

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, 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 announcement.*



**BANK OF CHINA**

**中國銀行股份有限公司**  
**BANK OF CHINA LIMITED**

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

**(Stock Code: 3988 and 4601 (Preference Shares))**

## **ANNOUNCEMENT**

### **Bank of China Limited Capital Adequacy Ratio Report of 2016**

In accordance with the relevant requirements under the *Capital Rules for Commercial Banks (Provisional)* promulgated by the China Banking Regulatory Commission, the meeting of the Board of Directors of the Bank held on 31 March 2017 considered and approved *Bank of China Limited Capital Adequacy Ratio Report of 2016*. Set out below is a complete version of the report for reference only.

By Order of the Board  
**Bank of China Limited**  
**GENG Wei**

*Secretary to the Board of Directors and Company Secretary*

Beijing, PRC  
31 March 2017

*As at the date of this announcement, the directors of the Bank are: Tian Guoli, Chen Siqing, Ren Deqi, Gao Yingxin, Zhang Xiangdong\*, Zhang Qi\*, Liu Xianghui\*, Li Jucai\*, Nout Wellink#, Lu Zhengfei#, Leung Cheuk Yan#, Wang Changyun# and Angela Chao#.*

\* *Non-Executive Directors*

# *Independent Non-Executive Directors*



中國銀行

BANK OF CHINA

# **Bank of China Limited**

## **Capital Adequacy Ratio Report of 2016**

# Contents

1	Introduction . . . . .	4
1.1	Bank Profile . . . . .	4
1.2	Basis of Disclosure . . . . .	5
1.3	Scope of Consolidation . . . . .	5
2	Capital and Capital Adequacy Ratio . . . . .	8
2.1	Internal Capital Adequacy Assessment Method and Process . . . . .	8
2.2	Capital Planning and Capital Adequacy Ratio Management Plan . . . . .	8
2.3	Capital Adequacy Ratio . . . . .	9
2.4	Composition of Capital . . . . .	10
2.5	Capital Deduction Limits and Excess Loan Loss Provisions . . . . .	11
2.6	Material Capital Investments . . . . .	12
2.7	Paid-in Capital . . . . .	12
3	Risk Management . . . . .	13
3.1	Risk Management Framework . . . . .	13
3.2	Significant Changes to Risk Measurement Approaches . . . . .	15
3.3	Risk-weighted Assets . . . . .	15
4	Credit Risk . . . . .	16
4.1	Credit Risk Management . . . . .	16
4.2	Credit Risk Measurement . . . . .	16
4.3	Credit Risk Mitigation . . . . .	23
4.4	Overdue and Non-performing Loans . . . . .	25
4.5	Allowance for Impairment Losses . . . . .	26
5	Market Risk . . . . .	27
5.1	Market Risk Management . . . . .	27
5.2	Market Risk Measurement . . . . .	29
6	Operational Risk . . . . .	30
6.1	Operational Risk Management . . . . .	30
6.2	Operational Risk Measurement . . . . .	30
7	Other Risk . . . . .	31
7.1	Asset Securitization . . . . .	31
7.2	Counterparty Credit Risk . . . . .	33
7.3	Interest Rate Risk in the Banking Book . . . . .	34
8	Remuneration . . . . .	35
8.1	Composition and Authority of the Remuneration Management Committee . . . . .	35
8.2	Remuneration Policy . . . . .	35
8.3	Disclosures of Senior Management Remuneration . . . . .	36
	Annex 1: Composition of Capital . . . . .	37
	Annex 2: Financial and Regulatory Consolidated Balance Sheet . . . . .	44
	Annex 3: Reconciliation and Illustration of Balance Sheet Items . . . . .	46
	Annex 4: Main Attributes of Capital Instruments . . . . .	48

# 1 Introduction

## 1.1 Bank Profile

Bank of China was formally established in February 1912 following the approval of Dr. Sun Yat-sen. From 1912 to 1949, the Bank served consecutively as the country's central bank, international exchange bank and specialised international trade bank. Fulfilling its commitment to serving the public and developing China's financial services sector, the Bank rose to a leading position in the Chinese financial industry and developed a good standing in the international financial community, despite many hardships and setbacks. After 1949, drawing on its long history as the state-designated specialised foreign exchange and trade bank, the Bank became responsible for managing China's foreign exchange operations and provided vital support to the nation's foreign trade development and economic infrastructure by its offering of international trade settlement, overseas fund transfer and other non-trade foreign exchange services. During China's reform and opening up period, the Bank seized the historic opportunity presented by the government's strategy of capitalising on foreign funds and advanced technologies to boost economic development, and became the country's key foreign financing channel by building up its competitive advantages in foreign exchange business. In 1994, the Bank was transformed into a wholly state-owned commercial bank. In August 2004, Bank of China Limited was incorporated. The Bank was listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange in June and July 2006 respectively, becoming the first Chinese commercial bank to launch an A-Share and H-Share initial public offering and achieve a dual listing in both markets. In 2016, Bank of China was again designated as a Global Systemically Important Bank, thus becoming the sole financial institution from emerging economies to be designated as a Global Systemically Important Bank for six consecutive years.

As China's most internationalised and diversified bank, Bank of China provides a comprehensive range of financial services to customers across the Chinese mainland as well as 51 countries and regions. The Bank's core business is commercial banking, including corporate banking, personal banking and financial markets services. BOC International Holdings Limited, a wholly owned subsidiary, is the Bank's investment banking arm. Bank of China Group Insurance Company Limited and Bank of China Insurance Company Limited, both wholly owned subsidiaries, run the Bank's insurance business. Bank of China Group Investment Limited, a wholly owned subsidiary, undertakes the Bank's direct investment and investment management business. Bank of China Investment Management Co., Ltd., a controlled subsidiary, operates the Bank's fund management business. BOC Aviation Limited, a controlled subsidiary, is in charge of the Bank's aircraft leasing business.

Bank of China has upheld the spirit of "pursuing excellence" throughout its history of over one century. With adoration of the nation in its soul, integrity as its backbone, reform and innovation as its path forward and "people first" as its guiding principle, the Bank has built up an excellent brand image that is widely recognised within the industry and by its customers. Faced with new historic opportunities, the Bank will meet its social responsibilities, strive for excellence, and make further contributions to achieving the China Dream and the great rejuvenation of the Chinese nation.

## 1.2 Basis of Disclosure

China Banking Regulatory Commission (hereinafter referred as the “CBRC”) promulgated the *Capital Rules for Commercial Banks (Provisional)* (hereinafter referred as the “*Capital Rules*”) in June 2012. The Group has started to disclose the report of capital adequacy ratios since 2013 as required by the *Capital Rules*. The CBRC approved the Group’s implementation of advanced capital measurement approaches in April 2014.

## 1.3 Scope of Consolidation

The calculation of the unconsolidated capital adequacy ratios covers all the domestic and overseas branches of the Bank (hereinafter referred as “the Bank”). The scope of the calculation of the consolidated capital adequacy ratios includes the Bank and the financial institutions invested by the Bank directly or indirectly (hereinafter referred as “the Group”) in accordance with the requirements of the *Capital Rules*.

### 1.3.1 Difference in Scope of Consolidation for Accounting and Regulatory Capital Purposes

When calculating the consolidated capital adequacy ratios, Bank of China Group Investment Limited, Bank of China Insurance Company Limited, Bank of China Group Insurance Company Limited and Bank of China Group Life Assurance Company Limited, which are consolidated for accounting purpose, are excluded from the scope of capital adequacy ratio.

The equity investments in Bank of China Group Investment Limited are calculated as risk-weighted assets. The equity investments in Bank of China Insurance Company Limited, Bank of China Group Insurance Company Limited and Bank of China Group Life Assurance Company Limited are deducted from the capital of the Group.

### 1.3.2 Profile of BOC-invested entities

According to the requirements of the *Capital Rules*, the Group applies the following approaches to calculate consolidated capital adequacy ratios based on different types of the invested entities:

- Financial institutions (excluding insurance companies) whereby the Group has a majority or controlling interest are included in the scope of regulatory consolidation.
- Insurance companies, whereby the Group has a majority or controlling interest, are excluded from the scope of regulatory consolidation. The corresponding capital investments are deducted from the capital of the Group.
- Equity investments in commercial entities are calculated as risk-weighted assets, and are not included in the scope of regulatory consolidation.

- Non-significant minority capital investments in financial institutions are not included in the scope of regulatory consolidation. If the Group's aggregated capital investments exceed the prescribed materiality level, i.e. 10% of the Group's common equity tier 1 capital net of regulatory deductions, the portion of investments that exceeds the threshold is deducted from the respective tiers of capital of the Group. If the Group's aggregated investments do not exceed the materiality level as stated above, the investments are calculated as risk-weighted assets.
- Significant minority common equity tier 1 capital investments in financial institutions are not included in the scope of regulatory consolidation. If the Group's common equity tier 1 capital investments exceed the prescribed materiality level, i.e. 10% of the Group's common equity tier 1 capital net of regulatory deductions, the portion of investments that exceeds the threshold is deducted from the Group's common equity tier 1 capital. If the Group's common equity tier 1 capital investments do not exceed the materiality level as stated above, the investments are calculated as risk-weighted assets. Significant minority investments in additional tier 1 capital and tier 2 capital are deducted in full amount from the corresponding tiers of capital of the Group.

Non-significant minority investments refer to the investments in unconsolidated financial institutions (excluding insurance companies) where the Group owns less than 10% (not inclusive) of the paid-in capital (common shares and premiums) of this financial institution. Significant minority investments refer to the investments in unconsolidated financial institutions (excluding insurance companies) where the Group owns more than 10% (inclusive) of the paid-in capital (common shares and premiums) of this financial institution.

## Top 10 Invested Institutions Included into the Scope of Consolidated Capital Adequacy Ratio

*Unit: RMB Million (except percentages)*

S/N	Name of Invested Institution	Investment Balance	Shareholding Ratio	Place of Registration	Industry
1	BOC Hong Kong (Group) Limited	36,915	100%	Hong Kong	Commercial Bank
2	BOC International Holdings Limited	3,753	100%	Hong Kong	Investment Bank
3	Bank of China (UK) Limited	3,223	100%	United Kingdom	Commercial Bank
4	Bank of China (Luxembourg) S.A.	3,194	100%	Luxembourg	Commercial Bank
5	Bank of China (Canada)	2,350	100%	Canada	Commercial Bank
6	Bank of China (Thai) Public Company Limited	2,133	100%	Thailand	Commercial Bank
7	BANCO DA China Brasil S.A.	718	100%	Brasil	Commercial Bank
8	Bank of China (Russia)	620	100%	Russia	Commercial Bank
9	Bank of China (Zambia) Limited	560	100%	Zambia	Commercial Bank
10	Bank of China (Australia) Limited	484	100%	Australia	Commercial Bank
<b>Total</b>		<b>53,950</b>			

## Investments in Invested Institutions Deducted from the Group's Capital

*Unit: RMB Million (except percentages)*

S/N	Name of Invested Institution	Investment Balance	Shareholding Ratio	Place of Registration	Industry
1	Bank of China Group Insurance Company Limited	4,509	100%	Hong Kong	Insurance
2	Bank of China Insurance Company Limited	3,498	100%	Beijing	Insurance
3	Bank of China Group Life Assurance Company Limited	1,946	51%	Hong Kong	Insurance
<b>Total</b>		<b>9,953</b>			

### 1.3.3 Capital Shortfall and Intra-Group Capital Transfer

The Group did not experience any capital shortfall nor any restrictions on transfer of regulatory capital within the Group during the reporting period.

## **2 Capital and Capital Adequacy Ratio**

### **2.1 Internal Capital Adequacy Assessment Method and Process**

The Group's framework for the internal capital adequacy assessment process (hereinafter referred as the "ICAAP") includes the governance structure, policies and systems, major risk assessment, capital planning, stress testing, capital adequacy ratio management plan, and monitoring and reporting system. The Bank initiated the capital assessment and management project in September 2008. Pursuant to the CBRC's latest requirements, the Bank established and refined the ICAAP framework and governance structure, defined the roles and responsibilities of the Board of Directors and senior management, as well as those of head offices and departments of all entities on the ICAAP. Aligned with the overall development strategies, the Bank aims at developing a package of feasible capital management policies and improving the internal management mechanisms. Policies and rules are primarily focused on capital adequacy ratio management, economic capital management and ICAAP management to standardise all capital management procedures, facilitate business development and respond to the changing regulation. As at the publishing date of this report, the Bank has accomplished the design and implementation of the ICAAP scheme. The ICAAP framework meets the core requirements of CBRC on the ICAAP for commercial banks. It ensures that major risks are identified, measured or assessed, monitored and reported; ensures that the capital level is commensurate with major risk and risk management capacity; ensures that capital planning is in line with the status and trend of the Bank's operation and risk profile, as well as the long-term development strategy. Upon inspection and acceptance of major work of the project, the process of translating technical achievements to application is in progress, during which the Bank views compliance as the primary goal and aim at improving the internal capital management and risk management.

