATION

49.1 Defined contribution plans

The Group participates in the endowment insurance, unemployment insurance plans established by the government and the annuity plan established by the Group. According to these plans, the employees' salaries are paid to the plans proportionally each month. Except the expenses above, the Group shoulders no further payment duties. Certain expenses are charged in profit and loss of the period.

Expense recognised in profit or loss for the period:

	The Group		The Bank	
	2016	2015	2016	2015
	RMB million	RMB million	RMB million	RMB million
Defined contribution plans	2,011	1,774	1,958	1,757

Amount of payable in the year-end:

	The Group		The Bank	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	RMB million	RMB million	RMB million	RMB million
Defined contribution plans	131	84	112	82

49.2 Defined benefit plans

The Group offers complementary retiring benefit plans to employees who start their service before 31 December 2007. The Group invited Tower Watson Consulting Group (Shanghai) to estimate the present value. The project estimates the future cash flow based on rate of inflation and rate of death, and recognizes its present value by discount rate. Discount rate is measured by the national debt market income rate in which the period of defined benefit plans and currency on balance sheet date. Past service costs will be charged in profit and loss in the period of revising the plans. The net interest is recognized by the net liabilities or assets of defined benefit plans timing appropriate discount rate.

The profit and loss charged by related influence from defined benefit plans are RMB 290 million. Actuary profit and loss charging to other comprehensive income are RMB 27 million. Net assets of defined benefit plans are RMB 673 million at the end of the year, which is the net value of fair value of defined benefit plans duties and defined benefit plans assets, and should be charged to other assets. (Note VIII, 18).

As of 31 December 2016, the Group benefit plans set was in the period of the average benefit obligation for about 11 years (31 December 2015:11 years).

Defined benefit plan makes the Group face the actuarial risks that include interest rate risk and longevity risk. Government bond yielding down will lead to a defined benefit plan duty value added. The present value of defined benefit plan duty is calculated based on the best estimate of employees participating in the scheme of the mortality rate, and the increase in life expectancy will lead to an increase in plan liabilities.

In determining the set of major actuarial present value using the benefit plan obligations assumed discount rate, mortality rate. The discount rate is 3.25% as at 31 December 2016 (2015: 3.00%). Mortality assumptions is based on the men and women pension service table released by Chinese Insurance Regulatory Commission (China experience life table of life insurance "2000-2003"). The men and women workers retire at the age of 60 and retired at the age of 55 on average expected residual life for 22.20 years and 29.52 years respectively.

The following sensitivity analysis is based on the reasonably possible changes of corresponding hypothesis that occurring at the end of the reporting period (all other assumptions unchanged):

If the discount rate increase (decrease) by 25 basis points, then the present value of defined benefit plan duty will be reduced by RMB56 million (an increase of RMB58 million).

As part of hypothesis may have relevance, a hypothesis cannot be isolated to change, so the sensitivity analysis cannot reflect the actual changes in benefit obligations set value.

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

49. POST-EMPLOYMENT COMPENSATION - continued

49.2 Defined benefit plans - continued

In the sensitivity analysis, the net debt of defined benefit plan and the related debt recognized in the statement of financial position share the same calculation method.

Compared with the previous year, the method for sensitivity analysis and the hypothesis didn't change.

50. STRUCTURED ENTITIES

50.1 Consolidated structured entities

The consolidated structured entities of the Group are funds, asset-backed securities, trust plans and asset management plans. As the manager/initiator of the products, asset-backed securities, trust plans and asset management plans, the Group considers whether it has control over the structured entities, and determine whether the consolidation is necessary based on the decision scope of asset manager, power of trust holder, reward from offering management service and the risk exposure of variable return. In 2016 and 2015, the Group didn't offer financial support to the consolidated structured entities.

50.2 Unconsolidated structured entities

50.2.1 Structured entities without the scope managed by the Group

The Group initiates and establishes structured entities which offer specific investment opportunities. Such structured entities conduct financing and investing through issuing products. The Group enjoys no control over such structured entities. Therefore, such structured entities are unconsolidated. Up to 31/12/2016 and 31/12/2015, the consolidated entities issued by the Group mainly include wealth management products, funds, asset-backed securities, trust plans and asset management plans. And the Group earns commission income mainly from offering management service to the investors of these structured entities.

In 2016 and 2015, the Group did not offer financial support to other structured entities excluded from the consolidation scope.

Up to 31 December 2016 and 31 December 2015, the information of unconsolidated structured entities initiated by the Group is listed below:

The Group

	Scale 31/12/2016	Scale 31/12/2015	Type
	RMB million	RMB million	
Wealth management products	1,056,671	1,045,052	Commission income
Funds	139,157	73,481	Commission income
Asset-backed securities	27,453	29,987	Commission income
Trust plans	935,136	908,482	Commission income
Asset management plans	369,786	338,864	Commission income
Total	2,528,203	2,395,866	

In 2016, the commission income earned from offering management service to the investors of these structured entities by the Group is RMB 14,958 million (2015: RMB12,066 million).

50.2.2 Equity enjoyed by the Group in structured entities without the scope

To utilize the capital better, the equity enjoyed by the Group in structured entities without the scope in 31 December 2016 mainly includes wealth management products, funds, asset-backed securities, trust plans and asset management plans issued or managed by the Group or individual third parties. The Group earns interest income and investment income mainly through holding these structured entities equities. The Group does not consolidate these structured entities because the Group does not control them.

The Group did not offer financial support to the structured entities above in 2016.

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

50. STRUCTURED ENTITIES - continued

50.2 Unconsolidated structured entities - continued

50.2.2 Equity enjoyed by the Group in structured entities without the scope - continued

Up to 31 December 2016 and 31 December 2015, the information of unconsolidated structured entities in which the Group enjoys equity is listed below:

The Group

	31/12/2016(RMB million)							
	Financial assets held under resale agreement	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Hold-to-maturity investments	Investments classified as receivables	Carrying value	Max risk exposure (Note 1)	Type
Funds	—	265,889	46,332	—	—	312,221	312,221	Investment income
Wealth management products	—	—	386	—	459,778	460,164	460,164	Investment income, Interest income
Trust plans	8,004	280	63,844	—	717,680	789,808	789,808	Investment income, Interest income
Asset management plans	3,302	321	95,055	—	448,617	547,295	547,295	Investment income, Interest income
Asset-backed securities	—	1,632	30,842	29	152,484	184,987	184,987	Investment income, Interest income
Total	11,306	268,122	236,459	29	1,778,559	2,294,475	2,294,475	

Note 1: Max loss exposure to funds, wealth management products, trust plans, asset management plans and asset-backed securities is the amortized cost or fair value recognized statement of financial position at balance sheet date.

The Group

	31/12/2015(RMB million)							
	Financial assets held under resale agreement	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Hold-to-maturity investments	Investments classified as receivables	Carrying value	Max risk exposure (Note 1)	Type
Funds	—	98,692	23,069	—	—	121,761	121,761	Investment income
Wealth management products	—	500	—	—	429,185	429,685	429,685	Investment income, Interest income
Trust plans	66,898	134	79,648	—	691,274	837,954	837,954	Investment income, Interest income
Asset management plans	9,637	837	126,831	—	452,766	590,071	590,071	Investment income, Interest income
Asset-backed securities	—	—	—	592	72,992	73,584	73,584	Investment income, Interest income
Total	76,535	100,163	229,548	592	1,646,217	2,053,055	2,053,055	

Note 1: Max loss exposure to funds, wealth management products, trust plans, asset management plans and asset-backed securities is the fair value recognized in the statement of financial position at balance sheet date.

IX. SEGMENT REPORTING

Senior management of the Group evaluates the operations of the Group in accordance with their economic areas of the respective branches and subsidiaries. Each branch serves its local customers and few customers in other regions. The Group does not deeply depend on one single external customer. Through the review of internal reports, the management of the Group conducts performance evaluation and determines the allocation of resources. Segment reporting is presented in a manner consistent with the Group's internal management and reports.

Segment accounting policies are consistent with the accounting policies of the consolidated financial statements. Inter-segment transfer transactions are measured at the actual transaction prices.

The Group includes the head office (including the head office and the operating institutions of the head office), Fujian, Beijing, Shanghai, Guangdong, Zhejiang, Jiangsu, northeast and other region, western region, central region, a total of ten segments, of which branches within the northeast and other region, western region, central region are presented in a consolidated manner.

Among them, the northeast and other region includes: Harbin branch, Changchun branch, Shenyang branch, Dalian branch, Tianjin branch, Jinan branch, Qingdao branch, Haikou branch, Hong Kong branch and Industrial Bank Financial Leasing Co., Ltd;

Western region includes: Chengdu branch, Chongqing branch, Guiyang branch, Xi'an branch, Kunming branch, Nanning branch, Urumqi branch, Lanzhou branch and Xining branch.

Central region includes: Hohhot branch, Shijiazhuang branch, Zhengzhou branch, Taiyuan branch, Hefei branch, Changsha branch, Wuhan branch and Nanchang branch.

The Group

	2016											RMB million
	Head office	Fujian	Beijing	Shanghai	Guangdong	Zhejiang	Jiangsu	Northeast and other region	Western region	Central region	Eliminations	Total
Operating income	76,272	14,255	3,895	5,041	6,770	5,129	6,274	14,744	11,431	13,249	—	157,060
Net interest income	52,476	9,804	2,507	2,658	5,164	3,673	5,025	10,509	9,457	11,046	—	112,319
Including: Net inter-segment interest income	(42,896)	2,755	3,163	4,737	5,297	2,136	3,038	6,930	8,940	5,900	—	—
Net fee and commission income	16,516	3,972	1,273	2,292	1,574	1,439	1,221	4,186	1,924	2,155	—	36,552
Other income	7,280	479	115	91	32	17	28	49	50	48	—	8,189
Operating expenses	(31,709)	(11,903)	(2,067)	(2,354)	(5,086)	(4,501)	(3,587)	(10,380)	(10,799)	(11,292)	—	(93,678)
Operating profit	44,563	2,352	1,828	2,687	1,684	628	2,687	4,364	632	1,957	—	63,382
Add: Non-operating income	102	64	12	28	23	17	35	250	43	95	—	669
Less: Non-operating expenses	(15)	(31)	(6)	(7)	(4)	(15)	(3)	(6)	(27)	(12)	—	(126)
Total profit	44,650	2,385	1,834	2,708	1,703	630	2,719	4,608	648	2,040	—	63,925
Less: Income tax expenses												(9,598)
Net profit												54,327
Segment assets	3,773,106	472,319	432,553	398,822	560,091	249,755	345,584	787,102	622,039	624,710	(2,203,642)	6,062,439
Including: Investment in an associate												2,418
Undistributed assets												23,456
Total assets												6,085,895
Segment liabilities	3,485,905	454,906	430,314	395,335	558,398	249,097	344,665	772,510	621,370	622,627	(2,203,642)	5,731,485
Undistributed liabilities												—
Total liabilities												5,731,485
Supplemental information												
Credit commitments	140,375	46,203	7,361	12,665	37,040	26,895	59,687	145,477	112,912	141,619	—	730,234
Depreciation and amortization	362	322	100	67	170	89	147	335	260	378	—	2,230
Capital expenditures	516	279	117	232	156	54	140	4,833	275	236	—	6,838

IX. SEGMENT REPORTING - continued

The Group - continued

	2015											RMB in million
	Head office	Fujian	Beijing	Shanghai	Guangdong	Zhejiang	Jiangsu	Northeast and other region	Western region	Central region	Eliminations	Total
Operating income	55,861	16,229	7,465	8,226	9,184	5,811	6,930	15,017	15,146	14,479	—	154,348
Net interest income	41,393	11,928	5,726	6,360	7,489	4,609	5,885	11,490	12,680	12,274	—	119,834
Including: Net inter-segment interest income	(48,862)	2,778	5,626	7,121	6,718	2,085	3,078	6,708	7,261	7,487	—	—
Net fee and commission income	13,573	3,740	1,388	1,803	1,634	1,175	999	3,335	2,404	2,139	—	32,190
Other income	895	561	351	63	61	27	46	192	62	66	—	2,324
Operating expenses	(23,990)	(14,241)	(4,684)	(2,568)	(9,724)	(4,552)	(3,672)	(9,345)	(9,215)	(9,547)	—	(91,538)
Operating profit	31,871	1,988	2,781	5,658	(540)	1,259	3,258	5,672	5,931	4,932	—	62,810
Add: Non-operating income	75	39	12	17	27	13	8	306	27	37	—	561
Less: Non-operating expenses	(7)	(45)	(3)	(1)	(2)	(18)	(11)	(11)	(14)	(15)	—	(127)
Total profit	31,939	1,982	2,790	5,674	(515)	1,254	3,255	5,967	5,944	4,954	—	63,244
Less: Income tax expenses												(12,594)
Net profit												50,650
Segment assets	3,112,158	416,386	373,423	397,780	506,037	243,903	319,477	776,976	704,480	603,565	(2,169,837)	5,284,348
Including: Investment in an associate												1,918
Undistributed assets			98									14,532
Total assets												5,298,880
Segment liabilities	2,859,931	403,202	370,499	391,461	506,240	242,649	316,222	763,975	698,549	598,612	(2,169,837)	4,981,503
Undistributed liabilities												—
Total liabilities												4,981,503
Supplemental information												
Credit commitments	92,358	56,230	14,735	25,070	48,353	32,825	74,691	169,673	144,396	176,292	—	834,623
Depreciation and amortization	317	234	98	58	162	83	129	310	219	347	—	1,957
Capital expenditures	614	302	44	1,762	146	70	244	2,072	378	389	—	6,021

X. RELATED PARTY RELATIONSHIP AND TRANSACTIONS

1. Related Party Relationship

The Group

Related parties with no controlling interest

(1) Shareholders holding more than 5% (inclusive) of the Bank's shares

Name	Economic nature	Place of registration	Registered capital	Principal activities	Legal representative
			RMB 100 Million		
The Finance Bureau of Fujian Province	Legal entity of government agencies	Fuzhou	—	Administration of Fujian provincial fiscal and tax policy	Wang Yongli
People's Insurance Company of China (1)	Incorporated Company	Beijing	148.29	Insurance services	Wu Yan
China Life Insurance Company (1)	Incorporated Company	Beijing	257.61	Insurance services	Wu Yan
China National Tobacco Corporation (1)	Owned by the whole people	Beijing	570	Production, and sales of tobacco products	Ling Chengxing
Haisheng Investment Management Company Limited of Fujian Tobacco (1)	Company	Xiamen	26.47	Investment management	Luo Wanda
China Tobacco Hunan Investment Management Company (1)	Limited Company	Changsha	2	Investment management	Chen Guolian
The People's Insurance Company (Group) of China Limited (1)	Incorporated Company	Beijing	424.24	Investment management and insurance services	Wu Yan

X. RELATED PARTY RELATIONSHIP AND TRANSACTIONS - continued

1. Related Party Relationship - continued

The Group - continued

Related parties with no controlling interest - continued

(1) Shareholders holding more than 5% (inclusive) of the Bank's shares - continued

Details of shareholders holding more than 5% (inclusive) of the Bank's shares:

Name of share holders	31/12/2016		31/12/2015	
	Shares	Proportion	Shares	Proportion
	Million Shares	(%)	Million Shares	(%)
The Finance Bureau of Fujian Province	3,472	18.22	3,402	17.86
People's Insurance Company of China (1)	1,229	6.45	1,229	6.45
China Life Insurance Company (1)	1,276	6.70	1,276	6.70
China National Tobacco Corporation (1)	614	3.22	614	3.22
Haisheng Investment Management Company of Fujian Tobacco (1)	441	2.32	441	2.32
China Tobacco Hunan Investment Management Company (1)	226	1.19	226	1.19
The people's Insurance Company (Group) of China Limited (1)	174	0.91	174	0.91
Total	7,432	39.01	7,362	38.65

Notes: (1) Relationship between related parties: People's Insurance Company of China and China Life Insurance Company are both subsidiaries of The People's Insurance Company (Group) of China Limited. The aggregate proportion is 14.06%. Both Haisheng Investment Management Company of Fujian Tobacco and China Tobacco Hunan Investment Management Company are subsidiaries of China National Tobacco Corporation. The aggregate proportion is 6.73%.

(2) Associates

Name of related party	Economic nature	Place of Registration	Registered Capital	Principal activities	Legal Representative
			RMB100 million		
Bank of Juijiang Co., Ltd.	Incorporated Company	Juijiang	15.16	Financial service	Liu Xianting
Chongqing Machinery and Electronics Holding Group Finance Company Limited	Limited Company	Chongqing	6	Financial and financing consulting service	Wang Yuxiang

(3) Other related parties

Other related parties include key management personnel (director, supervisor, senior management of head office) and their close families, as well as other enterprises over which the key management personnel or their close families have control, common control or significant influence.

2. Related party transactions

The conditions and prices of related party transactions between the Group and the Bank are determined according to the Group's contract, and are examined and approved in accordance with the transaction type and content of transaction by corresponding decision-making authority.

X. RELATED PARTY RELATIONSHIP AND TRANSACTIONS - continued

2. Related party transactions - continued

1. Interest income

Related party	2016	2015
	RMB million	RMB million
The People's Insurance Company and its subsidiaries	133	122
China National Tobacco Corporation and its subsidiaries	58	8
Bank of Jiujiang Co., Ltd	3	19
Chongqing Machinery and Electronics Holding Group Finance Company Limited	—	14
Other related parties	1	—
Total	195	163

2. Interest expense

Related party	2016	2015
	RMB million	RMB million
The Finance Bureau of Fujian Province and its subsidiaries	551	209
The People's Insurance Company and its subsidiaries	80	50
China National Tobacco Corporation and its subsidiaries	1,545	1,029
Bank of Jiujiang Co., Ltd	—	7
Chongqing Machinery and Electronics Holding Group Finance Company Limited	6	8
Other related parties	34	10
Total	2,216	1,313

3. Fee and commission income

Related party	2016	2015
	RMB million	RMB million
The Finance Bureau of Fujian Province and its subsidiaries	10	—
The People's Insurance Company and its subsidiaries	7	—
Bank of Jiujiang Co., Ltd.	2	5
Total	19	5

4. General and administrative expenses-insurance

Related party	2016	2015
	RMB million	RMB million
The People's Insurance Company and its subsidiaries	11	143

In 2016, the Bank was paid RMB 82 million in compensation from People's Insurance Company of China (2015: RMB13 Million).

5. General and administrative expenses-rental expense

Related party	2016	2015
	RMB million	RMB million
China National Tobacco Corporation and its subsidiaries	22	—

X. RELATED PARTY RELATIONSHIP AND TRANSACTIONS - continued

3. Unsettled amount of related party transactions

1. Deposits with banks

Related party	31/12/2016	31/12/2015
	RMB million	RMB million
Other related parties	29	—

2. Derivative financial instruments

Related party	Transaction Type	31/12/2016		31/12/2015	
		Nominal amount	Assets/Liabilities	Nominal amount	Assets/Liabilities
		RMB million	RMB million	RMB million	RMB million
The People's Insurance Company and its subsidiaries	Interest Rate Derivative	730	(1)	730	(5)
Other related parties	Exchange Rate Derivative	16,734	(168)	—	—
Total		17,464	(169)	730	(5)

3. Interest receivable

Related party	31/12/2016	31/12/2015
	RMB million	RMB million
The People's Insurance Company and its subsidiaries	52	48
China National Tobacco Corporation and its subsidiaries	2	8
Total	54	56

4. Available-for-sale financial assets

Related party	31/12/2016	31/12/2015
	RMB million	RMB million
Other related parties	99	—

5. Investments classified as receivables

Related party	31/12/2016	31/12/2015
	RMB million	RMB million
The People's Insurance Company and its subsidiaries	2,400	2,250

All the investments classified as receivables are the bonds issued by the above-mentioned related parties.

6. Loans and advances to customers

Related party	31/12/2016	31/12/2015
	RMB million	RMB million
China National Tobacco Corporation and its subsidiaries	1,600	7,600
Other related parties	313	12
Total	1,913	7,612

X. RELATED PARTY RELATIONSHIP AND TRANSACTIONS - continued

3. Unsettled amount of related party transactions - continued

7. Deposits from banks and other financial institution

Related party	31/12/2016	31/12/2015
	RMB million	RMB million
Bank of Jiujiang Co., Ltd.	20	22
Chongqing Machinery and Electronics Holding Group Finance Company Limited	403	225
Other related parties	3,751	645
Total	4,174	892

8. Due to customers

Related party	31/12/2016	31/12/2015
	RMB million	RMB million
The Finance Bureau of Fujian Province and its subsidiaries	13,347	9,321
The People's Insurance Company and its subsidiaries	10,990	3
China National Tobacco Corporation and its subsidiaries	45,043	874
Chongqing Machinery and Electronics Holding Group Finance Company Limited	—	107
Other related parties	263	9
Total	69,643	45,766

9. Interest payable

Related party	31/12/2016	31/12/2015
	RMB million	RMB million
The Finance Bureau of Fujian Province and its subsidiaries	203	1
The People's Insurance Company and its subsidiaries	43	53
China National Tobacco Corporation and its subsidiaries	928	729
Chongqing Machinery and Electronics Holding Group Finance Company Limited	1	1
Other related parties	3	—
Total	1,178	784

10. Credit facility

Related party	31/12/2016	31/12/2015
	RMB million	RMB million
The People's Insurance Company and its subsidiaries	54,000	5,000
China National Tobacco Corporation and its subsidiaries	15,000	8,500
Total	69,000	13,500

11. Off-balance sheet items

At the end of the year, the amount of letter of credit and Bank acceptance held by the subsidiaries of China National Tobacco Corporation is RMB 1,500 million and RMB 1,622 million respectively; the amount of letters of guarantee held by other related parties is RMB 1,500 million.

4. Key management personnel remuneration

	2016	2015
	RMB million	RMB million
Salary and welfare	15	17

XI. CONTINGENCIES AND COMMITMENTS

1. Pending Litigations

As of the balance sheet date, the Group's management considers that there is no pending litigation which has a significant impact on the financial statements that needs to be disclosed.

2. Off-balance sheet items

The Group and the Bank

	Contractual amount	
	31/12/2016	31/12/2015
	RMB million	RMB million
Credit card commitments	140,375	92,357
Letter of credit	79,402	111,547
Letters of guarantee	119,303	132,130
Bank acceptances	391,154	498,589
Total	730,234	834,623

In addition, the Group also provides credit facilities to specific customers. According to the management's opinion, since such credit facilities are conditional and can be cancelled, the Group is not committed to these customers for the credit risk of the unused facilities.

3. Capital commitments

	Contractual amount of the Group		Contractual amount of the Bank	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	RMB million	RMB million	RMB million	RMB million
Authorized but not contracted for	—	—	—	—
Contracted but not paid for	2,082	2,402	2,064	2,381
Total	2,082	2,402	2,064	2,381

4. Operating lease commitments

As a tenant, according to the non-cancellable lease contracts, the required minimum lease payments by the Group and the Bank are as follows:

	The Group		The Bank	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	RMB million	RMB million	RMB million	RMB million
Within one year	1,815	2,312	1,718	2,247
One to five years	3,868	5,744	3,737	5,630
Over five years	975	536	950	536
Total	6,658	8,592	6,405	8,413

5. Collateral

5.1 Assets pledged

(i) The carrying amount of assets pledged as collateral under repurchase agreements is as follows:

	The Group		The Bank	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	RMB million	RMB million	RMB million	RMB million
Bonds	149,137	43,657	147,351	43,657
Bills	24,037	8,036	24,037	8,036
Total	173,174	51,693	171,388	51,693

XI. CONTINGENCIES AND COMMITMENTS - continued

5. Collateral - continued

5.1 Assets pledged - continued

(i) The carrying amount of assets pledged as collateral under repurchase agreements is as follows - continued:

As at 31 December 2016, included in Group's and the Bank's notes purchased under resale agreement, there was no note used for carrying out business of sale under repurchase agreement (31 December 2015: RMB 3,656 million).

(ii) On 31 December 2016, the Group and the Bank pledged RMB 1,706 million bonds to credit derivative transaction (31 December 2015: RMB 853 million).

5.2 Collateral accepted

In the resale agreement, if the counterparty of the transaction has not violated the contractual terms, the Group can sell some of the pledged assets or transfer the pledged assets in other transactions. The fair value of the pledged assets available for sale and available for pledge on 31 December 2016 is RMB3,956 million. (31 December 2015: RMB97,839 million).

6. Redemption commitment of certificate treasury bonds and saving treasury bonds

(1) The Group entrusted by the MOF as its agent issues certificate treasury bonds and saving treasury bonds. Holders of certificate treasury bonds and saving treasury bonds can require advance redemption, and the Group has the obligation to execute the redemption responsibility. Redemption amount for the certificate treasury bonds and saving treasury bonds includes principal and interest payable till redemption date.

As of 31 December 2016 and 31 December 2015, the cumulative principal balances of the certificate treasury bonds and saving treasury bonds which are issued by the Group under trust prior to maturity and not been paid are as follows:

The Group and the Bank

	Contractual amount	
	31/12/2016	31/12/2015
	RMB million	RMB million
Certificate treasury bonds and saving treasury bonds	3,046	2,989

The Group believes the Group's redemption amount of these certificate treasury bonds and saving treasury bonds is not significant before their maturity.

(2) The Group has no announced but unissued bonds underwriting amount on 31 December 2016 and 31 December 2015.

7. Fiduciary Business

The Group and the Bank

	31/12/2016	31/12/2015
	RMB million	RMB million
Fiduciary deposits and loans	618,082	640,795
Fiduciary wealth management products	1,056,671	1,045,052
Fiduciary investments	23,640	49,717

Fiduciary deposits and loans are deposits and loans that depositor designated specific third party as the loan party, and related credit risk of the loan is borne by depositors who designated borrowers.

Fiduciary wealth management products refer to a kind of service that the entrusted Group is responsible for the operation and management of customer assets. The investment risk of fiduciary wealth management products is borne by the trustee.

Fiduciary investments refers to a kind of service that the entrusted Group engaged in capital operation, investment management, investment advisory and other investment services based on the principal-agent relationship. The investment risk of fiduciary investment is borne by the trustee.

XII. OTHER SIGNIFICANT EVENTS

1. Assets and liabilities measured at fair value

The Group

	2016				
	Opening Balance	Profit or loss arising from changes in fair value for the period	Changes in fair value recognised in equity	Impairment losses charged in the current period	Closing Balance
	RMB million	RMB million	RMB million	RMB million	RMB million
Financial assets at fair value through profit or loss	128,685	(627)	—	—	354,595
Derivative financial assets	13,933	2,204	—	—	16,137
Available-for-sale financial assets	426,304	—	1,492	443	583,983
Total financial assets	568,922	1,577	1,492	443	954,715
Financial liabilities (1)	(10,564)	(5,928)	—	—	(16,973)

The Bank

	2016				
	Opening Balance	Profit or loss arising from changes in fair value for the period	Changes in fair value recognised in equity	Impairment losses charged in the current period	Closing Balance
	RMB million	RMB million	RMB million	RMB million	RMB million
Financial assets at fair value through profit or loss	126,324	(172)	—	—	357,893
Derivative financial assets	13,933	2,204	—	—	16,137
Available-for-sale financial assets	419,501	—	1,518	427	589,968
Total financial assets	559,758	2,032	1,518	427	963,998
Financial liabilities (1)	(10,563)	(5,928)	—	—	(16,938)

(1) Financial liabilities include financial liabilities at fair value through profit or loss and derivative financial liabilities.