### **2.2 Capital Planning and Capital Adequacy Ratio Management Plan**

The *Bank of China Capital Management Plan for 2013–2016* has been implemented. To carry out the strategic plan, further enhance capital management, and meet regulatory requirements, the Bank is formulating *Bank of China Capital Management Plan for 2017–2019* in pursuant to the Group's business development strategies, the *Capital Rules* and other relevant regulations promulgated by the CBRC. This plan will specify the objectives and principles in strengthening capital management and key measures for improving capital management in the future. The plan will be comprehensively implemented after approval by the general meeting of shareholders.

The Group has implemented capital budget management since 2010. Based on the medium- and long-term capital plan, the Group determines annual capital adequacy ratio management objectives and capital budget allocation scheme. It then assigns the annual budget to each domestic and overseas entities and business lines through allocated capital limits. The allocated capital limits are embedded into the performance assessment system of the Group, and are subject to periodical monitoring and assessment by the Head Office.



The Group adopted the mechanism of accumulating endogenous capital for capital budget management since 2013, stimulated entities to increase the capital efficiency and enhance the Group's endogenous capital accumulation capacity. Judging from the implementation result, the capital budget has contributed to enhancing capital adequacy ratio management. On one hand, it raised the awareness of capital constraint across all entities and steadily improved capital efficiency. On the other hand, it has significantly enhanced the Head Office's control over the Group's capital adequacy ratios.

In 2016, the Group continually reinforced its capital management to tap its internal potential. It optimised its capital allocation methods, improved its capital budget mechanism, and reinforced capital assessment in order to guide all units to improve their awareness of capital constraints. It continually optimised its on-balance sheet and off-balance sheet asset structures, developed capital-lite businesses, reduced the proportion of high-capital-consumption assets, properly controlled increases in off-balance sheet risk assets and expanded asset securitisation. These methods were effective as the risk weight decreased year-on-year, while its capital adequacy ratio continuously increased and hit a historic high. The Bank continued to replenish capital in a prudent manner. The shareholders' meeting approved the issuance of qualified write-down tier-2 capital instruments amounting to RMB60.0 billion or equivalent in foreign currencies. The Bank will continue to implement its capital replenishment plan so as to enhance its capital strength and improve capital structure. The Bank was awarded "Best Capital Management Bank 2015" by *The Chinese Banker*.

### 2.3 Capital Adequacy Ratio

The capital adequacy ratios calculated in accordance with the *Capital Rules, Regulation Governing Capital Adequacy of Commercial Banks* and other related regulations are set forth as follows:

*Unit: RMB Million (except percentages)*

Item	The Group		The Bank	
	As at 31 December 2016	As at 31 December 2015	As at 31 December 2016	As at 31 December 2015
<b>Calculated in accordance with the <i>Capital Rules</i></b>				
Net common equity tier 1 capital	<b>1,280,841</b>	1,182,300	<b>1,106,112</b>	1,042,396
Net tier 1 capital	<b>1,384,364</b>	1,285,459	<b>1,205,826</b>	1,142,110
Net capital	<b>1,609,537</b>	1,498,396	<b>1,414,052</b>	1,335,327
Common equity tier 1 capital adequacy ratio	<b>11.37%</b>	11.10%	<b>10.98%</b>	11.06%
Tier 1 capital adequacy ratio	<b>12.28%</b>	12.07%	<b>11.96%</b>	12.12%
Capital adequacy ratio	<b>14.28%</b>	14.06%	<b>14.03%</b>	14.17%
<b>Calculated in accordance with the <i>Regulation Governing Capital Adequacy of Commercial Banks</i></b>				
Core capital adequacy ratio	<b>11.77%</b>	11.38%	<b>11.65%</b>	11.56%
Capital adequacy ratio	<b>14.67%</b>	14.45%	<b>14.50%</b>	14.53%

## 2.4 Composition of Capital

The regulatory capital items calculated on a consolidated basis in accordance with the *Capital Rules* are set forth as follows:

*Unit: RMB Million*

Item	As at 31 December 2016	As at 31 December 2015
<b>Common equity tier 1 capital</b>	<b>1,297,421</b>	1,197,868
Paid-in capital	294,388	294,388
Capital reserve	139,443	139,572
Surplus reserve	125,109	111,207
General reserve	193,338	179,416
Undistributed profits	526,804	451,585
Eligible portion of minority interests	30,051	29,016
Others	(11,712)	(7,316)
<b>Common equity tier 1 capital deductions</b>	<b>16,580</b>	15,568
Goodwill	96	96
Other intangible assets (except land use rights)	6,498	5,369
Gains on sales related to securitization transactions	–	204
Direct or indirect investments in own shares	53	86
Reserve related to the cash-flow hedge items that are not measured at fair value; positive amounts to be deducted and negative amounts to be added back	(20)	(16)
Investments in common equity tier 1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation	9,953	9,829
<b>Additional tier 1 capital</b>	<b>103,523</b>	103,159
Additional tier 1 capital instruments and premiums	99,714	99,714
Eligible portion of minority interests	3,809	3,445
<b>Tier 2 capital</b>	<b>225,173</b>	212,937
Tier 2 capital instruments issued and related premiums	149,406	153,266
Excess loan loss provision	64,572	45,839
Eligible portion of minority interests	11,195	13,832
<b>Net common equity tier 1 capital</b>	<b>1,280,841</b>	1,182,300
<b>Net tier 1 capital</b>	<b>1,384,364</b>	1,285,459
<b>Net capital</b>	<b>1,609,537</b>	1,498,396

## 2.5 Capital Deduction Limits and Excess Loan Loss Provisions

As at 31 December 2016, the Group's balance of the capital investments and deferred tax assets did not exceed the limits and were not required to be deducted from the Group capital. The limits are as follows:

*Unit: RMB Million*

Item	As at 31 December 2016	As at 31 December 2015
<b>Non-significant minority investments to financial institutions that are outside the scope of regulatory consolidation</b>	<b>80,951</b>	81,133
Of which: Common equity tier 1 capital investment	<b>4,848</b>	3,972
Additional tier 1 capital investment	<b>2,522</b>	2,274
Tier 2 capital investment	<b>73,581</b>	74,887
Limit (10% of the Group's net common equity tier 1 capital)	<b>128,084</b>	118,230
Difference	<b>47,133</b>	37,097
<b>Significant minority common equity tier 1 capital investment to financial institutions that are outside the scope of regulatory consolidation</b>	<b>4,484</b>	4,169
Limit (10% of the Group's net common equity tier 1 capital)	<b>128,084</b>	118,230
Difference	<b>123,600</b>	114,061
<b>Deferred tax asset relying on the bank's future profitability</b>	<b>33,673</b>	21,635
Limit (10% of the Group's net common equity tier 1 capital)	<b>128,084</b>	118,230
Difference	<b>94,411</b>	96,595
<b>Significant minority common equity tier 1 capital investment to financial institutions that are outside the scope of regulatory consolidation and deferred tax asset relying on the bank's future profitability (non-deducted portion)</b>	<b>38,157</b>	25,804
Limit (15% of the Group's net common equity tier 1 capital)	<b>192,126</b>	177,345
Difference	<b>153,969</b>	151,541

As at 31 December 2016, the excess loan loss provision qualifying for inclusion in tier 2 capital was RMB64,572 million, which was calculated in accordance with the CBRC regulations in the parallel run period: (i) Where the provision is less than 150% of non-performing loan coverage, all excess loan loss provision up to a maximum of 0.6% of credit risk-weighted assets shall be qualifying for inclusion in tier 2 capital; and (ii) Where the provision is more than 150% of non-performing loan coverage, all excess loan loss provision exceeding 150% of non-performing loan coverage shall all be qualifying for inclusion in tier 2 capital. The limits to relevant excess loan loss provisions are as follows:

*Unit: RMB Million*

Item	As at 31 December 2016	As at 31 December 2015
<b>Covered by Internal Ratings-Based Approach</b>		
Excess loan loss provisions under Internal Ratings-Based Approach	68,236	73,651
Limit of excess loan loss reserve attributable to tier 2 capital under the Internal Ratings-Based Approach irrespective of adjustment during the parallel run period	39,512	37,918
Amount of excess loan loss reserve attributable to tier 2 capital during the parallel run period	56,211	40,464
<b>Parts not covered by Internal Ratings-Based Approach</b>		
Amount of excess loss reserve under the Regulatory Weighting Approach	8,361	5,375
Limit of excess loan loss reserve attributable to tier 2 capital under the Regulatory Weighting Approach	47,020	42,633
Amount of excess loan loss reserve attributable to tier 2 capital	8,361	5,375

## 2.6 Material Capital Investments

Please refer to the “Significant Matters” of the Bank’s 2016 Annual Report for more details about the material capital investments during the reporting period.

## 2.7 Paid-in Capital

As at the end of the reporting period, the Bank’s paid-in capital amounted to RMB294,388 million. Please refer to the “Changes in Share Capital and Shareholdings of Substantial Shareholders” of the Bank’s 2016 Annual Report for more details about the changes in the share capital of the Bank.

Disclosures required in Annex 2 — *Notice on Enhancing Disclosure Requirements for Composition of Capital* of the *CBRC Notice on Issuing Regulatory Documents on Capital Regulation for Commercial Banks* issued by the CBRC are attached in the annex of this report. The information disclosed includes: the composition of the capital, the balance sheets of the Group (prepared both on accounting and the regulatory consolidated basis), breakdown of items of each balance sheet, as well as the key terms and conditions of the capital instruments.

## **3 Risk Management**

### **3.1 Risk Management Framework**

The Group has established a three-level risk management framework comprising the Board of Directors, senior management and departments.

The Board of Directors, as the highest decision-making body for risk management of the Group, is responsible for approving the high-level risk management strategy and risk appetite, approving or authorizing internal capital adequacy assessment policies, and overseeing the implementation of policies by senior management. The Board has set up a Risk Policy Committee, which is responsible for reviewing risk management strategies, major risk management policies/rules and risk management procedures, supervising the implementation by senior management, and making recommendations to the Board of Directors. The Committee also monitors the status of the Group's risk management, reviews major risk management activities, and exercises veto right over significant transactions. In addition, the Board of Directors has set up Audit Committee, which is responsible for evaluating and supervising the adequacy and effectiveness of the risk management, internal capital adequacy assessment, internal control and governance procedures designed and implemented by senior management.

Senior management is responsible for approving specific risk management policies, organising the development and operation of capital adequacy assessment procedures, implementing risk management policies and procedures, undertaking and monitoring all risks arising from business operations. The Risk Management and Internal Control Committee, as the specialised committee under senior management, performs comprehensive risk management within the authority on behalf of senior management. Specifically, the Committee is responsible for implementing the overall risk strategy and risk appetite of the Bank as specified by the Board of Directors, establishing and improving risk management systems, guiding and supervising the bank-wide implementation of these systems, and maintaining the overall operation of the internal control system.

Risk management functional departments of the Group are responsible for daily risk management. They formulate risk management policies and rules, develop risk management techniques, take the lead in identifying, assessing, monitoring, reporting and controlling various risks, and perform overall management, inspection and supervision over risk management practices at branches, subsidiaries and business units. Risk Management Department, Credit Approval Department, and Credit Management Department lead the efforts to manage credit risk, market risk, counterparty credit risk and concentration risk. And Internal Control and Legal & Compliance Department leads the management of operational risk, compliance risk and money laundering risk. Financial Management Department is responsible for the management of strategic risk, liquidity risk and interest rate risk in the banking book; while the Executive Office takes charge of reputational risk management.

The Group applies vertical, task forces and Board of Directors management modes to branches, business departments and subsidiaries respectively.

**(1) Vertical management mode**

The risk management department of a branch performs risk management work of the branch and reports risk status to the risk management functional departments of the Group. The chief risk officer of a branch, subject to the “dual-line reporting system”, reports to both the head of the branch and the risk management functions of the Group.