(2) The movement of assets and liabilities listed above has no inevitable relationship.

XII. OTHER SIGNIFICANT EVENTS - continued

2. Financial assets and financial liabilities denominated in foreign currencies

The Group

	2016				
	Opening Balance	Profit or loss arising from changes in fair value for the period	Changes in fair value recognised in equity	Impairment losses charged in the current period	Closing Balance
	RMB million	RMB million	RMB million	RMB million	RMB million
Cash and balances with Central Bank	12,572	—	—	—	17,005
Deposits with banks and other financial institutions	19,231	—	—	—	26,360
Placements with banks and other financial institutions	11,071	—	—	—	9,426
Financial assets at fair value through profit or loss	4,149	(19)	—	—	9,555
Derivative financial assets	7,240	2,489	—	—	9,729
Financial assets purchased under resale agreement	—	—	—	—	4,522
Loans and advances to customers	71,438	—	—	109	95,204
Available-for-sale financial assets	20,696	—	(125)	—	93,705
Investments classified as receivables	—	—	—	—	8,788
Held-to-maturity investments	7,375	—	—	—	7,482
Finance lease receivable	1,547	—	—	—	1,478
Other financial assets	1,003	—	—	—	1,960
Total of financial assets	156,322	2,470	(125)	109	285,214
Financial liabilities [1]	(192,002)	(1,607)	—	—	(306,259)

The Bank

	2016				
	Opening Balance	Profit or loss arising from changes in fair value for the period	Changes in fair value recognised in equity	Impairment losses charged in the current period	Closing Balance
	RMB million	RMB million	RMB million	RMB million	RMB million
Cash and balances with Central Bank	12,572	—	—	—	17,005
Deposits with from banks and other financial institutions	19,231	—	—	—	26,360
Placements with banks and other financial institutions	11,474	—	—	—	9,426
Financial assets at fair value through profit or loss	4,149	(19)	—	—	9,555
Derivative financial assets	7,240	2,489	—	—	9,729
Financial assets purchased under resale agreement	—	—	—	—	4,522
Loans and advances to customers	71,438	—	—	109	95,204
Available-for-sale financial assets	20,696	—	(125)	—	93,705
Investments classified as receivables	—	—	—	—	8,788
Held-to-maturity investments	7,375	—	—	—	7,482
Other financial assets	1,002	—	—	—	1,960
Total of financial assets	155,177	2,470	(125)	109	283,736
Financial liabilities [1]	(192,002)	(1,607)	—	—	(306,259)

(1) Financial liabilities include borrowing from Central Bank, deposits from banks and other financial institutions, placement from banks and other financial institutions, financial liabilities at fair value through profit or loss, financial assets sold under repurchase agreements, derivative financial liabilities, due to customers and debt securities issued, etc.

(2) The movement of assets and liabilities listed above has no inevitable relationship.

XII. OTHER SIGNIFICANT EVENTS - continued

3. Transfer of Financial Assets

3.1 Asset-Backed Securities

The Group conducts asset-backed securities transactions during normal operations. The Group sells part of its financial assets to the special purpose trusts established by the Group as an originating institution and then the special purpose trusts issues asset-backed securities to investors. The Group determines whether it combines the special purpose trusts based on whether it has power over such special purpose trusts and whether it is involved in related activities of the special purpose trusts to enjoy variable returns, and whether the Group has the ability to use its power over the special purpose trust to affect its returns.

In the course of the transfer of financial assets under asset-backed securities transactions, the Group loses the use right of such financial assets. Once a special purpose trust is established, it shall be distinguished from other property for which the Group has not set up a trust. According to the relevant transaction documents, the trust property is not a liquidation property when the Group dissolves or is liquidated according to law, or is declared bankrupt.

In the course of the transfer of the aforesaid financial assets, the Group has not recognized the gains or losses since the issuance consideration is same as the carrying value of the transferred financial assets. Subsequently, the Group as a financial asset service institution will charge a certain service fee.

When the Group transfers substantially all the risks (including credit risk, early repayment risk and interest rate risk of the transferred assets) and rewards of ownership of the financial assets to other investors in the course of the transfer of the underlying financial assets, the Group derecognizes the aforesaid transferred financial assets. The total carrying amount of the Group's securitized financial assets at the date of transfer for the year of 2016 was RMB 76,788 million (2015: RMB 32,659 million). Meanwhile, the Group subscribed for a certain percentage of asset-backed securities. As at 31 December 2016, the above asset-backed securities held by the Group amounted to RMB 13,111 million (31 December 2015: RMB 5,863 million)

In addition to the aforesaid asset-backed securities transactions, the Group transferred the financial assets with a carrying amount of RMB 3,580 million (31 December 2015: Nil) in 2016. The Group did not transfer substantially all the risks (including credit risk, early repayment risk and interest rate risk of the transferred assets) and rewards of ownership of the financial assets to other investors, the Group therefore did not derecognize of the aforesaid transferred financial assets. As at 31 December 2016, the aforesaid non-derecognized finance lease receivables held by the Group are RMB 1,197 million (31 December 2015: Nil), the aforesaid non-derecognized investments classified as receivables held by the Group are RMB 1,424 million (31 December 2015: Nil), and the consideration received from the transfer of financial assets amounting to RMB 854 million (31 December 2015: Nil) is presented as "debt securities issued".

3.2 Repurchase agreements

Repurchase agreements refer to agreements made by the Group with the counter-parities that financial assets (or financial assets that share the same substance) are settled a fixed price of repurchasing when they are sold at a fixed date. Due to the fixed repurchasing price, the Group takes almost all the credit and market risks and benefit of the assets. The sold financial assets (cannot be used within the period) should not be derecognized in the financial statements of the Group, but should be regarded as guarantees because the Group retains all the risks and benefits. Besides, the Group recognizes the financial liabilities by the price received. In these trading, the counter-parties' right to the Group is not limited within the transferred financial assets.

At 31 December 2016 and 2015, the Group conducted trading of the bonds and bills under repurchase agreements. The price of selling these financial assets is called financial assets sold under repurchase agreements price (Note VIII, 23).

XII. OTHER SIGNIFICANT EVENTS - continued

3. Transfer of Financial Assets - continued

3.2 Repurchase agreements - continued

Included in the repurchase agreement, the carrying value of the financial assets which had been transferred but continued to be recognized by the Group and relevant liabilities are as follows:

The Group

	31/12/2016		31/12/2015	
	RMB Million		RMB Million	
	Bond	Bill	Bond	Bill
Assets carrying value	149,137	24,037	43,657	8,036
Liabilities carrying value	143,440	24,037	39,980	8,036

3.3 Transfer of Non-performing Loans

In 2016, the Group disposed non-performing loans of the carrying amount amounting to RMB 11,108 million (2015: RMB 26,299 million) by way of transfer to third parties. The Group has transferred substantially all the risks and rewards of ownership of the above non-performing loans, and the loans are therefore derecognized.

XIII. FINANCIAL RISK MANAGEMENT

1. Overview

The Group is exposed to various types of risks due to its financing businesses including banking business. The Group identifies, assesses and monitors various risks on an on-going basis. The most significant types of risk to which the Group is exposed are credit risk, market risk, liquidity risk and operation risk. Market risk includes interest rate risk, foreign currency risk and other price risk.

The Group's risk management objectives are to achieve a proper balance between risks and benefits and run business safely and prudently under reasonable level of risk.

2. Risk management framework

Risk management is the basic safeguard of survival and development of commercial banks. The Group has taken risk management as one of its core competitiveness, formulated development strategy focusing on business operation as well as risk management, established pre-during-post events risk control system with a core of risk asset management, and improved the risk management and operation instructions for various businesses; completed the mechanism of risk responsibilities and punishment, implemented credit business operation responsibilities, established risk fund for credit post personnel, enhanced risk constraints; taking credit risk, market risk, liquidity risk, operational risk and other risks undertaken in or by various business and customers into the scope of risk management and continuously improve the risk management mechanism to wholly-owned and holding subsidiaries; further defined the specific responsibilities of board of directors, board of supervisors, senior management and operation executives in respect of risk management, formed a defined, clear and effective overall risk management system. In daily risk management work, the Group's business sector, risk management department and internal audit department build up the "three defences"; they perform their respective functions and work together to achieve the objective of risk management. Among them, operation institutions and business line management sector form the first line of defences to conduct risk management. Operation institutions take precautions against all the business and operating risk, while business line management sector is in charge of making its risk management policy, evaluating the effectiveness of risk management regularly and taking corrective actions if necessary. The risk management department is the second line of defences, which is responsible for constituting the Group's risk management regulation and policy, analysing overall risk management situation, inspecting, evaluating and supervising the compliance and effectiveness of risk management conducted by all the sectors and departments, conducting overall risk reporting, continuously improving risk management modules and instruments and strengthening independency. The internal audit department is the third line of defences. It is responsible for all process audits, continuously providing independent and prospective audit and supervision with emphasis.

XIII. FINANCIAL RISK MANAGEMENT - continued

3. Credit risk

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligation. Credit risk can also arise from operational failures that result in an unauthorised or inappropriate advance, commitment or investment of funds. The Group's major credit risks come from loans and receivables (enterprises and personal credit loans), treasury operations (including creditors' investment) and off-balance sheet related credit risk exposures. The Group manages and controls credit risk according to the following processes: customer investigation before granting of credit limits, credit review and approval and post- lending loan monitoring and collection.

The Group establish the risk management department, which is responsible for organizing, implementing the credit risk management strategies and policies of the Group, it is also responsible for making basic rules for the Group risk management affairs, in addition, it is also professionally managing, evaluating, guiding the general operation of the Group risk management together with inspecting and supervising the activities mentioned above. As the leading party, the risk management department formulates unified standards, responsible for the credit management on the whole. All the actions taken are to ensure the overall credit risk under control. The Group set up risk management department and professional risk management desk in all the three major lines called enterprise financial line, retail banking line and financial markets line. Each of the risk departments is responsible for the credit management in its own line or professional operating department, and it is also responsible for making detailed regulation and operating rules and approving projects within the approving authority. The Group also sets up several specialized committees such as Credit Approval Committee and Credit Accountability Committee. The first one is responsible for the examination and approval of the loans within the authority. The other one is responsible for determining the responsibility of related loans.

The Group has formulated a whole set of credit policies on approval process and management procedure, and implemented throughout the Group. The credit management procedure for corporate and personal loans can be classified as credit investigation, credit examination, credit approval, credit disbursement, and post lending monitoring and recovery process. In addition, the Group issued *Due Diligence of Credit approval* to clarify the duties of different positions, to effectively control the credit risk, and to strengthen compliance of credit business.

The Group set up credit granting policy under the principle of "controllable risks, aggregated resources and sustainable development" to promote reasonable layout and balanced development in respect of credit resources in industries, regions, clients and products etc. In line with the access conditions and effective control of risks, the Group has intensified its support to green financial business and accelerate the pace of development of small and medium-sized enterprises and small and medium-sized industries; and to support credit financing demands from advanced manufacturing, domestic consumption and livelihood areas in line with national industrial policies. Meanwhile, the Group cut down and exit projects with outdated production capacity so as to further promote structure optimization and adjustment of credit asset.

The Group has established a customer credit rating system which comprehensively and systematically investigated various factors and variation trends that influence customer solvency in future; disclosed and evaluated customers' credit risks and capabilities based on qualitative and quantitative analysis. Credit rating results become an important foundation to draw up credit service polices, adjust and optimize client structure, as well as identify credit service of individual customer. According to new Basel Capital Accord and relevant guides of the CBRC, the Group developed and established customer internal rating system and had been continuously optimizing the model and system and had successfully completed the first comprehensive verification of internal rating in 2016. The internal rating model system optimization will start in 2017. Since January 2014 when the credit risk weighted assets ("CRWA") measurement system was completed and launched, the Group had the capacity to measure CRWA using internal rating junior method. The related results of internal rating had continuously entered into various risk management areas including credit management, industry entrance, limit management, loan pricing etc. As the new capital accords related projects were completed successively, the Group got promoted in capacity of identification, measurement and control of credit risk.

The Group developed risk warning system (Stage I), applying big data technology to fully integrate both internal and external risk information and analysing as per certain rules so as to form a warning indicator. With customers' potential risks disclosed in time by monitoring the indicator, the active push, tracking,

XIII. FINANCIAL RISK MANAGEMENT - continued

3. Credit risk - continued

feedback and report generating by level of warning indicator can be achieved and the timeliness and accuracy of risk warning can be improved effectively. The risk warning system (Stage I) realized the online posting of warning information and carried out system hard control over processes including warning adjustment, cancellation etc. and provided basic guarantee for credit management.

The Group properly handled the relations between risk management and business development, fully took advantages of internal credit rating results to formulate limitations on credit facility amount and strengthen the restriction function of those limitation and took them into practice to reconcile customer structure adjustment. Setting limitations on credit facility amount to ensure effective allocation of credit resources and prevent excessive concentration of credit loans.

The Group accurately identified risks conditions of credit asset, reasonably reflected the income after risk adjustment to guide capital allocation optimization in operation institutions and allocation of credit resources to strengthen risk awareness in operation institutions. Therefore, *Credit Asset Risks Classification Implementation Method* and *Credit Asset Risks Classification Implementation Standards* and others have been established to make sure branches adjust credit asset risks classification according to real conditions of projects. Based on 5 levels classified by the CBRC, the Group has classified its credit asset risks into nine levels as level one(normal), level 2(normal), level 3(normal), level 4 (attention), level 5(attention), level 6(attention), sublevel, doubtful and loss. The Group has various management policies to each level.

Risks arising from credit commitments are similar to risks of loans and advances to customers in substance. Therefore, requirements for application, post-lending management and pledge and guarantees are the same with those in loans and advances to customers. According to substance-over-form principle, the Group includes the non-standard credit loans in the comprehensive risk management system and manages them by comparing to traditional loans. The Group provides uniform credit, carries out general control on risks, executes uniform credit policy in nationwide, carries out whole-process responsibilities management by comparing to traditional loans, implements risk classification and provides risk reserves.

3.1 Concentration of credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Group’s total exposures. The Group’s portfolio of financial instrument is diversified along geographic, industry and product sectors.

The Group mainly operates the lending and guarantee business in the PRC mainland. Since there are different economic development characteristics in the different regions in China, the characteristics of credit risks are also different.

For the geographical and industrial concentration of the loans and advances to customers please refer to Note VIII 8.

3.2 Maximum exposure to credit risk

Despite any usable guarantee or pledge, and other credit enhancement measures, the max credit risk exposure that the Group and the Bank can afford on balance sheet date is the related financial assets (including derivative instrument and deducted equity instrument) plus the amount of off-balance sheet carrying value in Note XI 2. Up to 31 December 2016, the max credit risk exposure: the Group: RMB 6,427,123 million (31 December 2015: RMB 5, 920,510 million), the Bank: RMB 6,252,698 million (31 December 2015: RMB 5,803,461 million).

XIII. FINANCIAL RISK MANAGEMENT - continued

3. Credit risk - continued

3.3 Analysis of exposure to credit risk of the Group and the Bank about loans and advances to customers, inter-bank placements, investments and finance lease receivables

The Group

	31/12/2016				
	Loans and advances to customers	Inter-bank placements (1)	Investments (2)	Finance lease receivables	Total
	RMB million	RMB million	RMB million	RMB million	RMB million
Impaired:					
Individual assessment					
Total assets	27,412	85	15,528	1,177	44,202
Allowance for impairment losses	(12,669)	(85)	(6,700)	(344)	(19,798)
Net value of assets	14,743	—	8,828	833	24,404
Collective assessment					
Total assets	7,004	—	—	—	7,004
Allowance for impairment losses	(3,940)	—	—	—	(3,940)
Net value of assets	3,064	—	—	—	3,064
Past due but not impaired:					
Total assets	14,059	5,661	5,962	1,921	27,603
Including:					
Within 90 days	13,201	—	2,285	—	15,486
90 to 360 days	682	30	3,677	1,162	5,551
360 days to 3 years	176	5,631	—	759	6,566
Allowance for impairment losses	(2,161)	—	(84)	(193)	(2,438)
Net value of assets	11,898	5,661	5,878	1,728	25,165
Neither past due nor impaired:					
Total assets	2,031,339	95,333	2,972,173	89,701	5,188,546
Allowance for impairment losses	(53,678)	—	(9,528)	(2,423)	(65,629)
Net value of assets	1,977,661	95,333	2,962,645	87,278	5,122,917
Total of net value of assets	2,007,366	100,994	2,977,351	89,839	5,175,550

XIII. FINANCIAL RISK MANAGEMENT - continued

3. Credit risk - continued

3.3 Analysis of exposure to credit risk of the Group and the Bank about loans and advances to customers, inter-bank placements, investments and finance lease receivables - continued

The Group - continued

	31/12/2015				
	Loans and advances to customers	Inter-bank placement (1)	Investment (2)	Finance lease receivables	Total
	RMB million	RMB million	RMB million	RMB million	RMB million
Impaired:					
Individual assessment					
Total assets	21,579	89	4,794	845	27,307
Allowance for impairment losses	(11,297)	(89)	(1,561)	(227)	(13,174)
Net value of assets	10,282	—	3,233	618	14,133
Collective assessment					
Total assets	4,404	—	—	—	4,404
Allowance for impairment losses	(2,090)	—	—	—	(2,090)
Net value of assets	2,314	—	—	—	2,314
Past due but not impaired:					
Total assets	23,036	9,117	2,428	897	35,478
Including:					
Within 90 days	20,703	2,139	2,428	—	25,270
90 to 360 days	2,133	6,978	—	897	10,008
360 days to 3 years	200	—	—	—	200
Allowance for impairment losses	(3,674)	—	—	(108)	(3,782)
Net value of assets	19,362	9,117	2,428	789	31,696
Neither past due nor impaired:					
Total assets	1,730,389	315,490	2,474,985	74,414	4,595,278
Allowance for impairment losses	(37,525)	—	(11,166)	(1,675)	(50,366)
Net value of assets	1,692,864	315,490	2,463,819	72,739	4,544,912
Total of net value of assets	1,724,822	324,607	2,469,480	74,146	4,593,055

XIII. FINANCIAL RISK MANAGEMENT - continued

3. Credit risk - continued

3.3 Analysis of exposure to credit risk of the Group and the Bank about loans and advances to customers, inter-bank placements, investments and finance lease receivables - continued

The Bank

	31/12/2016			
	Loans and advances to customers	Inter-bank placement (1)	Investment (2)	Total
	RMB million	RMB million	RMB million	RMB million
Impaired:				
Individual assessment				
Total assets	27,412	85	15,498	42,995
Allowance for impairment losses	(12,669)	(85)	(6,682)	(19,436)
Net value of assets	14,743	—	8,816	23,559
Collective assessment				
Total assets	6,898	—	—	6,898
Allowance for impairment losses	(3,872)	—	—	(3,872)
Net value of assets	3,026	—	—	3,026
Past due but not impaired:				
Total assets	14,001	5,661	5,962	25,624
Including:				
Within 90 days	13,143	—	2,285	15,428
90 to 360 days	682	30	3,677	4,389
360 days to 3 years	176	5,631	—	5,807
Allowance for impairment losses	(2,155)	—	(84)	(2,239)
Net value of assets	11,846	5,661	5,878	23,385
Neither past due nor impaired:				
Total assets	2,025,989	85,051	2,925,038	5,036,078
Allowance for impairment losses	(53,567)	—	(9,528)	(63,095)
Net value of assets	1,972,422	85,051	2,915,510	4,972,983
Total of net value of assets	2,002,037	90,712	2,930,204	5,022,953

XIII. FINANCIAL RISK MANAGEMENT - continued

3. Credit risk - continued

3.3 Analysis of exposure to credit risk of the Group and the Bank about loans and advances to customers, inter-bank placements, investments and finance lease receivables - continued

The Bank - continued

	31/12/2015			
	Loans and advances to customers	Inter-bank placement (1)	Investment (2)	Total
	RMB million	RMB million	RMB million	RMB million
Impaired:				
Individual assessment				
Total assets	21,579	89	4,794	26,462
Allowance for impairment losses	(11,297)	(89)	(1,561)	(12,947)
Net value of assets	10,282	—	3,233	13,515
Collective assessment				
Total assets	4,379	—	—	4,379
Allowance for impairment losses	(2,082)	—	—	(2,082)
Net value of assets	2,297	—	—	2,297
Past due but not impaired:				
Total assets	23,012	9,117	2,428	34,557
Including:				
Within 90 days	20,678	2,139	2,428	25,245
90 to 360 days	2,134	3,979	—	6,113
360 days to 3 years	200	2,999	—	3,199
Allowance for impairment losses	(3,672)	—	—	(3,672)
Net value of assets	19,340	9,117	2,428	30,885
Neither past due nor impaired:				
Total assets	1,728,202	317,391	2,466,146	4,511,739
Allowance for impairment losses	(37,454)	—	(11,166)	(48,620)
Net value of assets	1,690,748	317,391	2,454,980	4,463,119
Total of net value of assets	1,722,667	326,508	2,460,641	4,509,816

(1) Inter-bank placements includes deposits with banks and other financial institutions, placements with banks and other financial institutions and financial assets held under resale agreements.

(2) Investments includes financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt investments of investments classified as receivables.

3.4 Collateral and other credit enhancements

The amount and type of collateral required depend on the assessment of the credit risk of the counterparty. The pledge rate depends on the credit information, operation and management, and financial position of pledgers, the condition of collateral, the market price, the pledged periods, and the convertibility of collateral. In addition, the Collateral Guideline of the Group set an upper limit of the pledged rate. Furthermore, the Group classifies and manages collateral by the difficulty of appraisal and management, the stability of market price and the convertibility of collateral. Following are the main types of collateral:

- For reverse repurchase agreements, collateral mainly includes bills, loans and securities
- For commercial loans, collateral mainly includes land, properties, equipment and shares, etc.
- For retail loans, collateral mainly includes properties

The management will monitor the market value of the collateral, ask the borrowers to increase collateral if necessary according to the agreements and monitor the change in the market value of the collateral when reviewing the adequacy of impairment.

3.5 Analysis of collateral value

3.5.1 The Group evaluates the fair value of collateral periodically

1) As at 31 December 2016, the fair value of collateral that related to loans past due but not impaired amounted to RMB 17,776 million (31 December 2015: RMB 26,394 million). The collateral includes land, properties, equipment and shares assets etc.

XIII. FINANCIAL RISK MANAGEMENT - continued

3. Credit risk - continued

3.5 Analysis of collateral value - continued

3.5.1 The Group evaluates the fair value of collateral periodically - continued

2) As at 31 December 2016, the fair value of collateral that related to loans individually assessed to be impaired amounted to RMB 23,540 million (31 December 2015: RMB 14,923 million). The collateral includes land, properties, equipment and shares assets.

3.5.2 The carrying value of foreclosed assets the Group obtained during 2016 amounted to RMB 102 million (2015: RMB 475 million).

3.6 Rescheduled loans

Reschedule including the extension of payment time, approval of external management plans and modification and extension of payment. After rescheduling, the customers who were overdue are now back to normal and managed with other similar customers. Rescheduled policies are made under the criteria of local management's judgement that the payment is highly possible to continue. These policies' appliance should be checked constantly. As at 31 December 2016, the carrying amount of rescheduled loans and advances to customers amounted to RMB 38,954 million (31 December 2015: RMB 17,808 million). The carrying amount of rescheduled loans and advances to customers past due over 90 days amounted to RMB 1,987 million (31 December 2015: RMB 1,729 million).

4. Market risk

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk arises from both the Group's proprietary and customer driven business. The Group's market risk management objective is to control the market risk within a reasonable scope in order to achieve the optimal risk adjusted benefit.

According to the Group's market risk management structure, market risk management is critical for the risk management of the Group. Any major events should be reported to the Asset and Liability Management Committee for review and then authorized by President of the Bank. The planning and financial department is responsible for implementing the Group's asset and liability and interest rate management policy, analysing and monitoring the implementation status of each type of indicators.

For daily control and management of treasury business, the risk management department of the treasure centre built up mid-stage risk control system to carry out an implanting risk management and report to the risk management department of the Group.

4.1 Interest rate risk

The interest rate risk of the Group includes repricing risk, yield curve risk, benchmark risk and optional risk, among which repricing risk is the main risk. It is the risk arising from the mismatch between the agreed maturity date (fixed interest rate day) and the repricing date (floating interest rate) of interest bearing assets and interest payment liabilities. Currently, the Group has fully carried out the internal capital transfer pricing. The Group determined the transfer pricing by different products and terms, and gradually centralized the interest rate risk to the Head Office, so as to improve the efficiency of management and control the interest rate risk.

For the interest risk management of bank accounts, the Group mainly evaluates the interest rate risk of the statement of financial position through gap analysis. The Group dynamically monitors and controls the interest rate sensitive gap of the statement of financial position through information systems like assets-liabilities management system, and simply calculates the interest rate sensitivity affected by revenue and economic value on the basis of gap analysis. The revenue analysis emphasizes on the effect of the interest rate fluctuation on short-term income, while the economic value analysis emphasizes on the effect of the interest rate fluctuation on present value of net cash flow.

For the interest risk management of transaction accounts, the Group mainly achieves the real-time monitoring of the interest rate risk of the trading accounts through the quota system, the use of financial

XIII. FINANCIAL RISK MANAGEMENT - continued

4. Market risk - continued

4.1 Interest rate risk - continued

transactions and analysis system and the scientific exposure measurement models. According to regulatory requirement, the Group has strengthened the management of market risk measurement models, standardized the developing, testing and commissioning process, and built on regular evaluation mechanisms to ensure the accuracy of measurement models. The Group applies the on-line trading and analysis system to timely measure and control the interest rate risk exposure of transaction accounts, which provides effective technical support to control the interest rate risk of transaction accounts.