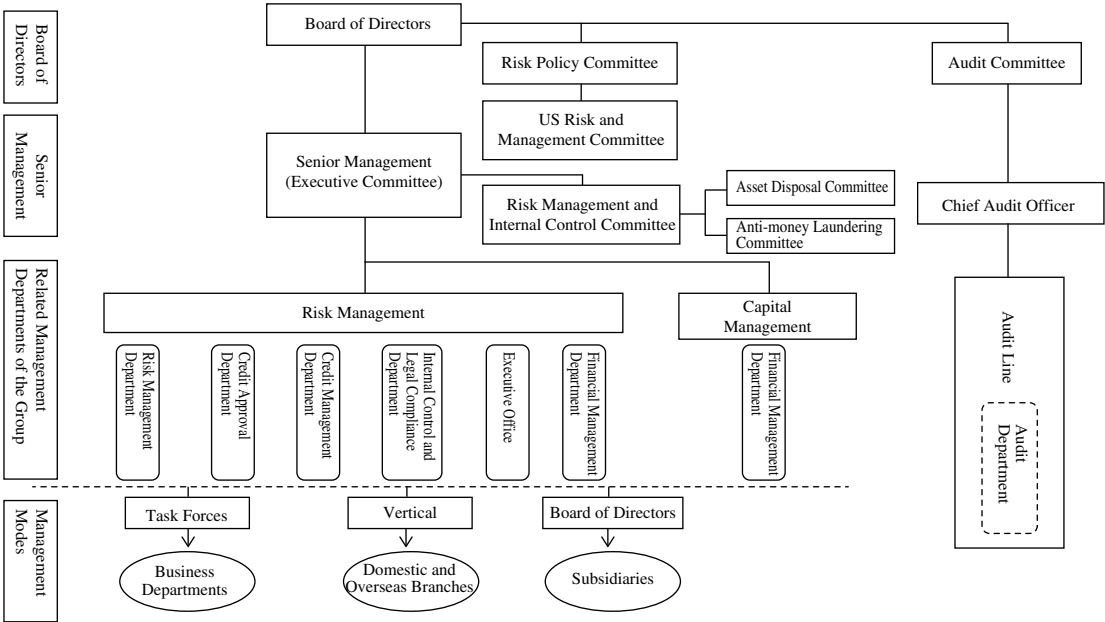
**(2) Task force management mode**

Each business department sets up a risk management team or position to monitor the risk management of business departments down the reporting line.

**(3) Board of Directors management mode**

The Board of Directors and senior management of each subsidiary are responsible for its risk management. The Group assigns directors to the board or members to the risk management committee in these subsidiaries, to participate in the significant decision-making and articulate the Group’s risk appetite through the board of directors or risk management committee.

The organization of the Group’s risk management system is illustrated below:



### 3.2 Significant Changes to Risk Measurement Approaches

There were no significant changes to risk measurement approaches of the Bank in 2016.

### 3.3 Risk-weighted Assets

The Group's risk-weighted assets are as follows:

*Unit: RMB Million*

<b>Item</b>	<b>As at 31 December 2016</b>	<b>As at 31 December 2015</b>
Credit risk-weighted assets	<b>10,355,205</b>	9,735,604
Market risk-weighted assets	<b>93,646</b>	102,322
Operational risk-weighted assets	<b>820,741</b>	778,533
Risk-weighted assets increment required to reach capital floor	–	37,622
<b>Total risk-weighted assets</b>	<b>11,269,592</b>	10,654,081

*Note:* The Group calculates capital requirements and corresponding risk-weighted assets in accordance with capital floor requirement as stipulated by Annex 14 of the *Capital Rules*, when calculating capital adequacy ratio under the advanced capital measurement approaches. The capital floor adjustment coefficient in 2016 was 90%.

## 4 Credit Risk

### 4.1 Credit Risk Management

The objective of the Bank's credit risk management is to optimise capital allocation within the acceptable level of risk-taking and to maximise the return for shareholders to meet the requirements of regulators, customers and other stakeholders on the Bank's operation.

The Bank has established the risk management policies and systems by hierarchical management in accordance with the bank-wide risk management strategy and risk appetite to guide and govern credit risk management practices. The Group's credit risk management policies include industrial policy, regional policy, customer policy, product policy and other credit policies.

The Bank's credit risk management covers risk management across all processes, including risk identification, risk assessment, risk monitoring and reporting, and risk control.

### 4.2 Credit Risk Measurement

#### 4.2.1 Measurement Methods and Internal Rating System

The Group applied the Internal Ratings-Based (IRB) Approach for credit risk in the following entities and used the methods as below:

Entity	Category of risk	Sub-category of risk	Methods
Head Office, domestic branches and BOCHK	Corporate exposures	General corporates	Foundation IRB
		SMEs	
		Specialised lending	Supervisory slotting criteria approach
	Retail exposures	Residential mortgage exposures	IRB
		Qualifying revolving retail exposures	
		Other retail exposures	
	Other exposures		Regulatory Weighting Approach
Other consolidated entities	All risk exposures		Regulatory Weighting Approach



### *Governance structure of internal rating system*

The Board of Directors is responsible for reviewing and approving basic policies on internal rating, regularly receiving the internal rating reports from the senior management and supervising the effective operation of internal rating system. The senior management is responsible for designing, developing, validating and using the internal rating system, formulating internal rating management policy, and submitting internal rating operation reports, validation reports and audit reports to the Board of Directors at least once a year. The risk management departments are responsible for designing, developing and maintaining the smooth operation of the internal rating system, drafting and reporting internal rating policies to the Board of Directors and the senior management for approval, and submitting internal operation reports and validation reports to the Board of Directors and the senior management regularly. The audit departments are responsible for regularly performing comprehensive audit of the development, validation and use of the internal rating system, and submitting internal rating system audit reports to the Board of Directors. The information technology departments are responsible for developing, maintaining and upgrading the information systems supporting internal rating, and ensuring the safe operation of such systems.

### *The structure of internal rating*

The Bank classifies customers into class A, B, C and D by credit rating, and divides credit ratings into 15 grades: AAA, AA, A, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B-, CCC, CC, C and D. Grade D is defined as default, and the others are non-default.

### *Risk parameter definition, data and basic approaches to risk measurement*

The Bank's risk parameters include probability of default (PD), loss given default (LGD), exposure at default (EAD) and maturity. PD refers to the probability that the debtor defaults within a certain period (generally one year); LGD refers to the proportion of the loss on debt default in the exposure to the debt; EAD refers to the total expected amount of risk exposures of the on- and off-balance sheet items when a debtor defaults. With reference to historic experience on default, the Bank adopts the statistical default model technique to estimate risk parameters based on its internal data, in order to ensure the accuracy and prudence of risk parameter estimation. The non-retail risk exposure applies the foundation IRB approach and the PD is calculated by the Bank independently. The retail risk exposure applies the IRB approach, and the PD, LGD and EAD are estimated by the Bank independently.

### *Application of rating results*

Since the implementation of New Basel Capital Accord, the Bank has made great efforts to promote the application of internal rating results to its business. Internal rating parameters have been widely applied to areas such as credit approval, risk monitoring, limit setting, credit policy and risk reporting. The Bank also actively promotes the application of internal rating results to economic capital, risk appetite strategy, provision for loss, loan pricing and performance assessment.

## 4.2.2 Credit Risk Exposures

The Group's EAD distributed by calculation method is as follows:

*Unit: RMB Million*

	As at 31 December 2016			
	On-balance sheet credit risk	Off-balance sheet credit risk	Counterparty credit risk	Total
Exposures covered by IRB	8,017,604	1,326,432	15,101	9,359,137
Of which: Corporate exposures	5,170,150	1,152,605	15,101	6,337,856
Retail exposures	2,847,454	173,827	–	3,021,281
Exposures not covered by IRB	9,882,714	299,030	283,747	10,465,491
<b>Total</b>	<b>17,900,318</b>	<b>1,625,462</b>	<b>298,848</b>	<b>19,824,628</b>

	As at 31 December 2015			
	On-balance sheet credit risk	Off-balance sheet credit risk	Counterparty credit risk	Total
Exposures covered by IRB	7,521,709	1,301,808	17,759	8,841,276
Of which: Corporate exposures	5,151,687	1,150,189	17,759	6,319,635
Retail exposures	2,370,022	151,619	–	2,521,641
Exposures not covered by IRB	9,118,682	328,579	170,097	9,617,358
<b>Total</b>	<b>16,640,391</b>	<b>1,630,387</b>	<b>187,856</b>	<b>18,458,634</b>

## 4.2.3 Exposures Covered by IRB

### 4.2.3.1 Corporate exposures (excluding specialised lending and counterparty credit risk)

The Group's EAD of corporate exposures covered by IRB distributed by credit rating is as follows:

*Unit: RMB Million (except percentages)*

Rating	As at 31 December 2016				
	EAD	Weighted average PD	Weighted average LGD	Rick-weighted assets	Average risk weight
A	3,302,644	0.7%	42.2%	2,017,047	61.1%
B	2,789,694	3.2%	40.5%	2,858,514	102.5%
C	110,405	45.2%	35.0%	150,188	136.0%
D	120,012	100.0%	43.4%	1,473	1.2%
<b>Total</b>	<b>6,322,755</b>	<b>9.1%</b>	<b>41.3%</b>	<b>5,027,222</b>	<b>79.5%</b>

Rating	As at 31 December 2015				
	EAD	Weighted average PD	Weighted average LGD	Rick-weighted assets	Average risk weight
A	3,523,345	0.8%	41.3%	2,042,201	58.0%
B	2,644,531	2.9%	40.3%	2,638,062	99.8%
C	36,129	23.7%	39.0%	57,021	157.8%
D	97,057	100.0%	43.6%	2,222	2.3%
<b>Total</b>	<b>6,301,062</b>	<b>7.2%</b>	<b>40.9%</b>	<b>4,739,506</b>	<b>75.2%</b>

*Note:* The average PD of corporate risk exposures is calculated as the arithmetic mean of each customer's PD (including defaulted customers). The LGD is the weighted average of each customer's LGD weighted by EAD.

#### 4.2.3.2 Specialised lending risk exposures

The EAD of the Group's specialised lending by regulatory rating is as follows:

As at the end of 2015, the EAD of the Group's specialised lending, of which the risk-weighted assets were calculated under supervisory slotting criteria approach, is all attributable to Nanyang Commercial Bank, Limited (NCB). Since the disposal of NCB on 30 May 2016, NCB was excluded from the scope of consolidation of the Group. As at the end of 2016, the EAD of the Group's specialised lending measured by supervisory slotting criteria approach was nil.

*Unit: RMB Million*

<b>Supervisory rating</b>	<b>As at 31 December 2016</b>	<b>As at 31 December 2015</b>
Strong	–	372
Good	–	442
Satisfactory	–	–
Weak	–	–
Default	–	–
<b>Total</b>	–	814

#### 4.2.3.3 Retail exposures

The Group's EAD of retail exposures covered by IRB distributed by product is as follows:

*Unit: RMB Million (except percentages)*

<b>Item</b>	<b>As at 31 December 2016</b>				
	<b>EAD</b>	<b>Weighted average PD</b>	<b>Weighted average LGD</b>	<b>Rick- weighted assets</b>	<b>Average risk weight</b>
Residential mortgage exposures	<b>2,510,297</b>	<b>1.3%</b>	<b>25.4%</b>	<b>576,228</b>	<b>23.0%</b>
Qualifying revolving retail exposures	<b>238,173</b>	<b>3.1%</b>	<b>50.8%</b>	<b>58,957</b>	<b>24.8%</b>
Other retail exposures	<b>272,811</b>	<b>5.0%</b>	<b>36.9%</b>	<b>114,513</b>	<b>42.0%</b>
<b>Total</b>	<b>3,021,281</b>	<b>2.7%</b>	<b>28.5%</b>	<b>749,698</b>	<b>24.8%</b>

Item	As at 31 December 2015				
	EAD	Weighted average PD	Weighted average LGD	Rick-weighted assets	Average risk weight
Residential mortgage exposures	1,966,001	1.2%	25.0%	443,802	22.6%
Qualifying revolving retail exposures	222,627	2.8%	49.9%	54,265	24.4%
Other retail exposures	333,013	4.3%	37.4%	134,763	40.5%
<b>Total</b>	<b>2,521,641</b>	<b>2.6%</b>	<b>28.8%</b>	<b>632,830</b>	<b>25.1%</b>

*Note:* The average PD of retail risk exposures is calculated as the arithmetic mean of PD of each debt (including defaulted debts). The LGD is the weighted average of each debt, weighted by EAD.