At the balance sheet date, an analysis of contractual reprising date or maturity date, whichever is earlier, of the financial assets and liabilities are as follows:

The Group

	31/12/2016					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Financial assets:						
Cash and balances with Central Bank	436,078	—	—	—	21,576	457,654
Deposits with banks and other financial institutions	48,928	5,328	1,950	—	—	56,206
Placements with banks and other financial institutions	10,190	6,661	—	—	—	16,851
Financial assets at fair value through profit or loss	16,501	31,666	32,016	8,353	266,059	354,595
Derivative financial assets	—	—	—	—	16,137	16,137
Financial assets held under resale agreements	17,660	4,298	5,979	—	—	27,937
Loans and advances to customers	1,299,536	643,847	56,945	7,038	—	2,007,366
Available-for-sale financial assets	128,499	174,310	185,411	47,966	48,664	584,850
Investments classified as receivables	458,186	823,908	572,388	248,319	—	2,102,801
Finance lease receivables	86,419	2,962	458	—	—	89,839
Held-to-maturity investments	7,963	22,931	106,657	112,277	—	249,828
Other assets	15,869	1,710	150	290	35,335	53,354
Total financial assets	2,525,829	1,717,621	961,954	424,243	387,771	6,017,418
Financial liabilities:						
Borrowing from Central Bank	36,000	162,000	—	—	—	198,000
Deposits from banks and other financial institutions	1,470,818	247,010	2,730	450	—	1,721,008
Placements from banks and other financial institutions	61,021	66,268	2,715	—	—	130,004
Financial liabilities at fair value through profit or loss	459	8	—	—	27	494
Derivative financial liabilities	—	—	—	—	16,479	16,479
Financial assets sold under repurchase agreements	166,805	672	—	—	—	167,477
Due to customers	1,773,379	433,322	459,567	26,196	2,287	2,694,751
Debt securities issued	277,824	273,209	92,057	70,876	—	713,966
Other liabilities	—	—	279	308	60,140	60,727
Total financial liabilities	3,786,306	1,182,489	557,348	97,830	78,933	5,702,906
Net position	(1,260,477)	535,132	404,606	326,413	308,838	314,512

XIII. FINANCIAL RISK MANAGEMENT - continued

4. Market risk - continued

4.1 Interest rate risk - continued

The Group - continued

	31/12/2015					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Financial assets:						
Cash and balances with Central Bank	401,804	—	—	—	16,107	417,911
Deposits with banks and other financial institutions	29,243	11,546	1,558	—	—	42,347
Placements with banks and other financial institutions	29,670	26,166	500	—	—	56,336
Financial assets at fair value through profit or loss	4,887	14,523	8,089	1,850	99,336	128,685
Derivative financial assets	—	—	—	—	13,933	13,933
Financial assets held under resale agreements	169,762	40,145	16,017	—	—	225,924
Loans and advances to customers	892,259	747,322	78,319	6,922	—	1,724,822
Available-for-sale financial assets	55,907	93,212	185,423	63,881	28,211	426,634
Investments classified as receivables	496,706	605,846	576,445	155,909	—	1,834,906
Finance lease receivables	71,842	1,923	381	—	—	74,146
Held-to-maturity investments	1,803	11,650	70,046	123,303	—	206,802
Other assets	28,470	18	—	—	38,122	66,610
Total financial assets	2,182,353	1,552,351	936,778	351,865	195,709	5,219,056
Financial liabilities:						
Borrowing from Central Bank	31,800	35,900	—	—	—	67,700
Deposits from banks and other financial institutions	1,286,059	471,438	7,766	450	—	1,765,713
Placements from banks and other financial institutions	51,817	50,370	1,485	—	—	103,672
Financial liabilities at fair value through profit or loss	—	—	—	—	1	1
Derivative financial liabilities	—	—	—	—	10,563	10,563
Financial assets sold under repurchase agreements	47,718	298	—	—	—	48,016
Due to customers	1,725,931	552,915	200,743	2,174	2,160	2,483,923
Debt securities issued	135,468	200,325	38,120	40,921	—	414,834
Other liabilities	—	30	10	—	62,004	62,044
Total financial liabilities	3,278,793	1,311,276	248,124	43,545	74,728	4,956,466
Net position	(1,096,440)	241,075	688,654	308,320	120,981	262,590

XIII. FINANCIAL RISK MANAGEMENT - continued

4. Market risk - continued

4.1 Interest rate risk - continued

The Bank

	31/12/2016					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Financial assets:						
Cash and balances with Central Bank	436,050	—	—	—	21,576	457,626
Deposits with banks and other financial institutions	41,835	1,438	—	—	—	43,273
Placements with banks and other financial institutions	12,098	10,011	—	—	—	22,109
Financial assets at fair value through profit or loss	5,945	21,527	15,893	6,282	308,246	357,893
Derivative financial assets	—	—	—	—	16,137	16,137
Financial assets held under resale agreements	15,053	4,298	5,979	—	—	25,330
Loans and advances to customers	1,299,324	643,379	52,296	7,038	—	2,002,037
Available-for-sale financial assets	128,587	174,343	184,240	47,966	55,141	590,277
Investments classified as receivables	455,097	822,254	569,973	248,269	—	2,095,593
Held-to-maturity investments	7,963	22,931	106,657	112,277	—	249,828
Other assets	—	—	—	—	31,554	31,554
Total financial assets	2,401,952	1,700,181	935,038	421,832	432,654	5,891,657
Financial liabilities:						
Borrowing from Central Bank	36,000	162,000	—	—	—	198,000
Deposits from banks and other financial institutions	1,478,309	247,210	2,730	450	—	1,728,699
Placements from banks other financial institutions	24,180	18,417	—	—	—	42,597
Financial liabilities at fair value through profit or loss	459	—	—	—	—	459
Derivative financial liabilities	—	—	—	—	16,479	16,479
Financial assets sold under repurchase agreements	165,021	670	—	—	—	165,691
Due to customers	1,773,471	433,322	459,567	26,196	2,287	2,694,843
Debt securities issued	277,323	273,209	86,816	70,876	—	708,224
Other liabilities	—	—	—	—	45,902	45,902
Total financial liabilities	3,754,763	1,134,828	549,113	97,522	64,668	5,600,894
Net position	(1,352,811)	565,353	385,925	324,310	367,986	290,763

XIII. FINANCIAL RISK MANAGEMENT - continued

4. Market risk - continued

4.1 Interest rate risk - continued

The Bank - continued

	31/12/2015					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Financial assets:						
Cash and balances with Central Bank	401,747	—	—	—	16,107	417,854
Deposits with banks and other financial institutions	26,928	11,546	1,558	—	—	40,032
Placements with banks and other financial institutions	31,673	28,379	500	—	—	60,552
Financial assets at fair value through profit or loss	4,387	14,243	7,832	1,850	98,012	126,324
Derivative financial assets	—	—	—	—	13,933	13,933
Financial assets held under resale agreements	169,762	40,145	16,017	—	—	225,924
Loans and advances to customers	892,105	746,619	77,021	6,922	—	1,722,667
Available-for-sale financial assets	55,895	93,019	183,987	63,555	23,126	419,582
Investments classified as receivables	495,015	605,183	575,114	153,859	—	1,829,171
Held-to-maturity investments	1,703	11,650	70,046	123,303	—	206,702
Other assets	—	—	—	—	32,857	32,857
Total financial assets	2,079,215	1,550,784	932,075	349,489	184,035	5,095,598
Financial liabilities:						
Borrowing from Central Bank	31,800	35,900	—	—	—	67,700
Deposits from banks and other financial institutions	1,290,747	469,628	7,766	450	—	1,768,591
Placements from banks other financial institutions	15,927	4,341	—	—	—	20,268
Derivative financial liabilities	—	—	—	—	10,563	10,563
Financial assets sold under repurchase agreements	47,718	298	—	—	—	48,016
Due to customers	1,725,931	552,915	200,743	2,174	2,160	2,483,923
Debt securities issued	135,468	200,325	33,139	40,921	—	409,853
Other liabilities	—	—	—	—	48,980	48,980
Total financial liabilities	3,247,591	1,263,407	241,648	43,545	61,703	4,857,894
Net position	(1,168,376)	287,377	690,427	305,944	122,332	237,704

The following tables illustrate the potential impact of a parallel upward or downward shift of 100 basis points in all currencies' yield curves on the net interest income and other comprehensive income, based on the positions of financial assets and liabilities at the balance sheet date.

XIII. FINANCIAL RISK MANAGEMENT - continued

4. Market risk - continued

4.1 Interest rate risk - continued

The Group

	31/12/2016		31/12/2015	
	Net interest income	Other comprehensive income	Net interest income	Other comprehensive income
	increase (decrease) RMB million	increase (decrease) RMB million	increase (decrease) RMB million	increase (decrease) RMB million
+100 basis points	1,346	(5,446)	(1,880)	(4,070)
- 100 basis points	(1,346)	5,742	1,880	4,321

The Bank

	31/12/2016		31/12/2015	
	Net interest income	Other comprehensive income	Net interest income	Other comprehensive income
	increase (decrease) RMB million	increase (decrease) RMB million	increase (decrease) RMB million	increase (decrease) RMB million
+100 basis points	652	(5,437)	(2,337)	(4,047)
- 100 basis points	(652)	5,732	2,337	4,297

The sensitivity analysis on net interest income is based on reasonably possible changes in interest rates with the assumption that the structure of financial assets and financial liabilities held at the period end remains unchanged.

The sensitivity analysis on other comprehensive income is the effect on changes of fixed rate available-for-sale financial assets at the period end after adjusting in accordance with the reasonably possible changes in interest rates.

The above prediction assumes that all yield curves of assets and liabilities, except demand deposit, shift upward or downward parallel. Therefore it does not reflect the potential impact of non-parallel shift in yield curves. The prediction also assumes that all positions are held to maturity. The Group anticipates that the amount of sensitivity analysis is insignificant if a position is not held to maturity.

The assumption does not represent the group's capital and interest rate risk management policy. Therefore the above analysis may differ from the actual situation.

In addition, the impact of interest rate fluctuation is only for illustrating purpose, showing the anticipated net interest income and other comprehensive income of the Group under the current interest rate risk situation. And such impact has not taken into account the potential interest rate risk control activities carried out by the management.

4.2 Foreign currency risk

The Group conducts its businesses mainly in RMB, with certain businesses denominated in USD and other currencies. RMB is the functional currency. The foreign exchange rate is regulated by the PBOC.

The Group is mainly exposed to currency risk resulting from currency mismatches of assets and liabilities, foreign currency transactions and foreign currency capital, etc.

The capital operation department of the Bank centrally manages the currency risk. The currency risk that arises from all types of foreign exchange transactions at the branch level should be centralized to head office to manage the risk exposure and squares positions through the core business system.

XIII. FINANCIAL RISK MANAGEMENT - continued

4. Market risk - continued

4.2 Foreign currency risk - continued

The currency risk exposure between foreign currencies is managed on the basis of "overnight position limit" and "day time self-trading positions". The positions are centralized to the capital operation department in a timely way and managed centrally. This kind of position is relatively small compared to the Group's asset scale and is controllable.

Regarding the currency risk exposure between RMB and foreign currencies, the Group is mainly exposed to currency risk resulting from the comprehensive positions of the RMB market maker and the position of the foreign currency capital. As an active RMB market maker, the Group controls the position limit properly. The comprehensive positions of the market maker are managed close to zero and the overnight positions are kept at low level.

The following tables are the structure analysis of the relevant financial assets and liabilities by currency.

The Group

	31/12/2016			
	RMB	USD RMB equivalent	Other currencies RMB equivalent	Total
	RMB million	RMB million	RMB million	RMB million
Financial assets:				
Cash and balances with Central Bank	440,649	15,683	1,322	457,654
Deposits with banks and other financial institutions	29,846	21,908	4,452	56,206
Placements with banks and other financial institutions	7,425	8,979	447	16,851
Financial assets at fair value through profit or loss	345,040	9,555	—	354,595
Derivative financial assets	6,408	9,352	377	16,137
Financial assets held under resale agreements	23,415	54	4,468	27,937
Loans and advances to customers	1,912,162	64,743	30,461	2,007,366
Available-for-sale financial assets	491,145	92,030	1,675	584,850
Investments classified as receivables	2,094,013	7,939	849	2,102,801
Finance lease receivables	88,361	1,478	—	89,839
Held-to-maturity investments	242,346	5,226	2,256	249,828
Other assets	51,394	1,823	137	53,354
Total financial assets	5,732,204	238,770	46,444	6,017,418

	31/12/2016			
	RMB	USD RMB equivalent	Other currencies RMB equivalent	Total
	RMB million	RMB million	RMB million	RMB million
Financial liabilities:				
Borrowing from Central Bank	198,000	—	—	198,000
Deposits from banks and other financial institutions	1,650,483	69,308	1,217	1,721,008
Placements from banks and other financial institutions	97,825	23,669	8,510	130,004
Financial liabilities at fair value through profit or loss	494	—	—	494
Derivative financial liabilities	13,307	825	2,347	16,479
Financial assets sold under repurchase agreements	161,228	5,902	347	167,477
Due to customers	2,524,261	127,304	43,186	2,694,751
Debt securities issued	692,762	17,827	3,377	713,966
Other liabilities	58,287	2,284	156	60,727
Total financial liabilities	5,396,647	247,119	59,140	5,702,906
Net position	335,557	(8,349)	(12,696)	314,512