#### **4.2.4 Exposures not Covered by IRB**

##### *4.2.4.1 Risk weight determination method*

The Group determines the risk weights of risk exposure not covered by IRB in strict compliance with the *Capital Rules*; and for the claims covered by eligible mitigation instruments, the Group adopts the risk weights applicable to the corresponding mitigation instruments.

4.2.4.2 Credit risk exposures not covered by IRB (excluding counterparty credit risk)

The Group's credit risk exposures not covered by IRB are distributed by customer as follows:

*Unit: RMB Million*

	<b>As at 31 December 2016</b>	<b>As at 31 December 2015</b>
Corporate	1,436,660	1,481,118
Sovereign	4,932,261	4,243,365
Financial institutions	2,608,136	2,639,762
Retail	639,139	478,657
Equity	49,079	46,650
Asset securitization	11,332	28,905
Others	505,137	528,804
<b>Total</b>	<b>10,181,744</b>	<b>9,447,261</b>

The Group's credit risk exposures not covered by IRB are distributed by risk weight as follows:

*Unit: RMB Million*

<b>Risk weight</b>	<b>As at 31 December 2016</b>	<b>As at 31 December 2015</b>
0%	4,732,345	4,571,556
20%	1,490,622	1,028,200
25%	1,176,492	1,332,671
50%	194,169	159,973
75%	473,996	349,369
100%	2,028,504	1,930,800
150%	–	3,107
250%	48,023	34,393
350%	52	152
400%	3,392	2,937
1250%	34,149	34,103
<b>Total</b>	<b>10,181,744</b>	<b>9,447,261</b>

Risk exposures of capital instruments at various tiers issued by other commercial banks held by the Group, equity investments in commercial enterprises and financial institutions as well as non-own-use real estate are disclosed as follows:

*Unit: RMB Million*

	<b>As at 31 December 2016</b>	<b>As at 31 December 2015</b>
Capital instruments at various tiers issued by other financial institutions held by the Group	<b>53,149</b>	49,972
Of which: Common equity tier 1 capital	<b>4,090</b>	3,253
Additional tier 1 capital	–	–
Tier 2 capital	<b>49,059</b>	46,719
Equity investments in commercial enterprises	<b>34,728</b>	33,892
Equity investments in financial institutions	<b>14,351</b>	12,758
Non-own-use real estate	<b>2,326</b>	1,951

### **4.3 Credit Risk Mitigation**

#### *Risk mitigation policies*

The Bank transfers or reduces credit risk by utilizing risk mitigation instruments such as collateral and guarantee. The Bank's credit risk mitigation management mainly includes the management of mitigation instruments, risk measurement and information monitoring. A credit risk mitigation and management policy framework has been established, including basic policies, management measures and implementation rules. Overall principles and requirements are specified in the basic policies, and the management measures standardise and unify the management requirements for various risk mitigation instruments, while the implementation rules address the day-to-day management and operation of these mitigation instruments.

#### *Risk mitigation instruments management process*

The Bank's Risk Management Department is responsible for formulating the Bank's risk mitigation management policies, review and approval of policies and capital measurements, while the related business departments implement day-to-day management of various mitigation instruments within their respective functions. Risk mitigation instruments management involves pre-lending, lending and post-lending processes. The processes include inspection and review, evaluation/assessment, collateral verification, implementation of legal procedures, collateral guarantee, collateral transfer and custody, inspection and review, risk monitoring, re-evaluation, modification and release, collateral disposal etc. Various functions involved in collateral management are responsible for various processes in accordance with the Bank's rules and regulations on collateral management.

### ***Main types of collateral***

The Bank's collateral primarily includes financial collateral, receivables, commercial and residential property, as well as other collateral. Financial collateral include CDs, deposits, precious metals, bonds and bills. Land use rights and property are classified into commercial and residential property. Construction-in-progress, vehicles, machinery and equipment, inventory, mining rights and prospecting rights belong to the category of other collateral.

### ***Valuation policies and procedures***

The Bank values collateral effectively in accordance with policies such as administrative measures on internal assessment of collateral and policies on post-lending revaluation of credit collateral. Collateral valuation management is a dynamic and ongoing process, including evaluation at pre-lending business origination and approval process, credit risk time horizon and collateral re-evaluation at the disposal of assets. At pre-lending phase, the Bank can entrust a professional evaluation agency to evaluate collateral and issue evaluation report. The evaluation conclusion or opinion can be used as reference in credit decision making. During time horizon of credit, the Bank continues to monitor the value of collateral. For the value management of post-lending collateral, the Bank combines regular and irregular re-evaluation. The Bank select evaluation methods, determines evaluation parameters and implements evaluation procedures based on the types and characteristics of collateral. The Bank adjusts the evaluation frequency for collateral with high volatility in market value.

The Bank adheres to the principle of independence, objectivity, rational approach and prudence on the valuation of collateral, and market value is given preferential weighting in the determination of fair value of collateral. Basic asset valuation methods include the market method, cost method and equity method. Based on the valuation object, value type and information collection conditions, one of the above valuation methods will be selected, and other methods will be used to verify valuation results to draw reasonable conclusions.

### ***Main types of guarantors***

A guarantor refers to a legal person or other organization, credit guarantee agency or natural person with legal capacity under civil law, which is able to repay debts on behalf of the debtor. The Bank regulates the qualification of guarantor, assessment of guarantee capacity, monitoring and debt recovery by means of related policies and rules including guarantee management measures, to effectively control and reduce credit risk. As required by the Bank, a guarantor's credit rating should meet relevant requirements. For a guarantor without credit rating, the Bank will assess its capability of risk mitigation on a prudential basis.



## Capital measurement

By embedding credit risk mitigation instruments' eligibility assessment function and regulatory capital measurement rules in the risk-weighted asset engine (RWA system), the Bank has been able to automatically collect risk mitigation information from the front-end systems, perform eligibility assessment, mapping and allocation of mitigation instruments, and finally automatically calculate the risk mitigation for regulatory capital calculation purpose. The Bank has not yet accepted accounts receivables, other collaterals, netting clearance and credit derivatives as qualifying risk mitigation in its capital measurement.

The EAD covered by each category of qualified risk mitigation instruments of the Group under IRB is as follows:

*Unit: RMB Million*

Exposure type	As at 31 December 2016			As at 31 December 2015		
	Guarantee	Financial collateral	Commercial and residential real estate	Guarantee	Financial collateral	Commercial and residential real estate
Corporate exposures	570,712	391,719	551,110	466,903	390,735	701,445
Retail exposures	-	-	1,976,981	-	-	1,768,365
<b>Total</b>	<b>570,712</b>	<b>391,719</b>	<b>2,528,091</b>	<b>466,903</b>	<b>390,735</b>	<b>2,469,810</b>

## 4.4 Overdue and Non-performing Loans

A loan will be regarded as overdue when the borrower fails to repay it to the lender within the period specified in the loan contract. The total overdue loan at the group level amounted to RMB214,591 million at 2016 year-end.

In accordance with the *Guideline for Loan Credit Risk Classification* issued by the CBRC, loans are classified into five categories: pass performing, special-mention, substandard, doubtful and loss, among which the last three are regarded as non-performing. Where the borrower of a non-performing loan is not able to repay the principal and interest of the loan in full, certain loss might be incurred even when the security interest is claimed. The total non-performing loan at the group level was RMB146,003 million at 2016 year-end.

## 4.5 Allowance for Impairment Losses

To determine whether impairment loss should be recorded in the income statement, the Group assesses impairment allowances to loans individually or collectively.

The Group assesses whether objective evidence of impairment exists individually for loans that are individually significant. If there is objective evidence of impairment, the impairment loss is recognised in the income statement, and the carrying amount of the corresponding financial assets will be written down to the present value of estimated future cash flows (excluding future credit losses not yet incurred) discounted at the financial asset's original effective interest rate. Factors affecting the estimation of future cash flows include but not limited to the granularity of financial information related to specific borrowers, the availability of industry competitors' information and the relevance of sector trends to the future performance of individual borrowers.

The Group performs assessments on all other loans which are not individually significant or on loans for which impairment has not yet been identified by including the loans in a group of loans with similar credit risk characteristics and collectively assesses the impairment. The future cash flows of those loans are estimated on the basis of historical loss experience. The calculation of collectively assessed impairment allowances relies on judgment to a large extent. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the historical loss experience and to remove the effects of conditions in the historical period that do not currently exist.

The Group regularly reviews the methodology and assumptions used for estimating both the amount and timing of future cash flows with reference to the impact from changes and uncertainty in the macro-economic environments in which the Group operates, to reduce differences between loss estimates and actual loss.

The allowance for impairment losses with reconciliation in the reporting period is as follows:

*Unit: RMB Million*

<b>Allowance for impairment losses on loans</b>	<b>2016</b>	<b>2015</b>
Opening balance	<b>200,665</b>	188,531
Impairment losses for the year	<b>127,436</b>	103,777
Decrease		
Including: reversal	<b>(40,641)</b>	(47,905)
write-off and transfer out	<b>(51,613)</b>	(45,204)
Exchange differences	<b>1,869</b>	1,466
<b>Closing balance</b>	<b>237,716</b>	200,665

## **5 Market Risk**

### **5.1 Market Risk Management**

Market risk is defined as the risk of incurring a loss from on-balance sheet and off-balance sheet operations due to adverse changes in market prices (interest rate, exchange rate, stock price, and bulk commodity prices). Measurement of market risk capital shall capture the interest rate risk and stock risk arising from the Bank's trading book, as well as all exchange rate risk and commodity risk, excluding the exposure to structured exchange rate risk.

The objective of the Bank's market risk management is to effectively manage market risk and improve market risk capital allocation through limit management and other mechanisms in light of the overall risk appetite determined by the Board of Directors, and control the market risk within a reasonable level acceptable to the Bank, and achieve a reasonable balance between risk and return, thereby promoting business development and maximising the shareholders' value.

Under the Bank's market risk governance system, the Board of Directors shall assume the ultimate responsibility for market risk management, including determining overall risk appetite and authorising the Risk Policy Committee to review the matters relating to the group risk responsibilities of the Board, and overseeing the implementation of risk management strategy and policy by the senior management; the Board of Supervisors is responsible for overseeing the performance of market risk management responsibilities by the Board of Directors and the senior management; the senior management is responsible for drafting and overseeing the implementation of market risk management policy and procedures, bearing and managing the Group's market risk within the risk appetite determined by the Board of Directors, and coordinating the matching of aggregate risks to business return targets, and the Risk Management and Internal Control Committee under the senior management shall implement the Bank's overall risk strategy and risk appetite determined by the Board of Directors; Risk Management Department leads the developing and managing the Bank's market risk internal model system, drafting market risk management policies and rules, assuming market risk responsibilities, and conducting valuation model verification and market risk stress testing. The Bank has established and is continuously improving its market risk reporting system. The Audit Department of the Head Office is responsible for performing the internal audit of Internal Model Approach for market risk.

In 2006, the Bank established the market risk management policy system, monitoring system and reporting system, so as to ensure risk governance system can be applied to day-to-day risk management. So far the Bank has developed sound market risk management system and the system of using internal model approach to measure market risk capital. The systems include market risk governance, policy process, internal model measurement, internal model verification and back-testing, internal model information system, stress testing, file management, internal model application for market risk, and internal audit of market risk management. All relevant policies, methodologies and management methods have been directly applied to such fields as market risk monitoring, measurement, management and reporting.

In 2016, in response to the changes in market environment, business development and management requirements, the Bank adopted enhanced measures to comprehensively increase the effectiveness of market risk management framework, and continuously made market risk management more flexible and forward-looking.

Based on the judgment of the financial market trend, the Bank actively adjusted its business strategies to prevent and control the market risk. It upgraded the internal model measurement system for market risk and strengthened data mining and processing capability, improved the overall accuracy and time-effectiveness of risk measurement. In addition, the Bank established a system to evaluate the capacity of branches in managing market risk and counterparty credit risk, so as to enhance risk management and control capacity. The Bank closely tracked the developments of the regulatory requirements on market risk capital measurement, carried out quantitative estimation and planned implementation path. It also improved management requirements for credit risk of central counterparties, reviewed and optimised the risk weight of treasury business products.

The Bank further implemented the “look-through approach” of on-balance and off-balance bond investment. With the bond issuers’ negative information management system, the Bank optimized data model and increased frequency of risk investigation, strengthened the timeliness and accuracy of “look-through approach” for debenture bonds, improved the early-warning mechanism of group debenture bonds by adopting a range of warning ratings and prescribing the corresponding management requirements. The Bank developed management policy for bond impairment, and carried out quarterly RMB debenture bonds impairment assessment so as to mitigate risk effectively.

## 5.2 Market Risk Measurement

### 5.2.1 Capital Requirements on Market Risk

The Group adopts Internal Model Approach and Standardized Approach to measure market risk regulatory capital, mainly including interest rate risk, equity risk, foreign exchange risk and commodity risk. The table below lists the major capital requirements on various types of market risk of the Group.

*Unit: RMB Million*

	<b>As at 31 December 2016</b>	<b>As at 31 December 2015</b>
Covered by Internal Model Approach	<b>5,373</b>	6,296
Not covered by Internal Model Approach	<b>2,119</b>	1,890
Interest rate risk	<b>1,641</b>	1,273
Equity risk	<b>323</b>	187
Foreign exchange risk	–	–
Commodity risk	<b>155</b>	430
<b>Total</b>	<b>7,492</b>	8,186

### 5.2.2 Value at Risk (VaR)

The following table sets forth the information related to the VaR and stress VaR of market risks calculated under Internal Model Approach.

*Unit: RMB Million*

	For the year ended 31 December							
	2016				2015			
	Average	Maximum	Minimum	Year-end	Average	Maximum	Minimum	Year-end
VaR	233	452	125	318	324	716	166	340
Stress VaR	1,455	1,781	1,229	1,728	1,260	1,997	724	1,353

The Group calculates VaR and Stress VaR and conducts back testing according to regulatory requirements. In the reporting period, the Group's market risk measurement model can detect financial market fluctuation timely and reflect the market risks faced by the Group objectively.

## 6 Operational Risk

### 6.1 Operational Risk Management

The Group manages operational risk to aim at reducing the loss resulting from it to an acceptable extent (namely, reduce the loss to the extent within the risk appetite).

The Group has established a three-dimension policy regime, namely, from top to bottom, the policy framework, the administrative measures for operational risk management tools, and the operating guidelines. The policy framework, namely *the Operational Risk Management Policy of Bank of China Limited on Operational Risk Management* published with the approval of the Risk Policy Committee under the Board of Directors of the Group, which, as the fundamental policy governing the Group's operational risk management, defines the basic principles, requirements and management framework for the Group's operational risk management and sets the keynote and direction for the Group's implementation of operational risk management. The administrative measures and operating guidelines for each and every operational risk management tool from the perspective of managing the operational risk in a loop of risk identification, assessment, monitoring and control/mitigation developed by the Group are designed to define underlying principles, roles and responsibilities, methodologies, procedures and steps relating to the implementation of these tools, and effectively addressed operational issues in the implementation process.

To improve operational risk identification, assessment, monitoring, control or mitigation and reporting, the Group has established major operational risk management processes, such as Risk and Control Assessment procedures, Operational Risk Loss Data Collection Procedures, Key Risk Indicator Monitoring Procedures, Business Continuity Management Procedures, Internal Control Inspection and Confirmation Procedures, Internal Control Remediation and Status Tracking Procedures, as well as Operational Risk Reporting Procedures.

The Group measures the regulatory capital for operational risk under the Standardized Approach. Pursuant to the Standardized Approach rules set out in the New Basel Capital Accord, the operational risk capital shall cover the overall business scale and corresponding operational risk exposures of the Group.

### 6.2 Operational Risk Measurement

During the reporting period, the Group applied the Standardized Approach to measure the consolidated operational risk capital requirement, which amounted to RMB65,659 million.

## **7 Other Risk**

### **7.1 Asset Securitization**

#### ***7.1.1 Business Objective***

The Group initiates asset securitization business based on bank-level credit structure adjustment scheme with an aim to optimize asset portfolios, improve asset-liability structure, enhance capital adequacy ratio, and improve the Bank's asset liquidity structure management.

As the originator, the Group's risk exposure is mainly the potential default risks by the security which the Group retained under the regulations. Besides that, all remaining risks are transferred to other entities through securitization.

#### ***7.1.2 Business Overview***

Acting as the originating party and loan servicing party of the asset securitization business, the Group participates in the overall project design, coordination, and underlying assets selection, due diligence, transaction structure design, securities rating, filing for approval, issuance, and disclosure. The Group also in charge of managing the asset pool, as well as receiving, transferring and collecting loan principals and interests.

On 26<sup>th</sup> May, 6<sup>th</sup> September, 25<sup>th</sup> October, 16<sup>th</sup> December and 19<sup>th</sup> December 2016, the Bank successfully issued five credit asset-backed securities in the interbank market. Zhong Yu 2016-1 and Zhong Yu 2016-2 with corporate non-performing loans as underlying assets totalled RMB301 million and RMB615 million, respectively. Zhong Ying 2016-1, Zhong Ying 2016-2 and Zhong Ying 2016-3 with personal mortgages loans as underlying assets totalled RMB10.42 billion, RMB10.39 billion and RMB10.13 billion, respectively. The Bank held 5% of the securities in each tranches to comply with the regulatory requirements on risk retention, which was RMB15 million, RMB521 million, RMB520 million, RMB31 million, and RMB506 million, respectively.

As an investor in the asset-backed security market, the Group purchases and holds asset-backed securities to gain return on investment, expand portfolio and undertake relevant credit risks, market risks and liquidity risks. The Group determines its investment and maturity structure on the basis of the annual investment strategy and the risk/reward profile.

### ***7.1.3 Accounting Policies for Asset Securitization***

The Group shall derecognize the credit assets when the Group has transferred substantially all the risks and rewards on the ownership of the assets to the transferee; or the Group has neither transferred nor retained virtually all the risks and rewards on the ownership of the assets, and the Group does not retain control of the credit assets. In determining whether the Group has retained control of the assets or not, the Group focuses on the practical ability of the transferee to sell the credit assets. The Group has not retained control of the assets if the transferee has the practical ability to sell the credit assets in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

If the Group neither transfers nor retains virtually all the risks and rewards of ownership of the credit assets, and retains control of the credit assets, the Group continues to recognize the transferred assets to the extent of its continuing involvement, and also recognizes the associated liability. The transfer of risks and rewards is evaluated by comparing the risk exposure for the Group, with the variability in the amounts and timing of the net cash flows of the transferred asset before and after the transfer.

If the Group retains virtually all the risks and rewards of the ownership of the credit assets, the Group continues to recognize the assets.

Where the Group controls the special purpose entity, the entity should be consolidated in the financial statements. The Group controls an entity (including corporates, divisible portions of associates and joint ventures, and structured entities controlled by corporates) when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity, and accordingly the entity is a subsidiary of the Group, and shall be consolidated at Group level. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

### ***7.1.4 External Rating Agencies***

Asset securitization products denominated in RMB are all simultaneously rated by two agencies. For the issuances in 2016, Zhong Yu 2016-1 and Zhong Ying 2016-1 were rated by China Lianhe Credit Rating and China Bond Rating; Zhong Ying 2016-2 was rated by CCXI and China Bond Rating; Zhong Yu 2016-2 and Zhong Ying 2016-3 were rated by Golden Credit Rating International and China Bond Rating.



### 7.1.5 Risk Exposure and Capital Requirements

The Group measures asset securitization risk exposure and capital requirements by using Standardized Approach in accordance with the *Capital Rules*, and determines risk weights according to the credit ratings of eligible rating institutions recognized by the Bank and the corresponding table of credit ratings and risk weights stipulated in the *Capital Rules*. As at the end of 2016, the Group's exposures to asset securitization were RMB11,332 million, and capital requirements were RMB689 million.

*Unit: RMB Million*

Item	As at 31 December 2016		As at 31 December 2015	
	Traditional asset securitization risk exposures	Synthetic asset securitization risk exposures	Traditional asset securitization risk exposures	Synthetic asset securitization risk exposures
As originating institution				
Asset-backed securities	234	–	862	–
Mortgage-backed securities	1,488	–	–	–
As investing institution				
Asset-backed securities	8,705	–	26,187	–
Mortgage-backed securities	905	–	1,856	–
<b>Total</b>	<b>11,332</b>	<b>–</b>	<b>28,905</b>	<b>–</b>

## 7.2 Counterparty Credit Risk

### 7.2.1 Counterparty credit risks covered by IRB Approach

At the end of 2016, the Group's counterparty credit risk exposures covered by IRB Approach amounted to RMB15,101 million, which all arose from transactions with corporates.

### 7.2.2 Counterparty credit risks not covered by IRB Approach

*Unit: RMB Million*

Counterparty	As at 31 December 2016	As at 31 December 2015
Central counterparty	12,709	9,370
Others	271,038	160,727
<b>Total</b>	<b>283,747</b>	<b>170,097</b>

## 7.3 Interest Rate Risk in the Banking Book

### 7.3.1 Management of interest rate risk in the banking book

Interest rate risk in banking book refers to adverse changes in interest rate level, term structure and other elements leading to losses in overall profits and economic value in banking book. It mainly comes from gaps in re-pricing terms between assets and liabilities in the banking book, and differences in changes in benchmarking interest rates for assets and liabilities. Relative to the trading book, the banking book records the Group's on- and off-balance sheet businesses that are not recorded in trading book, including but not limited to loans, due to customers, non-dealing bond investment, bonds issued, interbank business and placement with the central bank.

The Group adheres to prudence principle in the management of interest rate risk in banking book. The Group aims to control the adverse impacts from changes in interest rates on overall profits and economic value within an acceptable range by implementing effective management under the overall business development strategy and risk appetite so as to promote the Group's sustainable profit growth. The Group measures interest rate risk in banking book on a monthly basis, and timely adjusts structure of assets and liabilities or hedge the risk based on market change to control the interest rate risk at an acceptable range.

The Group measures interest rate risk mainly by making gap analysis of interest rate re-pricing, on which the sensitivity analysis is based. See below for the results from 2016 sensitivity analysis. In the above-mentioned sensitivity analysis, it was assumed that all interest rates changed with identical magnitude and structure of assets and liabilities remained unchanged. Re-pricing periods of loans and fixed-term deposits are determined by contractual cash flows, and re-pricing periods of current deposits and other perpetuity deposits are set as overnight.

### 7.3.2 Interest rate sensitivity analysis

*Unit: RMB Million*

Interest rate basis points move	(Decrease)/increase in net interest income	
	As at 31 December 2016	As at 31 December 2015
+25 basis points	(3,010)	(2,570)
-25 basis points	3,010	2,570

## **8 Remuneration**

### **8.1 Composition and Authority of the Remuneration Management Committee**

The Personnel and Remuneration Committee comprises five members, including two non-executive directors and three independent non-executive directors. Chairman of the committee is assumed by an independent non-executive director. The committee is mainly responsible for assisting the Board of Directors in reviewing the Bank's human resources and remuneration strategies and overseeing their implementations; reviewing and monitoring the remuneration and incentive policies of the Bank; considering and examining the remuneration plan for directors and senior management members, and making recommendations to the Board of Directors; setting the performance appraisal standards for the senior management of the Bank, evaluating the performance of the directors and members of the senior management, and making recommendations to the Board of Directors, etc.

### **8.2 Remuneration Policy**

#### *Overview*

Remuneration policies of the Bank are established according to corporate governance requirements, operation and development strategy, market positioning and talent competition strategy. The Bank adopts "post-driven and performance-based" remuneration distribution mechanism. Basic remuneration level is determined by position value and duty performance ability of the employee, and performance-based remuneration by performance appraisal results of the Group, the employee's institution or department and the employee. Remuneration policies apply to all employees signing employment contract with the Bank. In accordance with relevant national and regulatory guidance, the Bank has not adopted any medium- and long-term incentives including granting equity shares or other equity-related incentives. Remuneration of employees is paid in cash.

#### *Remuneration policies of employees in risk and compliance functions*

Remuneration of employees in risk and compliance functions is determined based on their value contribution, duty performance ability, performance, etc., not directly linked to business lines under their supervision and independent from other business areas.

#### *Relation between remuneration policies and present and future risk*

Remuneration policies of the Bank are aligned with the risk management system of the Bank and matched with institution size, business nature, complexity, etc.

Total remuneration distribution to branches is linked with completion of comprehensive performance target. The Bank also considers risk factors during remuneration allocation, to create risk-adjusted value orientation across the Bank and promote long-term results.

Remuneration distribution to employees is linked with responsibilities and risks assumed by each position. Different remuneration structures apply to employees taking different roles and responsibilities. Results of comprehensive performance appraisal covering performance, risks, internal control and capability are also considered, in order to prevent risk-taking and short-term behaviours by employees and promote a balanced and healthy risk management culture.