XIII. FINANCIAL RISK MANAGEMENT - continued

4. Market risk - continued

4.2 Foreign currency risk - continued

The Group - continued

	31/12/2015			
	RMB	USD RMB equivalent	Other currencies RMB equivalent	Total
	RMB million	RMB million	RMB million	RMB million
Financial assets:				
Cash and balances with Central Bank	405,339	11,255	1,317	417,911
Deposits with banks and other financial institutions	23,116	16,796	2,435	42,347
Placements with banks and other financial institutions	45,265	11,071	—	56,336
Financial assets at fair value through profit or loss	124,536	4,105	44	128,685
Derivative financial assets	6,693	6,654	586	13,933
Financial assets held under resale agreements	225,924	—	—	225,924
Loans and advances to customers	1,653,384	43,615	27,823	1,724,822
Available-for-sale financial assets	405,938	19,586	1,110	426,634
Investments classified as receivables	1,834,906	—	—	1,834,906
Finance lease receivables	72,599	1,547	—	74,146
Held-to-maturity investments	199,427	6,622	753	206,802
Other assets	65,607	755	248	66,610
Total financial assets	5,062,734	122,006	34,316	5,219,056

	31/12/2015			
	RMB	USD RMB equivalent	Other currencies RMB equivalent	Total
	RMB million	RMB million	RMB million	RMB million
Financial liabilities:				
Borrowing from Central Bank	67,700	—	—	67,700
Deposits from banks and other financial institutions	1,759,129	6,515	69	1,765,713
Placements from banks and other financial institutions	87,999	11,849	3,824	103,672
Financial liabilities at fair value through profit or loss	1	—	—	1
Derivative financial liabilities	8,998	732	833	10,563
Financial assets sold under repurchase agreements	47,998	18	—	48,016
Due to customers	2,322,026	119,611	42,286	2,483,923
Debt securities issued	411,825	1,811	1,198	414,834
Other liabilities	58,788	2,883	373	62,044
Total financial liabilities	4,764,464	143,419	48,583	4,956,466
Net position	298,270	(21,413)	(14,267)	262,590

XIII. FINANCIAL RISK MANAGEMENT - continued

4. Market risk - continued

4.2 Foreign currency risk - continued

The Bank

	31/12/2016			
	RMB	USD RMB equivalent	Other currencies RMB equivalent	Total
	RMB million	RMB million	RMB million	RMB million
Financial assets:				
Cash and balances with Central Bank	440,621	15,683	1,322	457,626
Deposits with banks and other financial institutions	16,913	21,908	4,452	43,273
Placements with banks and other financial institutions	12,683	8,979	447	22,109
Financial assets at fair value through profit or loss	348,338	9,555	—	357,893
Derivative financial assets	6,408	9,352	377	16,137
Financial assets held under resale agreements	20,808	54	4,468	25,330
Loans and advances to customers	1,906,833	64,743	30,461	2,002,037
Available-for-sale financial assets	496,572	92,030	1,675	590,277
Investments classified as receivables	2,086,805	7,939	849	2,095,593
Held-to-maturity investments	242,346	5,226	2,256	249,828
Other assets	29,594	1,823	137	31,554
Total financial assets	5,607,921	237,292	46,444	5,891,657

	31/12/2016			
	RMB	USD RMB equivalent	Other currencies RMB equivalent	Total
	RMB million	RMB million	RMB million	RMB million
Financial liabilities:				
Borrowing from Central Bank	198,000	—	—	198,000
Deposits from banks and other financial institutions	1,658,174	69,308	1,217	1,728,699
Placements from banks and other financial institutions	10,418	23,669	8,510	42,597
Financial liabilities at fair value through profit or loss	459	—	—	459
Derivative financial liabilities	13,307	825	2,347	16,479
Financial assets sold under repurchase agreements	159,442	5,902	347	165,691
Due to customers	2,524,353	127,304	43,186	2,694,843
Debt securities issued	687,020	17,827	3,377	708,224
Other liabilities	43,462	2,284	156	45,902
Total financial liabilities	5,294,635	247,119	59,140	5,600,894
Net position	313,286	(9,827)	(12,696)	290,763

XIII. FINANCIAL RISK MANAGEMENT - continued

4. Market risk - continued

4.2 Foreign currency risk - continued

The Bank - continued

	31/12/2015			
	RMB	USD RMB equivalent	Other currencies RMB equivalent	Total
	RMB million	RMB million	RMB million	RMB million
Financial assets:				
Cash and balances with Central Bank	405,282	11,255	1,317	417,854
Deposits with banks and other financial institutions	20,801	16,796	2,435	40,032
Placements with banks and other financial institutions	49,078	11,474	—	60,552
Financial assets at fair value through profit or loss	122,175	4,105	44	126,324
Derivative financial assets	6,693	6,654	586	13,933
Financial assets held under resale agreements	225,924	—	—	225,924
Loans and advances to customers	1,651,229	43,615	27,823	1,722,667
Available-for-sale financial assets	398,886	19,586	1,110	419,582
Investments classified as receivables	1,829,171	—	—	1,829,171
Held-to-maturity investments	199,327	6,622	753	206,702
Other assets	31,855	755	247	32,857
Total financial assets	4,940,421	120,862	34,315	5,095,598

	31/12/2015			
	RMB	USD RMB equivalent	Other currencies RMB equivalent	Total
	RMB million	RMB million	RMB million	RMB million
Financial liabilities:				
Borrowing from Central Bank	67,700	—	—	67,700
Deposits from banks and other financial institutions	1,762,007	6,515	69	1,768,591
Placements from banks and other financial institutions	4,595	11,849	3,824	20,268
Derivative financial liabilities	8,998	732	833	10,563
Financial assets sold under repurchase agreements	47,998	18	—	48,016
Due to customers	2,322,026	119,611	42,286	2,483,923
Debt securities issued	406,844	1,811	1,198	409,853
Other liabilities	45,724	2,883	373	48,980
Total financial liabilities	4,665,892	143,419	48,583	4,857,894
Net position	274,529	(22,557)	(14,268)	237,704

The table below indicates the potential effect of an appreciation or depreciation of RMB spot and forward exchange rate against all other currencies by 5% on the foreign exchange gains or losses.

The Group

	2016	2015
	Foreign exchange increase/(decrease)	Foreign exchange increase/(decrease)
	RMB million	RMB million
5% appreciation	(2,435)	(287)
5% depreciation	2,435	287

XIII. FINANCIAL RISK MANAGEMENT - continued

4. Market risk - continued

4.2 Foreign currency risk - continued

The Bank

	2016	2015
	Foreign exchange increase/(decrease)	Foreign exchange increase/(decrease)
	RMB million	RMB million
5% appreciation	(2,362)	(230)
5% depreciation	2,362	230

The above sensitivity analysis is measured on the basis that all assets and liabilities have a static currency risk structure. The relevant assumptions are:

(1) The exchange rate sensitivity represents the exchange gains or losses arisen from a 5% change of the closing exchange rates (middle price) of the different foreign currencies against RMB at the balance sheet date;

(2) The exchange rate changes of different foreign currencies against RMB move in the same direction simultaneously.

The effect on foreign exchange gains or loss is based on the assumption that the Group's net positions of foreign exchange sensitivity and foreign exchange derivative instruments at the end of the reporting period remain unchanged. The Group mitigates its foreign currency risk through active management of its foreign currency exposures and appropriate use of derivative instruments, based on the management expectation of future foreign currency movements, and therefore the above sensitivity analysis may differ from the actual situation.

4.3 Other price risk

Other price risk mainly derives from equity investments, held-for-trading precious metals investments and other bonds and derivatives linked to commodity price.

The Group believes that the market risk of commodity price or stock price from portfolio is insignificant.

5. Liquidity risk

Liquidity risk refers to the risk of being unable to acquire sufficient funds in time or failing to acquire sufficient funds at a reasonable cost to meet repayment obligations for asset growth or other business. The Group's liquidity risk mainly derives from advanced or concentrated withdrawal, principal-guaranteed wealth management products redemption, deferred loan repayment and mismatches of assets and liabilities.

The assets and liabilities management committee of the Group monitors and manages the liquidity risk of the Group. The committee will determine the liquidity risk management strategy, the monitoring indicators and the alarming index, regularly analyse and discuss the liquidity risk assessment report submitted, and determine the liquidity risk management measures.

The planning and financial department is responsible for: (1) drafting liquidity risk management policies and measures; (2) monitoring different types of liquidity ratios and exposure indicators. The planning and financial department monitors the liquidity risk ratios monthly by reviewing the assets' and liabilities' structure. If there are any ratios close to or over the alarming limits, the department has to investigate the reasons and make recommendations to adjust the assets' and liabilities' structure accordingly; (3) analysing the liquidity risk and reporting to the assets and liability management committee regularly; and (4) daily operation of liquidity management, establishment of a cash position forecast system at the Group level in order to meet the cash payment needs and assure the liquidity for the business development requirements.

The Group regularly monitors the surplus reserve ratio, liquidity ratio, loan-to-deposit ratio and sets alarming and security limits for each ratio. The Group also prepares general and comprehensive liquidity analysis report based on liquidity indicators recorded and net cash flow position of assets and liabilities,

XIII. FINANCIAL RISK MANAGEMENT - continued

5. Liquidity risk - continued

incorporating the consideration of macro economy and interbank liquidity status. The report is submitted to the assets and liabilities management committee for assessment. The assessment report will be submitted together with credit risk, interest rate risk and operation risk to the risk management committee of the Board of Directors for the analysis of the Group's overall risk assessment to determine the management strategy accordingly.

5.1 A maturity analysis of financial assets and liabilities of the Group as follows

The following tables are the structure analysis of non-derivative financial assets and liabilities by contractual maturities at the balance sheet date. The amounts disclosed in each term are the undiscounted contractual cash flows.

The Group

	31/12/2016							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Past due/ undated	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Non-derivative financial assets:								
Cash and balances with Central Bank	72,843	—	—	—	—	—	385,005	457,848
Deposits with banks and other financial institutions	30,559	13,676	8,343	3,756	—	—	21	56,355
Placements with banks and other financial institutions	—	7,901	2,410	6,827	—	—	64	17,202
Financial assets at fair value through profit or loss	265,802	6,600	8,634	34,742	39,128	15,801	702	371,409
Financial assets held under resale agreements	—	10,920	5,441	162	6,120	—	5,661	28,304
Loans and advances to customers	—	187,986	157,130	733,734	549,889	639,007	33,758	2,301,504
Available-for-sale financial assets	46,397	10,508	83,664	194,345	230,043	73,035	6,075	644,067
Investments classified as receivables	—	159,752	173,202	803,109	862,103	517,877	16,026	2,532,069
Financial lease receivables	—	2,880	5,240	23,954	65,251	4,350	1,789	103,464
Held-to-maturity investments	—	2,560	7,037	30,647	135,267	152,357	139	328,007
Other non-derivative financial assets	3,027	2,921	1,496	5,086	15,661	3,994	460	32,645
Total non-derivative financial assets:	418,628	405,704	452,597	1,836,362	1,903,462	1,406,421	449,700	6,872,874
Non-derivative financial liabilities:								
Borrowing from Central Bank	—	10,312	26,413	162,824	—	—	—	199,549
Deposits from banks and other financial institutions	491,813	474,313	512,516	253,407	3,054	550	—	1,735,653
Placements from banks and other financial institutions	—	18,275	43,963	65,185	5,223	—	—	132,646
Financial liabilities at fair value through profit or loss	26	—	460	—	9	—	—	495
Financial assets sold under repurchase agreements	—	149,986	17,158	678	—	—	—	167,822
Due to customers	1,308,657	186,730	212,655	525,804	502,066	27,012	—	2,762,924
Debt securities issued	—	91,932	152,345	309,582	128,229	85,809	—	767,897
Other non-derivative financial liabilities	9,715	1,675	1,000	3,792	7,145	1,490	10	24,827
Total non-derivative financial liabilities	1,810,211	933,223	966,510	1,321,272	645,726	114,861	10	5,791,813
Net position	(1,391,583)	(527,519)	(513,913)	515,090	1,257,736	1,291,560	449,690	1,081,061

XIII. FINANCIAL RISK MANAGEMENT - continued

5. Liquidity risk - continued

5.1 A maturity analysis of financial assets and liabilities of the Group as follows - continued

The Group - continued

	31/12/2015							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Past due/ undated	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Non-derivative financial assets:								
Cash and balances with Central Bank	64,289	—	—	—	—	—	353,802	418,091
Deposits with banks and other financial institutions	21,311	4,285	3,687	11,773	1,558	—	21	42,635
Placements with banks and other financial institutions	—	17,485	12,624	26,805	514	—	68	57,496
Financial assets at fair value through profit or loss	99,182	2,225	2,633	13,142	12,594	5,780	209	135,765
Financial assets held under resale agreements	—	118,221	47,997	43,249	16,596	—	4,819	230,882
Loans and advances to customers	—	202,204	139,950	691,924	551,681	427,199	35,311	2,048,269
Available-for-sale financial assets	26,308	9,296	44,034	95,114	236,736	70,892	1,392	483,772
Investments classified as receivables	—	264,884	204,287	673,126	712,454	217,412	5,795	2,077,958
Financial lease receivables	—	2,185	4,193	18,470	56,273	3,477	589	85,187
Held-to-maturity investments	—	1,455	1,803	18,506	97,926	167,290	130	287,110
Other non-derivative financial assets	1,851	6,039	5,091	6,484	22,476	2,416	653	45,010
Total non-derivative financial assets:	212,941	628,279	466,299	1,598,593	1,708,808	894,466	402,789	5,912,175
Non-derivative financial liabilities:								
Borrowing from Central Bank	—	20,337	11,947	36,021	—	—	—	68,305
Deposits from banks and other financial institutions	604,730	334,648	352,516	482,548	8,478	551	—	1,783,471
Placements from banks and other financial institutions	—	21,763	28,383	52,592	2,567	1,242	—	106,547
Financial liabilities at fair value through profit or loss	—	—	—	—	1	—	—	1
Financial assets sold under repurchase agreements	—	26,843	21,062	301	—	—	—	48,206
Due to customers	1,159,751	259,285	281,913	603,096	230,145	2,518	—	2,536,708
Debt securities issued	—	22,579	115,410	207,795	80,439	10,575	—	436,798
Other non-derivative financial liabilities	11,047	4,149	467	1,800	7,128	1,132	29	25,752
Total non-derivative financial liabilities	1,775,528	689,604	811,698	1,384,153	328,758	16,018	29	5,005,788
Net position	(1,562,587)	(61,325)	(345,399)	214,440	1,380,050	878,448	402,760	906,387

Assets available to meet all of the liabilities and outstanding loan commitments include cash and balances with Central Bank, deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements and financial assets at fair value through profit or loss, etc.. In the normal course of business, the majority of customer deposits repayable on demand are expected to be revolved. In addition, the Group is able to sell the available-for-sale financial assets to repay the matured liabilities if necessary.