More than 40% of performance-related remuneration of employees assuming major risks and assuming major risk management responsibility is paid in a deferred manner, generally with deferred payment period of no less than 3 years. For employees subject to deferred payment, if extraordinary risk loss exposure occurs during his/her term of office, the Bank can reclaim part or all performance-related remuneration of corresponding periods and stop the payment of the unpaid remuneration.

### ***Relation between remuneration and the Bank's performance***

Total remuneration of the Bank is linked with the Group's realization of performance target and total remuneration to branches is allocated based on comprehensive performance and development of key businesses of each branch. Branches are encouraged to increase value contribution. Remuneration of employees is linked with the performance of the Group, the employee's institution or department and the employee according to characteristics of position responsibilities. Remuneration is aligned with performance results to encourage performance improvement and value creation of employees.

### **8.3 Disclosures of Senior Management Remuneration**

For basic information and remuneration of the senior management members of the Bank, members and remuneration of the Remuneration Committee members under the Board of Directors, please refer to 2016 Annual Report.

## Annex 1: Composition of Capital

Unit: RMB Million (except percentages)

		As at 31 December 2016	As at 31 December 2015	Code
<b>Common equity tier 1 capital</b>				
1	Paid-in capital	294,388	294,388	<b>j</b>
2	Retained earnings	845,251	742,208	
2a	Surplus reserve	125,109	111,207	<b>q</b>
2b	General reserve	193,338	179,416	<b>r</b>
2c	Undistributed profits	526,804	451,585	<b>s</b>
3	Accumulated other comprehensive income (and other reserves)	127,731	132,256	
3a	Capital reserve	139,443	139,572	<b>l</b>
3b	Currency translation differences	(11,570)	(19,890)	<b>p</b>
3c	Others	(142)	12,574	<b>n-p</b>
4	Amount attributable to common equity tier 1 capital in transitional period	–	–	
5	Eligible portion of minority interests	30,051	29,016	<b>u</b>
6	<b>Common equity tier 1 capital before regulatory adjustment</b>	<b>1,297,421</b>	<b>1,197,868</b>	
<b>Common equity tier 1 capital: regulatory adjustment</b>				
7	Prudential valuation adjustment	–	–	
8	Goodwill (net of deferred tax liabilities deduction)	(96)	(96)	<b>-h</b>
9	Other intangible assets (excluding land use rights) (net of deferred tax liabilities deduction)	(6,498)	(5,369)	<b>g-f</b>
10	Net deferred tax assets incurred due to operating losses, relying on the bank's future profitability to be realized	–	–	
11	Reserve relating to cash-flow hedge items not measured at fair value	20	16	<b>-o</b>
12	Shortfall of provisions to loan losses	–	–	
13	Gains on sale of securitization	–	(204)	<b>-t</b>
14	Unrealized gains and losses that have resulted from changes in the fair value of liabilities due to changes in own credit risk	–	–	
15	Net pension assets with fixed yield (net of deferred tax liabilities deduction)	–	–	

## Annex 1: Composition of Capital (Continued)

		As at 31 December 2016	As at 31 December 2015	Code
16	Direct or indirect investments in own shares	(53)	(86)	m
17	Reciprocal cross holdings in common equity of banks or other financial institutions based on agreement	–	–	
18	Non-significant minority investments in common equity tier 1 capital of financial institutions that are outside the scope of regulatory consolidation (deductible part)	–	–	
19	Significant minority investments in common equity tier 1 capital of financial institutions that are outside the scope of regulatory consolidation (deductible part)	–	–	
20	Collateralized loan service rights	<b>Not applicable</b>	Not applicable	
21	Deductible amount of other net deferred tax assets relying on the bank's future profitability	–	–	
22	Deductible amount of non-deducted part of common equity tier 1 capital of significant minority investments in financial institutions that are outside the scope of regulatory consolidation and other net deferred tax assets relying on the bank's future profitability in excess of 15% of common equity tier 1 capital	–	–	
23	Of which: Amount deductible out of significant minority investments in financial institutions	–	–	
24	Of which: Amount deductible out of collateralized loan service rights	<b>Not applicable</b>	Not applicable	
25	Of which: Amount deductible out of other net deferred tax assets relying on the bank's future profitability	–	–	
26a	Investment in common equity tier 1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation	<b>(9,953)</b>	(9,829)	-e
26b	Gap of common equity tier 1 capital of controlled but unconsolidated financial institutions	–	–	

## Annex 1: Composition of Capital (Continued)

		As at 31 December 2016	As at 31 December 2015	Code
26c	Total of other items deductible out of common equity tier 1 capital	–	–	
27	Non-deducted gap deductible out of additional tier 1 capital and tier 2 capital	–	–	
28	<b>Total regulatory adjustment of common equity tier 1 capital</b>	<b>(16,580)</b>	(15,568)	
29	<b>Net common equity tier 1 capital</b>	<b>1,280,841</b>	1,182,300	
<b>Additional tier 1 capital</b>				
30	Additional tier 1 capital instruments and related premiums	<b>99,714</b>	99,714	
31	Of which: Equity part	<b>99,714</b>	99,714	<b>k</b>
32	Of which: Liability part	–	–	
33	Instruments non-attributable to additional tier 1 capital after transitional period	–	–	
34	Eligible portion of minority interests	<b>3,809</b>	3,445	<b>v</b>
35	Of which: Part of instruments non-attributable to additional tier 1 capital after transitional period	–	–	
36	<b>Additional tier 1 capital before regulatory adjustment</b>	<b>103,523</b>	103,159	
<b>Additional tier 1 capital: Regulatory adjustment</b>				
37	Direct or indirect investments in additional tier 1 capital of own banks	–	–	
38	Additional tier 1 capital cross-held between banks or between the bank and other financial institutions based on agreement	–	–	
39	Non-significant minority investments in additional tier 1 capital of unconsolidated financial institutions (deductible part)	–	–	
40	Significant minority investments in additional tier 1 capital of financial institutions that are outside the scope of regulatory consolidation	–	–	
41a	Investment in additional tier 1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation	–	–	

## Annex 1: Composition of Capital (Continued)

		As at 31 December 2016	As at 31 December 2015	Code
41b	Gap of additional tier 1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation	–	–	
41c	Other deductions from additional tier 1 capital	–	–	
42	Non-deducted gaps deductible from tier 2 capital	–	–	
43	<b>Total regulatory adjustment of additional tier 1 capital</b>	–	–	
44	<b>Net additional tier 1 capital</b>	<b>103,523</b>	103,159	
45	<b>Net tier 1 capital (net common equity tier 1 capital + net additional tier 1 capital)</b>	<b>1,384,364</b>	1,285,459	
<b>Tier 2 capital</b>				
46	Tier 2 capital instruments issued and related premiums	<b>149,406</b>	153,266	
47	Of which: Part of instruments non-attributable to tier 2 capital after transitional period	<b>98,734</b>	103,930	<b>i</b>
48	Eligible portion of minority interests	<b>11,195</b>	13,832	
49	Of which: Part of minority interests non-attributable to tier 2 capital after transitional period	<b>2,116</b>	4,309	
50	Excess provision included in tier 2 capital	<b>64,572</b>	45,839	<b>–b-d</b>
51	<b>Tier 2 capital before regulatory adjustment</b>	<b>225,173</b>	212,937	
<b>Tier 2 capital: Regulatory adjustment</b>				
52	Tier 2 capital of the bank held directly or indirectly	–	–	
53	Tier 2 capital cross-held between banks or between the bank and other financial institutions based on agreement	–	–	
54	Non-significant minority investments in tier 2 capital of financial institutions that are outside the scope of regulatory consolidation (deductible part)	–	–	



## Annex 1: Composition of Capital (Continued)

		As at 31 December 2016	As at 31 December 2015	Code
55	Significant minority investments in tier 2 capital of financial institutions that are outside the scope of regulatory consolidation	–	–	
56a	Investment in tier 2 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation	–	–	
56b	Gap of tier 2 capital of controlled but unconsolidated financial institutions	–	–	
56c	Other deductions from tier 2 capital	–	–	
57	<b>Total regulatory adjustment of tier 2 capital</b>	–	–	
58	<b>Net tier 2 capital</b>	<b>225,173</b>	212,937	
59	<b>Total net capital (net tier 1 capital + net tier 2 capital)</b>	<b>1,609,537</b>	1,498,396	
60	<b>Total risk-weighted assets</b>	<b>11,269,592</b>	10,654,081	
<b>Capital adequacy ratio and reserve capital requirement</b>				
61	Common equity tier 1 capital adequacy ratio	<b>11.37%</b>	11.10%	
62	Tier 1 capital adequacy ratio	<b>12.28%</b>	12.07%	
63	Capital adequacy ratio	<b>14.28%</b>	14.06%	
64	Institution-specific capital requirement	<b>3.50%</b>	3.50%	
65	Of which: Capital reserve requirement	<b>2.50%</b>	2.50%	
66	Of which: Countercyclical reserve requirement	–	–	
67	Of which: Additional capital requirement of G-SIBs	<b>1.00%</b>	1.00%	
68	Ratio of common equity tier 1 capital meeting buffer area to risk-weighted assets	<b>6.37%</b>	6.10%	
<b>Domestic minimum regulatory capital requirement</b>				
69	Common equity tier 1 capital adequacy ratio	<b>5.00%</b>	5.00%	
70	Tier 1 capital adequacy ratio	<b>6.00%</b>	6.00%	
71	Capital adequacy ratio	<b>8.00%</b>	8.00%	

## Annex 1: Composition of Capital (Continued)

		As at 31 December 2016	As at 31 December 2015	Code
<b>Non-deducted part of threshold deductibles</b>				
72	Non-significant minority investments of financial institutions that are outside the scope of regulatory consolidation (non-deductible part)	80,951	81,133	
73	Significant minority investments of financial institutions that are outside the scope of regulatory consolidation (non-deductible part)	4,484	4,169	
74	Collateralized loan service rights (net of deferred tax liabilities deduction)	Not applicable	Not applicable	
75	Other net deferred tax assets relying on the bank's future profitability (net of deferred tax liabilities deduction)	33,673	21,635	
<b>Limit of excess loan loss reserve attributable to tier 2 capital</b>				
76	Actual accrued loan loss reserve amount under the Regulatory Weighting Approach	21,058	11,855	-a
77	Amount of excess loan loss reserve attributable to tier 2 capital under the Regulatory Weighting Approach	8,361	5,375	-b
78	Actual accrued excess loan loss reserve amount under the Internal Ratings-based Approach	68,236	73,651	-c
79	Amount of excess loan loss reserve attributable to tier 2 capital under the Internal Ratings-based Approach	56,211	40,464	-d
<b>Capital instruments meeting exit arrangement</b>				
80	Amount attributable to common equity tier 1 capital of the current period derived from transitional period arrangement	–	–	
81	Amount non-attributable to common equity tier 1 capital derived from transitional period arrangement	–	–	
82	Amount attributable to additional tier 1 capital of the current period derived from transitional period arrangement	–	–	

## Annex 1: Composition of Capital (Continued)

		<b>As at 31 December 2016</b>	<b>As at 31 December 2015</b>	<b>Code</b>
83	Amount non-attributable to additional tier 1 capital derived from transitional period arrangement	–	–	
84	Amount attributable to tier 2 capital of the current period derived from transitional period arrangement	<b>98,734</b>	103,930	<b>i</b>
85	Amount non-attributable to tier 2 capital of the current period derived from transitional period arrangement	<b>5,196</b>	–	

## Annex 2: Financial and Regulatory Consolidated Balance Sheet

Unit: RMB Million

	As at 31 December 2016		As at 31 December 2015	
	Financial Consolidated	Regulatory Consolidated	Financial Consolidated	Regulatory Consolidated
<b>ASSETS</b>				
Cash and balances with central banks	2,349,188	2,349,188	2,269,434	2,269,433
Due from banks and other financial institutions	582,434	577,253	581,007	576,892
Precious metals	161,417	161,417	176,753	176,753
Placements with and loans to banks and other financial institutions	483,929	482,281	350,218	349,406
Financial assets at fair value through profit or loss	124,090	97,002	119,062	94,336
Derivative financial assets	130,549	130,407	82,236	81,819
Reverse repurchase transactions	110,119	109,408	76,630	76,621
Interest receivable	79,836	78,951	77,354	76,585
Loans and advances to customers	9,735,646	9,734,544	8,935,195	8,934,811
Financial investments				
— Available for sale	1,609,830	1,541,655	1,078,533	1,026,613
— Held to maturity	1,843,043	1,829,767	1,790,790	1,776,709
— Receivables	395,921	389,785	606,710	603,205
Long term equity investment	14,059	44,127	10,843	43,790
Investment properties	21,659	14,741	23,281	11,284
Property and equipment	194,897	98,656	182,031	99,433
Intangible assets	14,542	13,420	13,854	12,689
Goodwill	2,473	96	2,449	96
Deferred income tax assets	34,341	33,673	22,246	21,635
Assets held for sale	50,371	44,569	237,937	237,937
Other assets	210,545	170,547	179,034	147,146
<b>Total assets</b>	<b>18,148,889</b>	<b>17,901,487</b>	<b>16,815,597</b>	<b>16,617,193</b>

## Annex 2: Financial and Regulatory Consolidated Balance Sheet (Continued)

	As at 31 December 2016		As at 31 December 2015	
	Financial Consolidated	Regulatory Consolidated	Financial Consolidated	Regulatory Consolidated
<b>LIABILITIES</b>				
Due to central banks	867,094	867,094	415,709	415,709
Due to banks and other financial institutions	1,420,527	1,420,527	1,764,320	1,764,320
Placements from banks and other financial institutions	186,417	184,768	264,446	262,814
Financial liabilities at fair value through profit or loss	11,958	11,958	8,629	8,629
Derivative financial liabilities	107,109	105,607	69,160	68,101
Repurchase transactions	116,375	116,375	183,498	183,498
Due to customers	12,939,748	12,941,957	11,729,171	11,730,916
Employee benefits payable	31,256	30,719	30,966	30,486
Taxes payable	28,055	27,603	37,982	37,490
Interest payable	183,516	183,515	174,256	174,256
Contingent liabilities	6,065	6,065	3,362	3,362
Bonds issued	362,318	329,128	282,929	255,953
Deferred income tax liabilities	4,501	324	4,291	430
Liabilities classified as held for sale	42,488	41,761	196,850	196,850
Other liabilities	354,370	198,510	292,423	164,037
<b>Total liabilities</b>	<b>16,661,797</b>	<b>16,465,911</b>	<b>15,457,992</b>	<b>15,296,851</b>
<b>EQUITY</b>				
Share capital	294,388	294,388	294,388	294,388
Other equity instruments	99,714	99,714	99,714	99,714
Of which: Preference shares	99,714	99,714	99,714	99,714
Capital reserve	141,972	139,443	140,098	139,572
Less: Treasury shares	(53)	(53)	(86)	(86)
Other comprehensive income	(3,854)	(11,712)	(2,345)	(7,316)
Surplus reserve	125,714	125,109	111,511	111,207
General reserve	193,462	193,338	179,485	179,416
Undistributed profits	560,339	526,804	482,181	451,585
Capital and reserves attributable to equity holders of the Bank	1,411,682	1,367,031	1,304,946	1,268,480
Non-controlling interests	75,410	68,545	52,659	51,862
<b>Total equity</b>	<b>1,487,092</b>	<b>1,435,576</b>	<b>1,357,605</b>	<b>1,320,342</b>
<b>Total equity and liabilities</b>	<b>18,148,889</b>	<b>17,901,487</b>	<b>16,815,597</b>	<b>16,617,193</b>

### Annex 3: Reconciliation and Illustration of Balance Sheet Items

Unit: RMB Million

	As at 31 December 2016	As at 31 December 2015	Code
<b>ASSETS</b>			
Cash and balances with central banks	<b>2,349,188</b>	2,269,433	
Due from banks and other financial institutions	<b>577,253</b>	576,892	
Precious metals	<b>161,417</b>	176,753	
Placements with and loans to banks and other financial institutions	<b>482,281</b>	349,406	
Financial assets at fair value through profit or loss	<b>97,002</b>	94,336	
Derivative financial assets	<b>130,407</b>	81,819	
Reverse repurchase transactions	<b>109,408</b>	76,621	
Interest receivable	<b>78,951</b>	76,585	
Loans and advances to customers	<b>9,734,544</b>	8,934,811	
Of which: Actual accrued loan loss reserve amount under the Regulatory Weighting Approach	<b>(21,058)</b>	(11,855)	<b>a</b>
Of which: Amount of excess loan loss reserve attributable to tier 2 capital under the Regulatory Weighting Approach	<b>(8,361)</b>	(5,375)	<b>b</b>
Of which: Actual accrued excess loan loss reserve amount under the Internal Ratings-based Approach	<b>(68,236)</b>	(73,651)	<b>c</b>
Of which: Amount of excess loan loss reserve attributable to tier 2 capital under the Internal Ratings-based Approach	<b>(56,211)</b>	(40,464)	<b>d</b>
Financial investments			
— Available for sale	<b>1,541,655</b>	1,026,613	
— Held to maturity	<b>1,829,767</b>	1,776,709	
— Receivables	<b>389,785</b>	603,205	
Long term equity investment	<b>44,127</b>	43,790	
Of which: Investment in common equity tier 1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation	<b>9,953</b>	9,829	<b>e</b>
Investment properties	<b>14,741</b>	11,284	
Property and equipment	<b>98,656</b>	99,433	
Intangible assets	<b>13,420</b>	12,689	<b>f</b>
Of which: Land use rights	<b>6,922</b>	7,320	<b>g</b>
Goodwill	<b>96</b>	96	<b>h</b>
Deferred income tax assets	<b>33,673</b>	21,635	
Assets held for sale	<b>44,569</b>	237,937	
Other assets	<b>170,547</b>	147,146	
<b>Total assets</b>	<b>17,901,487</b>	16,617,193	

### Annex 3: Reconciliation and Illustration of Balance Sheet Items (Continued)

	As at 31 December 2016	As at 31 December 2015	Code
<b>LIABILITIES</b>			
Due to central banks	867,094	415,709	
Due to banks and other financial institutions	1,420,527	1,764,320	
Placements from banks and other financial institutions	184,768	262,814	
Financial liabilities at fair value through profit or loss	11,958	8,629	
Derivative financial liabilities	105,607	68,101	
Repurchase transactions	116,375	183,498	
Due to customers	12,941,957	11,730,916	
Employee benefits payable	30,719	30,486	
Taxes payable	27,603	37,490	
Interest payable	183,515	174,256	
Contingent liabilities	6,065	3,362	
Bonds issued	329,128	255,953	
Of which: Amount attributable to tier 2 capital of the current period derived from transitional period arrangement	98,734	103,930	i
Deferred income tax liabilities	324	430	
Liabilities classified as held for sale	41,761	196,850	
Other liabilities	198,510	164,037	
<b>Total liabilities</b>	<b>16,465,911</b>	<b>15,296,851</b>	
<b>EQUITY</b>			
Share capital	294,388	294,388	j
Other equity instruments	99,714	99,714	
Of which: Preference shares	99,714	99,714	k
Capital reserve	139,443	139,572	l
Less: Treasury shares	(53)	(86)	m
Other comprehensive income	(11,712)	(7,316)	n
Of which: Reserve relating to cash-flow hedge items not measured at fair value	(20)	(16)	o
Of which: Currency translation differences	(11,570)	(19,890)	p
Surplus reserve	125,109	111,207	q
General reserve	193,338	179,416	r
Undistributed profits	526,804	451,585	s
Of which: Gains on sale of securitization	–	204	t
Capital and reserves attributable to equity holders of the Bank	1,367,031	1,268,480	
Non-controlling interests	68,545	51,862	
Of which: Amount attributable to common equity tier 1 capital	30,051	29,016	u
Of which: Amount attributable to additional tier 1 capital	3,809	3,445	v
<b>Total equity</b>	<b>1,435,576</b>	<b>1,320,342</b>	
<b>Total equity and liabilities</b>	<b>17,901,487</b>	<b>16,617,193</b>	

## Annex 4: Main Attributes of Capital Instruments

Unit: RMB Million (unless otherwise stated)

No.	Item	Common shares (A share)	Common shares (H share)	Preference shares (Domestic)	Preference shares (Offshore)	Preference shares (Domestic)
1	Issuer	Bank of China Limited	Bank of China Limited	Bank of China Limited	Bank of China Limited	Bank of China Limited
2	Identification code	601988.SH	3988.HK	360002.SH	4601.HK	360010.SH
3	Applicable law	PRC law	Hong Kong SAR law	PRC law	Hong Kong SAR law	PRC law
<b>Regulatory processing</b>						
4	Of which: Applicable to transitional period rules specified by <i>Capital Rules for Commercial Banks (Provisional)</i>	Common equity tier 1 capital	Common equity tier 1 capital	Additional tier 1 capital	Additional tier 1 capital	Additional tier 1 capital
5	Of which: Applicable to the rules after expiration of the transitional period specified by <i>Capital Rules for Commercial Banks (Provisional)</i>	Common equity tier 1 capital	Common equity tier 1 capital	Additional tier 1 capital	Additional tier 1 capital	Additional tier 1 capital
6	Of which: Applicable to bank/group level	Bank and group level	Bank and group level	Bank and group level	Bank and group level	Bank and group level
7	Instrument type	Common shares	Common shares	Preference shares	Preference shares	Preference shares
8	Amount attributable to regulatory capital (the last reporting day)	282,501	151,808	31,963	39,782	27,969
9	Par value of instrument	210,766	83,622	32,000	39,940	28,000
10	Accounting treatment	Share capital and capital reserve	Share capital and capital reserve	Other equity instrument	Other equity instrument	Other equity instrument
11	Initial issuing date	2006/6/29	2006/6/1 2006/6/9	2014/11/21	2014/10/23	2015/3/13
12	Term (term or perpetual)	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual
13	Of which: Original maturity date	No maturity date	No maturity date	No maturity date	No maturity date	No maturity date
14	Issuer's redemption (subject to regulatory approval)	No	No	Yes	Yes	Yes
15	Of which: Redemption date (or have redemption date) and amount	Not applicable	Not applicable	Subject to approval by the CBRC, the Bank has the right to redeem all or part of the Preference Shares after 5 years from the date of issuance and at every Dividend Payment Date thereafter	Subject to approval by the CBRC, the Bank has the right to redeem all or part of the Preference Shares after 5 years from the date of issuance and at every Dividend Payment Date thereafter	Subject to approval by the CBRC, the Bank has the right to redeem all or part of the Preference Shares after 5 years from the date of issuance and at every Dividend Payment Date thereafter



## Annex 4: Main Attributes of Capital Instruments (Continued)

No.	Item	Common shares (A share)	Common shares (H share)	Preference shares (Domestic)	Preference shares (Offshore)	Preference shares (Domestic)
<b>Regulatory processing (Continued)</b>						
16	Of which: Subsequent redemption date (if any)	Not applicable	Not applicable	Subject to approval by the CBRC, the Bank has the right to redeem all or part of the Preference Shares after 5 years from the date of issuance and at every Dividend Payment Date thereafter	Subject to approval by the CBRC, the Bank has the right to redeem all or part of the Preference Shares after 5 years from the date of issuance and at every Dividend Payment Date thereafter	Subject to approval by the CBRC, the Bank has the right to redeem all or part of the Preference Shares after 5 years from the date of issuance and at every Dividend Payment Date thereafter
<b>Dividend or interest payment</b>						
17	Of which: Fixed or floating dividend or interest payment	Floating	Floating	Fixed	Fixed	Fixed
18	Of which: Coupon rate and relevant indicators	Not applicable	Not applicable	6% (dividend yield, before tax)	The dividend yield fixed at 6.75% (after tax) for the first five years, is reset based on the five-year U. S. treasury rate plus a fixed interest spread at the dividend reset date every five years, and the dividend yield during each reset period remains unchanged	5.5% (dividend yield, before tax)
19	Of which: Existence of dividend brake mechanism	Not applicable	Not applicable	Yes	Yes	Yes
20	Of which: Discretion to cancel dividend or interest payment	Full discretion	Full discretion	Full discretion	Full discretion	Full discretion
21	Of which: Existence of redemption incentive mechanism	No	No	No	No	No
22	Of which: Cumulative or noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23	Conversion into shares	Not applicable	Not applicable	Yes	Yes	Yes