XIII. FINANCIAL RISK MANAGEMENT - continued

5. Liquidity risk - continued

5.1 A maturity analysis of financial assets and liabilities of the Group as follows - continued

The Bank

	31/12/2016							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Past due/ undated	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Non-derivative financial assets:								
cash and balances with Central Bank	72,842	—	—	—	—	—	384,977	457,819
Deposits with banks and other financial institutions	27,046	10,091	4,731	1,469	—	—	21	43,358
Placements with banks and other financial institutions	—	8,687	3,603	10,274	—	—	64	22,628
Financial assets at fair value through profit or loss	308,246	2,224	2,903	22,795	18,948	12,249	600	367,965
Financial assets held under resale agreements	—	8,920	4,832	162	6,120	—	5,661	25,695
Loans and advances to customers	—	187,644	156,460	731,411	547,786	639,007	33,609	2,295,917
Available-for-sale financial assets	54,832	10,071	82,793	194,227	228,652	73,035	5,487	649,097
Investments classified as receivables	—	159,685	170,104	801,288	859,553	517,817	16,026	2,524,473
Held-to-maturity investments	—	2,560	7,037	30,647	135,267	152,357	139	328,007
Other non-derivative financial assets	1,302	2,277	1,117	863	2,577	266	—	8,402
Total non-derivative financial assets:	464,268	392,159	433,580	1,793,136	1,798,903	1,394,731	446,584	6,723,361
Non-derivative financial liabilities:								
Borrowing from Central Bank	—	10,312	26,413	162,824	—	—	—	199,549
Deposits from banks and other financial institutions	495,055	478,215	512,872	253,617	3,054	550	—	1,743,363
Placements with banks and other financial institutions	—	7,328	17,315	18,434	—	—	—	43,077
Financial liabilities at fair value through profit or loss	—	—	460	—	—	—	—	460
Financial assets sold under repurchase agreements	—	148,205	17,154	677	—	—	—	166,036
Due to customers	1,308,749	186,730	212,655	525,804	502,066	27,012	—	2,763,016
Debt securities issued	—	91,932	152,228	308,710	122,868	85,809	—	761,547
Other non-derivative financial liabilities	6,875	1,490	877	833	456	76	—	10,607
Total non-derivative financial liabilities	1,810,679	924,212	939,974	1,270,899	628,444	113,447	—	5,687,655
Net position	(1,346,411)	(532,053)	(506,394)	522,237	1,170,459	1,281,284	446,584	1,035,706

XIII. FINANCIAL RISK MANAGEMENT - continued

5. Liquidity risk - continued

5.1 A maturity analysis of financial assets and liabilities of the Group as follows - continued

The Bank - continued

	31/12/2015							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Past due/ undated	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Non-derivative financial assets:								
Cash and balances with Central Bank	64,289	—	—	—	—	—	353,745	418,034
Deposits with banks and other financial institutions	18,996	4,285	3,687	11,773	1,558	—	21	40,320
Placements with banks and other financial institutions	—	18,549	13,603	29,048	514	—	68	61,782
Financial assets at fair value through profit or loss	98,012	2,180	2,128	13,025	12,102	5,780	100	133,327
Financial assets held under resale agreements	—	118,221	47,997	43,249	16,596	—	4,819	230,882
Loans and advances to customers	—	202,039	139,616	690,593	550,963	427,199	35,267	2,045,677
Available-for-sale financial assets	23,045	8,203	43,919	94,904	234,886	70,138	1,143	476,238
Investments classified as receivables	—	264,877	202,586	672,166	710,403	215,347	5,795	2,071,174
Held-to-maturity investments	—	1,355	1,803	18,506	97,926	167,290	130	287,010
Other non-derivative financial assets	420	6,210	3,028	782	485	83	419	11,427
Total non-derivative financial assets:	204,762	625,919	458,367	1,574,046	1,625,433	885,837	401,507	5,775,871
Non-derivative financial liabilities:								
Borrowing from Central Bank	—	20,337	11,947	36,021	—	—	—	68,305
Deposits from banks and other financial institutions	611,379	333,638	351,566	480,738	8,478	551	—	1,786,350
Placements from banks and other financial institutions	—	9,861	6,098	4,393	—	—	—	20,352
Financial assets sold under repurchase agreements	—	26,843	21,062	301	—	—	—	48,206
Due to customers	1,159,751	259,285	281,913	603,096	230,145	2,518	—	2,536,708
Debt securities issued	—	22,579	115,410	207,598	75,046	10,575	—	431,208
Other non-derivative financial liabilities	7,953	4,108	238	488	358	39	—	13,184
Total non-derivative financial liabilities	1,779,083	676,651	788,234	1,332,635	314,027	13,683	—	4,904,313
Net position	(1,574,321)	(50,732)	(329,867)	241,411	1,311,406	872,154	401,507	871,558

XIII. FINANCIAL RISK MANAGEMENT - continued

5. Liquidity risk - continued

5.2 Liquidity risk analysis of derivative instruments

(i) Derivative settled on a net basis

Derivatives that were settled on a net basis by the Group include: interest rate derivatives, exchange rate derivatives and credit derivatives, etc. The tables below set forth the Group's net derivative financial instruments positions by remaining contractual maturities at the balance sheet date. The amounts disclosed in the tables are the undiscounted contractual cash flows.

The Group and the Bank	31/12/2016					
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Interest rate derivatives	13	4	56	315	—	388
Exchange rate derivatives	—	—	(8)	—	—	(8)
Other derivatives	—	—	69	16	—	85
Total	13	4	117	331	—	465

	31/12/2015					
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Interest rate derivatives	2	18	16	(38)	—	(2)
Other derivatives	—	—	15	9	—	24
Total	2	18	31	(29)	—	22

(ii) Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis refer to exchange rate derivatives and precious metals forward with delivery precious metals. The tables below set forth the Group's positions by remaining contractual maturities at the balance sheet date. The amounts disclosed in the tables are the undiscounted contractual cash flows.

The Group and the Bank	31/12/2016					
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Exchange rate derivatives						
- Cash inflow	369,626	311,882	407,056	10,609	—	1,099,173
- Cash outflow	(369,732)	(312,597)	(406,693)	(10,625)	—	(1,099,647)
Other derivatives						
- Cash inflow	7,403	15,890	13,313	5,224	—	41,830
- Cash outflow	(6,899)	(11,981)	3,655	(364)	—	(15,589)
Total	398	3,194	17,331	4,844	—	25,767

	31/12/2015					
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Exchange rate derivatives						
- Cash inflow	343,170	211,488	360,267	3,667	—	918,592
- Cash outflow	(343,049)	(211,349)	(359,445)	(3,674)	—	(917,517)
Other derivatives						
- Cash inflow	2,221	7,282	37,168	2,699	—	49,370
- Cash outflow	(1,451)	(845)	(4,051)	—	—	(6,347)
Total	891	6,576	33,939	2,692	—	44,098

5. Liquidity risk - continued

5.3 Off-balance sheet items

The Group's off-balance sheet items mainly include credit card commitment, letters of credit, letters of guarantee and bank acceptances. The tables below set forth the amounts of the off-balance sheet items by remaining maturity.

The Group and the Bank

	31/12/2016				31/12/2015			
	Less than 1 year	1-5 years	Over 5 years	Total	Less than 1 year	1-5 years	Over 5 years	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Credit card commitments	140,375	—	—	140,375	92,357	—	—	92,357
Letter of credit	79,091	311	—	79,402	111,072	475	—	111,547
Letter of guarantee	43,200	29,965	46,138	119,303	39,805	38,927	53,398	132,130
Bank acceptances	391,154	-	-	391,154	498,589	—	—	498,589
Total	653,820	30,276	46,138	730,234	741,823	39,402	53,398	834,623

6. Capital Management

During the year, the Group had conscientiously implemented the capital management policy according to the regulations of China Banking Regulatory Commission *Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)*. As per "2011-2015 Development Strategy Plan" and "2014-2016 Capital Adequacy Standards Planning of Transition Period", the Group will achieve healthy and sustainable development as well as make sure capital adequacy ratio meet requirements by well performing capital management policies.

In 2016, on the basis of balance among assets growth, capital demand and capital supplementing channels, as well as fully demonstrated the necessity and feasibility of capital supplementing, the Group successfully issued tier 2 capital bonds amounting RMB 30,000 million for supplementing tier 2 capital. After the capital supplementing, the Group's capital structure was further optimized, with capital adequacy ratio promoted, and risk resistance capacity and capacity of serving real economy further enhanced.

The Group implemented capital intensive operation and management to continuously improve and optimize risk-weighted asset amount allocation and governing system. Oriented by risk-weighted asset yields, the Group makes overall arrangements of risk-weighted assets scale among all operation institutions and business lines to reasonably adjust industry structure and promote capital allocation and strengthen capital internalization capability.

According to related guidelines of the CBRC, "Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)" and other regulations, the Group monitors its capital adequacy and capital application in real time. As at 31 December 2016, the Group's net core tier one capital, net tier one capital and net capital are RMB 325,169 million, RMB 351,088 million and RMB 456,958 million, respectively.

7. Fair value of financial instruments

7.1 Method of fair value recognition

Part of the financial assets and financial liabilities of the Group is measured at fair value. Fair value are measured through appropriate method and parameters, and regularly reviewed by the board of directors to keep its applicability.

When recognizing the fair value of the financial instrument, to those financial instruments which can obtain unadjusted price of same assets and liabilities in the active market, the Group regards the unadjusted price in the active market as the best evidence of fair value. And then the Group recognizes the fair value and classifies it to level 1.

XIII. FINANCIAL RISK MANAGEMENT - continued

7. Fair value of financial instruments - continued

7.1 Method of fair value recognition - continued

If the parameters of the estimation are observable and acquirable in the active market, such financial instruments (including equity instrument and derivative financial instrument) should be classified to level 2. The Group uses internal or external professionals to estimate the value with techniques including Black-Scholes option pricing model for option derivative financial instrument and discounted cash flow model for non-derivative financial instrument and part of the derivative financial instrument (including interest swaps, forward foreign exchange etc.) which cannot obtain prices in the active market. The main parameters used in the discounted cash flow model include the recent trading price, the relevant yield curve, exchange rates, prepayment rates and counterparty credit spreads, the main parameters of Black-Scholes option pricing model used include relevant yield curve, exchange rates, fluctuations level, and counterparty credit spreads, etc.

To loans and advances to customers and part of investments classified as receivables, their fair value is based on discounted cash flow model, and confirmed by unobservable discount rate which reflects credit risk. Such financial instruments are classified to level 3.

To unlisted equity (private equity) owned by the Group, the measure of fair value may adopt the unobservable input parameters which have significant influence over the estimation. Therefore, such financial instruments are classified to level 3. The management estimates the fair value of level 3 financial instruments by a series of method, including unobservable parameters such as discount rate which lacks market liquidity. If one or more unobservable parameters change based on reasonably possible alternative hypothesis, the fair value of such financial instruments will changed accordingly. The Group has established related internal control process in order to supervise the exposure of the financial instrument.

7.2 Financial assets and financial liabilities at fair value on recurring basis

For financial assets and financial liabilities at fair value on recurring basis, three levels of fair value measurement are analysed as follows:

The Group

	31/12/2016				31/12/2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Financial assets:								
Financial assets at fair value through profit or loss	265,802	88,793	—	354,595	99,182	29,503	—	128,685
Derivative financial assets	—	16,137	—	16,137	—	13,933	—	13,933
Available-for-sale financial assets	46,397	380,128	157,458	583,983	26,308	198,307	201,689	426,304
Total	312,199	485,058	157,458	954,715	125,490	241,743	201,689	568,922
Financial liabilities:								
Financial liabilities at fair value through profit or loss	26	468	—	494	—	1	—	1
Derivative financial liabilities	—	16,479	—	16,479	—	10,563	—	10,563
Total	26	16,947	—	16,973	—	10,564	—	10,564

XIII. FINANCIAL RISK MANAGEMENT - continued

7. Fair value of financial instruments - continued

7.2 Financial assets and financial liabilities at fair value on recurring basis - continued

The Bank

	31/12/2016				31/12/2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Financial assets:								
Financial assets at fair value through profit or loss	308,246	49,647	—	357,893	98,012	28,312	—	126,324
Derivative financial assets	—	16,137	—	16,137	—	13,933	—	13,933
Available-for-sale financial assets	54,832	377,877	157,259	589,968	23,045	194,883	201,573	419,501
Total	363,078	443,661	157,259	963,998	121,057	237,128	201,573	559,758
Financial liabilities:								
Financial liabilities at fair value through profit or loss	—	459	—	459	—	—	—	—
Derivative financial liabilities	—	16,479	—	16,479	—	10,563	—	10,563
Total	—	16,938	—	16,938	—	10,563	—	10,563

There are no transfers from Level 1 and Level 2 to Level 3, and no transfers between Level 1 and Level 2 for the fair value measurements of the Group's financial instruments in 2016 and in 2015.