## Annex 4: Main Attributes of Capital Instruments (Continued)

No.	Item	Common shares (A share)	Common shares (H share)	Preference shares (Domestic)	Preference shares (Offshore)	Preference shares (Domestic)
<b>Dividend or interest payment (Continued)</b>						
24	Of which: Please specify the trigger condition for share conversion, if allowed	Not applicable	Not applicable	<p>(1) Upon the occurrence of any Additional Tier 1 Capital Instrument Trigger Event, that is, the CET 1 CAR drops to 5.125% or below, the Domestic Preference Shares shall be wholly or partly converted into A Shares so as to restore the CET1 CAR above the trigger point; (2) Upon the occurrence of any Tier 2 Capital Instrument Trigger Event, all of the Domestic Preference Shares shall be converted into A Shares. "Tier 2 Capital Instrument Trigger Event" means either of the following circumstances (whichever is earlier):</p> <p>(i) the CBRC having concluded that a conversion or write-off is necessary without which the Bank would become non-viable; or</p> <p>(ii) the relevant authorities having concluded that a public sector injection of capital or equivalent support is necessary without which the Bank would become non-viable</p>	<p>(1) Upon the occurrence of any Additional Tier 1 Capital Instrument Trigger Event, that is, the CET 1 CAR drops to 5.125% or below, the Offshore Preference Shares shall be wholly or partly converted into H Shares so as to restore the CET1 CAR above the trigger point; (2) Upon the occurrence of any Tier 2 Capital Instrument Trigger Event, all of the Offshore Preference Shares shall be converted into H Shares. "Tier 2 Capital Instrument Trigger Event" means either of the following circumstances (whichever is earlier):</p> <p>(i) the CBRC having concluded that a conversion or write-off is necessary without which the Bank would become non-viable; or</p> <p>(ii) the relevant authorities having concluded that a public sector injection of capital or equivalent support is necessary without which the Bank would become non-viable</p>	<p>(1) Upon the occurrence of any Additional Tier 1 Capital Instrument Trigger Event, that is, the CET 1 CAR drops to 5.125% or below, the Domestic Preference Shares shall be wholly or partly converted into A Shares so as to restore the CET1 CAR above the trigger point; (2) Upon the occurrence of any Tier 2 Capital Instrument Trigger Event, all of the Domestic Preference Shares shall be converted into A Shares. "Tier 2 Capital Instrument Trigger Event" means either of the following circumstances (whichever is earlier):</p> <p>(i) the CBRC having concluded that a conversion or write-off is necessary without which the Bank would become non-viable; or</p> <p>(ii) the relevant authorities having concluded that a public sector injection of capital or equivalent support is necessary without which the Bank would become non-viable</p>

## Annex 4: Main Attributes of Capital Instruments (Continued)

No.	Item	Common shares (A share)	Common shares (H share)	Preference shares (Domestic)	Preference shares (Offshore)	Preference shares (Domestic)
<b>Dividend or interest payment (Continued)</b>						
25	Of which: Please specify share conversion in whole or in part, if allowed	Not applicable	Not applicable	Whole/part	Whole/part	Whole/part
26	Of which: Please specify the method to determine the conversion price, if share conversion is allowed	Not applicable	Not applicable	The initial compulsory conversion price of the Domestic Preference Shares is the average trading price of A Shares of the Bank in the 20 trading days prior to the announcement date of the Board resolution on the Preference Shares issuance, equivalent to RMB2.62 per A Share. After the issuance of the Preference Shares, in the event of any distribution of bonus shares, recapitalization, issuance of new shares at a price lower than the market price (excluding any increase of share capital due to conversion of financing instruments convertible to ordinary shares issued by the Bank (e.g., preference shares, convertible bonds etc.)), or rights issue for A Shares, the Bank	The initial conversion price of the Offshore Preference Shares is the average trading price of H Shares of the Bank in the 20 trading days prior to the announcement date (i.e.2014/5/13) of the Board resolution on the Offshore Preference Shares issuance, equivalent to HKD3.44 per H Share, which has been approved by General Meeting. The conversion price will be subject to adjustment in the following events: (a) if the Bank shall issue any H Shares credited as fully paid to holders of H Shares by way of a distribution of bonus shares or a capitalization issue; (b) if the Bank shall issue any H Shares by way of a rights issue; (c) if the Bank shall issue (otherwise than rights issue) any H Shares (other than H Shares issued	The initial compulsory conversion price of the Domestic Preference Shares is the average trading price of A Shares of the Bank in the 20 trading days prior to the announcement date of the Board resolution on the Preference Shares issuance, equivalent to RMB2.62 per A Share. After the issuance of the Preference Shares, in the event of any distribution of bonus shares, recapitalization, issuance of new shares at a price lower than the market price (excluding any increase of share capital due to conversion of financing instruments convertible to ordinary shares issued by the Bank (e.g., preference shares, convertible bonds etc.)), or rights issue for

## Annex 4: Main Attributes of Capital Instruments (Continued)

No.	Item	Common shares (A share)	Common shares (H share)	Preference shares (Domestic)	Preference shares (Offshore)	Preference shares (Domestic)
<b>Dividend or interest payment (Continued)</b>						
				<p>will make an adjustment to the compulsory conversion price to reflect each of such events on a cumulative basis in the order of the occurrence of the events above, but the Bank will not make an adjustment to the compulsory conversion price to reflect distribution of cash dividends for ordinary share</p>	<p>on the compulsory conversion of the Offshore Preference Shares or on the exercise of any other rights of conversion into, or exchange or subscription for H Shares), at a price per H Share which is less than the Current Market Price per H Share on the date of the announcement of the terms of such issue or grant; (d) if the Bank repurchases any of its Ordinary Shares, or is subject to a merger, division or any other circumstances that may lead to any change in the Bank's share classes, number and/ or shareholders' equity and thereby affect the rights and interests of the Offshore Preference Shareholders, the Bank is entitled to adjust the compulsory conversion price in a fair, just and equitable manner in order to protect the rights and interests of the Offshore Preference Shareholders</p>	<p>A Shares, the Bank will make an adjustment to the compulsory conversion price to reflect each of such events on a cumulative basis in the order of the occurrence of the events above, but the Bank will not make an adjustment to the compulsory conversion price to reflect distribution of cash dividends for ordinary share</p>

## Annex 4: Main Attributes of Capital Instruments (Continued)

No.	Item	Common shares (A share)	Common shares (H share)	Preference shares (Domestic)	Preference shares (Offshore)	Preference shares (Domestic)
<b>Dividend or interest payment (Continued)</b>						
27	Of which: Please specify share conversion is mandatory or not, if it is allowed	Not applicable	Not applicable	Yes	Yes	Yes
28	Of which: Please specify the instrument type after conversion, if allowed	Not applicable	Not applicable	A common share	H common share	A common share
29	Of which: Please specify the issuer of the instrument type after conversion, if allowed	Not applicable	Not applicable	Bank of China Limited	Bank of China Limited	Bank of China Limited
30	Write-down feature	Not applicable	Not applicable	No	No	No
31	Of which: Please specify the trigger point of write-down, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
32	Of which: Please specify write-down in whole or in part, if write-down is allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
33	Of which: Please specify the write-down is perpetual or temporary, if write-down is allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
34	Of which: Please specify the book-entry value recovery mechanism, if temporary write-down	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
35	Hierarchy of claims (please specify instrument types enjoying higher priorities)	The lowest priority of all claims	The lowest priority of all claims	The lower priority behind the deposit, general debt, and subordinated debt(including tier 2 capital bond)	The lower priority behind the deposit, general debt, and subordinated debt(including tier 2 capital bond)	The lower priority behind the deposit, general debt, and subordinated debt(including tier 2 capital bond)
36	Does the instrument contain temporary illegible attribute?	No	No	No	No	No
	Of which: If yes, please specify such attribute	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

## Annex 4: Main Attributes of Capital Instruments (Continued)

No.	Item	Tier 2 capital instrument	Tier 2 capital instrument
1	Issuer	Bank of China Limited	Bank of China Limited
2	Identification code	1428010.IB	5828.HK
3	Applicable law	PRC law	English law (Provisions relating to subordination shall be governed by PRC law)
<b>Regulatory processing</b>			
4	Of which: Applicable to transitional period rules specified by <i>Capital Rules for Commercial Banks (Provisional)</i>	Tier 2 capital	Tier 2 capital
5	Of which: Applicable to the rules after expiration of the transitional period specified by <i>Capital Rules for Commercial Banks (Provisional)</i>	Tier 2 capital	Tier 2 capital
6	Of which: Applicable to bank/group level	Bank and group level	Bank and group level
7	Instrument type	Eligible tier 2 capital bond	Eligible tier 2 capital bond
8	Amount attributable to regulatory capital (the last reporting day)	29,972	20,700
9	Par value of instrument	30,000	USD3.0 billion
10	Accounting treatment	Bonds Issued	Bonds Issued
11	Initial issuing date	2014/8/8	2014/11/13
12	Term (term or perpetual)	Term	Term
13	Of which: Original maturity date	2024/8/11	2024/11/13
14	Issuer's redemption (subject to regulatory approval)	Yes	Yes

## Annex 4: Main Attributes of Capital Instruments (Continued)

No.	Item	Tier 2 capital instrument	Tier 2 capital instrument
<b>Regulatory processing (Continued)</b>			
15	Of which: Redemption date (or have redemption date) and amount	Subject to approval by the CBRC, the Bank has the right to redeem all or part of the bond after 5 years from the date of issuance (i.e. 2019/8/11)	Not applicable
16	Of which: Subsequent redemption date (if any)	Subject to the Redemption Conditions, the bonds are redeemable at the option of the Issuer at their outstanding principal amount, together with accrued but unpaid interest, if a change in the related regulations occurs at any time so long as the bonds are outstanding which has the effect that the bonds, after having qualified as such, will fully be disqualified from the Tier 2 Capital of the Issuer under the related regulations provided that the Issuer shall obtain the prior written consent and satisfy certain other conditions	Subject to the Redemption Conditions, the bonds are redeemable at the option of the Issuer at their outstanding principal amount, together with accrued but unpaid interest, if a change in the related regulations occurs at any time so long as the bonds are outstanding which has the effect that the bonds, after having qualified as such, will fully be disqualified from the Tier 2 Capital of the Issuer under the related regulations provided that the Issuer shall obtain the prior written consent and satisfy certain other conditions
<b>Dividend or interest payment</b>			
17	Of which: Fixed or floating dividend or interest payment	Fixed	Fixed
18	Of which: Coupon rate and relevant indicators	5.80%	5%
19	Of which: Existence of dividend brake mechanism	No	No
20	Of which: Discretion to cancel dividend or interest payment	Not applicable	Not applicable
21	Of which: Existence of redemption incentive mechanism	No	No

## Annex 4: Main Attributes of Capital Instruments (Continued)

No.	Item	Tier 2 capital instrument	Tier 2 capital instrument
<b>Dividend or interest payment (Continued)</b>			
22	Of which: Cumulative or noncumulative	Noncumulative	Noncumulative
23	Conversion into shares	No	No
24	Of which: Please specify the trigger condition for share conversion, if allowed	Not applicable	Not applicable
25	Of which: Please specify share conversion in whole or in part, if allowed	Not applicable	Not applicable
26	Of which: Please specify the method to determine the conversion price, if share conversion is allowed	Not applicable	Not applicable
27	Of which: Please specify share conversion is mandatory or not, if it is allowed	Not applicable	Not applicable
28	Of which: Please specify the instrument type after conversion, if allowed	Not applicable	Not applicable
29	Of which: Please specify the issuer of the instrument type after conversion, if allowed	Not applicable	Not applicable
30	Write-down feature	Yes	Yes



## Annex 4: Main Attributes of Capital Instruments (Continued)

No.	Item	Tier 2 capital instrument	Tier 2 capital instrument
<b>Dividend or interest payment (Continued)</b>			
31	Of which: Please specify the trigger point of write-down, if allowed	“Non-Viability Event” means the occurrence of the earlier of either:(i) the CBRC having decided that a write-off is necessary, without which the Issuer would become non-viable; or (ii) any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable	“Non-Viability Event” means the occurrence of the earlier of either:(i) the CBRC having decided that a write-off is necessary, without which the Issuer would become non-viable; or (ii) any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable
32	Of which: Please specify write-down in whole or in part, if write-down is allowed	Write-down in whole	Write-down in whole
33	Of which: Please specify the write-down is perpetual or temporary, if write-down is allowed	Perpetual write-down	Perpetual write-down
34	Of which: Please specify the book-entry value recovery mechanism, if temporary write-down	Not applicable	Not applicable
35	Hierarchy of claims (please specify instrument types enjoying higher priorities)	The lower priority behind the depositor and general creditor	The lower priority behind the depositor and general creditor
36	Does the instrument contain temporary illegible attribute?	No	No
	Of which: If yes, please specify such attribute	Not applicable	Not applicable