Information of Level 2:

The Group

	Fair value in 31/12/2016	Fair value in 31/12/2015	Valuation Tech	Inputs
	RMB million	RMB million		
Financial assets:				
Debt instrument investments	467,194	225,753	Discounted cash flow method	Yield rate of bonds
Equity instrument investments	1,727	2,057	Discounted cash flow method	Weighted average capital cost
Derivative financial instruments	16,137	13,933	Discounted cash flow method Option pricing model	Credit of counter-party Credit premium, volatility
Total	485,058	241,743		
Financial liabilities:				
Debt instrument investments	468	1	Discounted cash flow method	Yield rate of bonds
Derivative financial instruments	16,479	10,563	Discounted cash flow method Option pricing model	Credit of counter-party Credit premium, volatility
Total	16,947	10,564		

The Bank

	Fair value in 31/12/2016	Fair value in 31/12/2015	Valuation Tech	Inputs
	RMB million	RMB million		
Financial assets:				
Debt instrument investments	427,524	223,195	Discounted cash flow method	Yield rate of bonds
Derivative financial instruments	16,137	13,933	Discounted cash flow method Option Pricing Model	Credit of counter-party Credit premium, volatility
Total	443,661	237,128		
Financial liabilities:				
Debt instrument investments	459	—	Discounted cash flow method	Yield rate of bonds
Derivative financial instruments	16,479	10,563	Discounted cash flow method Option Pricing Model	Credit of counter-party Credit premium, volatility
Total	16,938	10,563		

XIII. FINANCIAL RISK MANAGEMENT - continued

7. Fair value of financial instruments - continued

7.2 Financial assets and financial liabilities at fair value on recurring basis - continued

Information of Level 3:

The Group

	Fair value in 31/12/2016	Fair value in 31/12/2015	Value Tech
	RMB million	RMB million	
Debt instrument investment	157,458	201,689	Discounted cash flow method

The Bank

	Fair value in 31/12/2016	Fair value in 31/12/2015	Value Tech
	RMB million	RMB million	
Debt instrument investment	157,259	201,573	Discounted cash flow method

As for these debt instruments, using the discounted cash flow model for evaluating, the main significant unobservable inputs is the discount rate, the weighted average of 5.24% (31 December 2015: 5.83%), and the significant unobservable inputs are inversely proportional to the fair value.

Adjustment of financial assets and liabilities in level 3 at fair value:

The Group

Available-for-sale financial assets	31/12/2016	31/12/2015
	RMB million	RMB million
Opening	201,689	146,179
Total profit and loss	6,399	12,280
Interest income	6,399	12,280
Bought/Sold	61,034	181,935
Settle	(105,265)	(126,425)
Closing	157,458	201,689
Unrealized gains or losses for the period included in profit or loss for assets held at the end of the reporting period	—	—

The Bank

Available-for-sale financial assets	31/12/2016	31/12/2015
	RMB million	RMB million
Opening	201,573	145,959
Total profit and loss	6,287	12,203
Interest income	6,287	12,203
Bought/Sold	60,871	181,840
Settle	(105,185)	(126,226)
Closing	157,259	201,573
Unrealized gains or losses for the period included in profit or loss for assets held at the end of the reporting period	—	—

XIII. FINANCIAL RISK MANAGEMENT - continued

7. Fair value of financial instruments - continued

7.3 Financial assets and liabilities measured not by fair value

The table below shows the carrying value of financial assets and financial liabilities at non-fair value and the corresponding fair value on the balance sheet date. The carrying value approximates the fair value of financial assets and financial liabilities, such as balance with Central Bank, deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements, borrowing from the Central Bank, placements from banks and other financial institutions, financial assets sold under repurchase agreements not included in the table below.

The Group

	31/12/2016		31/12/2015	
	Carrying value	Fair value	Carrying value	Fair value
	RMB million	RMB million	RMB million	RMB million
Financial assets:				
Loans and advances to customers	2,007,366	2,008,311	1,724,822	1,727,210
Held-to-maturity investments	249,828	259,596	206,802	216,130
Investments classified as receivables	2,102,801	2,096,135	1,834,906	1,836,671
Total	4,359,995	4,364,042	3,766,530	3,780,011
Financial liabilities:				
Due to customers	2,694,751	2,698,569	2,483,923	2,492,458
Debt securities issued	713,966	712,117	414,834	417,158
Total	3,408,717	3,410,686	2,898,757	2,909,616

The Bank

	31/12/2016		31/12/2015	
	Carrying value	Fair value	Carrying value	Fair value
	RMB million	RMB million	RMB million	RMB million
Financial assets:				
Loans and advances to customers	2,002,037	2,002,980	1,722,667	1,725,037
Held-to-maturity investments	249,828	259,596	206,702	216,030
Investments classified as receivables	2,095,593	2,088,927	1,829,171	1,830,937
Total	4,347,458	4,351,503	3,758,540	3,772,004
Financial liabilities:				
Due to customers	2,694,843	2,698,661	2,483,923	2,492,458
Debt securities issued	708,224	706,374	409,853	412,121
Total	3,403,067	3,405,035	2,893,776	2,904,579

XIII. FINANCIAL RISK MANAGEMENT - continued

7. Fair value of financial instruments - continued

7.3 Financial assets and liabilities measured not by fair value - continued

Level of financial assets and liabilities measured not by fair value on balance sheet date:

The Group

	31/12/2016			
	Level 1	Level 2	Level 3	Total
	RMB million	RMB million	RMB million	RMB million
Financial assets:				
Loans and advances to customers	—	—	2,008,311	2,008,311
Held-to-maturity investments	—	259,596	—	259,596
Investments classified as receivables	—	346,195	1,749,940	2,096,135
Total	—	605,791	3,758,251	4,364,042
Financial liabilities:				
Due to customers	—	2,698,569	—	2,698,569
Debt securities issued	—	712,117	—	712,117
Total	—	3,410,686	—	3,410,686

	31/12/2015			
	Level 1	Level 2	Level 3	Total
	RMB million	RMB million	RMB million	RMB million
Financial assets:				
Loans and advances to customers	—	—	1,727,210	1,727,210
Held-to-maturity investments	—	216,130	—	216,130
Investments classified as receivables	—	234,955	1,601,716	1,836,671
Total	—	451,085	3,328,926	3,780,011
Financial liabilities:				
Due to customers	—	2,492,458	—	2,492,458
Debt securities issued	—	417,158	—	417,158
Total	—	2,909,616	—	2,909,616

The Bank

	31/12/2016			
	Level 1	Level 2	Level 3	Total
	RMB million	RMB million	RMB million	RMB million
Financial assets:				
Loans and advances to customers	—	—	2,002,980	2,002,980
Held-to-maturity investments	—	259,596	—	259,596
Investments classified as receivables	—	346,954	1,741,973	2,088,927
Total	—	606,550	3,744,953	4,351,503
Financial liabilities:				
Due to customers	—	2,698,661	—	2,698,661
Debt securities issued	—	706,374	—	706,374
Total	—	3,405,035	—	3,405,035

XIII. FINANCIAL RISK MANAGEMENT - continued

7. Fair value of financial instruments - continued

7.3 Financial assets and liabilities measured not by fair value - continued

Level of financial assets and liabilities measured not by fair value on balance sheet date - continued:

The Bank - continued

	31/12/2015			
	Level 1	Level 2	Level 3	Total
	RMB million	RMB million	RMB million	RMB million
Financial assets:				
Loans and advances to customers	—	—	1,725,037	1,725,037
Held-to-maturity investments	—	216,030	—	216,030
Investments classified as receivables	—	234,445	1,596,492	1,830,937
Total	—	450,475	3,321,529	3,772,004
Financial liabilities:				
Due to customers	—	2,492,458	—	2,492,458
Debt securities issued	—	412,121	—	412,121
Total	—	2,904,579	—	2,904,579

Quantitative information of level 2, 3 at fair value:

The Group

	Fair value in 31/12/2016	Fair value in 31/12/2015	Valuation Tech	Inputs
	RMB million	RMB million		
Loans and advances to customers	2,008,311	1,727,210	Discounted cash flow method	Default rate, loss given default, discount rate
Held-to-maturity investments	259,596	216,130	Discounted cash flow method	Yield rate of bonds
Investments classified as receivables	2,096,135	1,836,671	Discounted cash flow method	Default rate, loss given default, discount rate
Due to customers	2,698,569	2,492,458	Discounted cash flow method	Market deposit rate
Debt securities issued	712,117	417,158	Discounted cash flow method	Yield rate of bonds
Total	7,774,728	6,689,627		

The Bank

	Fair value in 31/12/2016	Fair value in 31/12/2015	Valuation Tech	Inputs
	RMB million	RMB million		
Loans and advances to customers	2,002,980	1,725,037	Discounted cash flow method	Default rate, loss given default, discount rate
Held-to-maturity investments	259,596	216,030	Discounted cash flow method	Yield rate of bonds
Investments classified as receivables	2,088,927	1,830,937	Discounted cash flow method	Default rate, loss given default; discount rate
Due to customers	2,698,661	2,492,458	Discounted cash flow method	Market deposit rate
Debt securities issued	706,374	412,121	Discounted cash flow method	Yield rate of bonds
Total	7,756,538	6,676,583		

All of the above-mentioned assumptions and methods provide a consistent basis for the calculation of the fair values of the Group's assets and liabilities. However, other institutions may use different assumptions and methods. Therefore, the fair values disclosed by different financial institutions may not be entirely comparable.

XIV. NON-ADJUSTING EVENTS AFTER BALANCE SHEET DATE

On 31 March 2017, the Bank privately placed 1,721,854,000 A-shares to the Finance Bureau of Fujian Province, China National Tobacco Corporation, China National Tobacco Corporation Fujian Province, China National Tobacco Corporation Guangdong Province, Yango Holdings Group and Fujian Investment and Development Group Co., Ltd., with the total raised funds amounting to RMB 25,999,995,400.00. After deducting the issuance expenses of RMB 105,748,295.15, the net funds raised from this private placement was RMB 25,894,247,104.85. The above mentioned new share capital has been verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP and a capital verification report De Shi Bao (Yan) Zi (17) No. 00187 has been issued. The shares of this private placement subscribed by Fujian Provincial Department of Finance, China National Tobacco Corporation, China National Tobacco Corporation of Fujian Province and China National Tobacco Corporation of Guangdong Province are not allowed for transfer within 60 months from the completion date of issuance. The shares of this private placement subscribed by Yango Holdings Group and Fujian Investment and Development Group Co., Ltd. are not allowed for transfer within 36 months from the completion date of issuance.

XV. FINANCIAL STATEMENTS APPROVED

The financial statements were approved by the Board of Directors on 27 April 2017.

*** END OF FINANCIAL STATEMENTS***

1. Breakdown of non-recurring profit or loss

The following table is in accordance with the requirement of *Information Disclosure and Presentation Rules for Companies Making Public Offering of Securities No. 1 — Non-recurring Profit or Loss (2008)* (ZJHGG [2008] No.43) issued by China Securities Regulatory Commission.

The Group

	2016 RMB million	2015 RMB million
Gains and losses on the disposal of non-current assets	27	9
Government grants recognised in profit or loss	340	334
Recovery of assets written-off in previous years	1,414	531
Net non-operating income and expenses in addition to the above	176	91
Subtotal	1,957	965
Impact on income tax expenses	(501)	(252)
Total	1,456	713
Total non-recurring profit or loss attributable to ordinary shareholders of the Bank	1,451	714
Total non-recurring profit or loss attributable to non-controlling interests	5	(1)
Net profit attributable to ordinary shareholders of the Bank, after deduction of non-recurring profit or loss	51,252	49,442

Non-recurring profit or loss refers to the profit or loss not related to normal business or the profit or loss which is related to normal business but affects the user of financial statements to make correct judgement for the Bank's financial position and financial performance because of its distinctiveness and non-recurring. Considering the nature of its normal business, Industrial Bank Co., Ltd. (hereinafter referred to as "the Bank") does not include "investment income from financial assets at fair value through profit or loss, financial liabilities at fair value through profit or loss and available-for-sale financial assets" in non-recurring profit or loss.

2. Return on net assets and earnings per share ("EPS")

The related data is calculated in accordance with the provisions in the Rule *No.9 for the Preparation of Information Disclosure of Companies with Public Offering – the Calculation and Disclosure of ROE and EPS (revised in 2010)*. In the related period, basic EPS is calculated by dividing net profit by weighted average ordinary shares issued.

The Group

2016

	Weighted average ROE (%)	Basic EPS (RMB Yuan per share)
Net profit attributable to ordinary shareholders of the Bank	17.28%	2.77
Net profit attributable to s ordinary shareholders of the Bank, after deduction of non-recurring profit or loss	16.80%	2.69

2015

	Weighted average ROE (%)	Basic EPS (RMB Yuan per share)
Net profit attributable to ordinary shareholders of the Bank	18.89	2.63
Net profit attributable to ordinary shareholders of the Bank, after deduction of non-recurring profit or loss	18.63	2.60

The RMB26,000 million preference shares of the Bank approved in November 2014 were successfully issued in June 2015. When calculating the earnings per share, the current net profit attributed to ordinary shareholders did not include preference shares dividends announced of insurance. Besides, it had no further influence on basic earnings per share and diluted earnings per share in 2016 and 2015.

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