China Construction Bank Corporation

Capital Adequacy Ratio Report 2014

Contents

IMPORTANT NOTICE

China Construction Bank Corporation (the "Bank" or "CCB" or the "Group") warrants the authenticity, accuracy and completeness of all contents contained and information disclosed herein.

In accordance with the *Capital Rules for Commercial Banks (Provisional)* issued by the China Banking Regulatory Commission (the "CBRC"), the Group is required to disclose information relevant to capital adequacy ratios on a quarterly, semi-annual and annual basis; however, the disclosed contents might vary based on different disclosure frequencies. The Group is scheduled to release a detailed annual capital adequacy ratio report and quarterly highlights starting from March 2013. The *Capital Adequacy Ratio Report 2014 of China Construction Bank Corporation* (the "Report") is prepared in accordance with the definition and rules of the capital adequacy ratios promulgated by the CBRC other than *Accounting Standards,* thus part of the information disclosed herein cannot be directly compared with the financial information as disclosed in the *Annual Report 2014 of China Construction Bank,* of which the disclosure of credit exposures are especially obvious.

China Construction Bank Corporation

March 2015

We have included in this report certain forward-looking statements with respect to our financial position, operating results and business development. We use words such as "will", "may", "expect", "try", "strive" and similar expressions to identify forward-looking statements. These statements are based on current plans, estimates and projections. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that those expectations will prove to have been correct, and you are cautioned not to place undue reliance on such statements. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statements. These factors include, among others: changes in general economic conditions in the markets in which the Group operates, changes in the government's adjustments and control policies and in laws and regulations, and factors specific to the Group.

1 BACKGROUND

1.1 Profile

China Construction Bank Corporation, established in October 1954 and headquartered in Beijing, is a leading large-scale joint stock commercial bank in Mainland China with world-renowned reputation. The Bank was listed on Hong Kong Stock Exchange in October 2005 (stock code: 939) and listed on the Shanghai Stock Exchange in September 2007 (stock code: 601939). At the end of 2013, the Bank's market capitalisation reached USD207.9 billion, ranking 4th among listed banks in the world.

With 14,856 branches and sub-branches in Mainland China, the Bank provides services to 3.48 million corporate customers and 314 million personal customers, and maintains close cooperative relationships with a significant number of high-end customers and leading enterprises of strategic industries in the Chinese economy. The Bank maintains overseas branches in Hong Kong, Macao, Singapore, Frankfurt, Johannesburg, Tokyo, Osaka, Seoul, New York, Ho Chi Minh City, Sydney, Melbourne, Taipei, Luxembourg, Brisbane and Toronto, and owns various subsidiaries, such as CCB Asia, CCB International, CCB London, CCB Russia, CCB Dubai, CCB Europe, CCB New Zealand, CCB Principal Asset Management, CCB Financial Leasing, CCB Trust, CCB Life and Sino-German.

1.2 Objectives

The Report is prepared in accordance with the *Capital Rules for Commercial Banks (Provisional)* issued by the CBRC, the *Circular of the China Banking Regulatory Commission on Printing and Distributing the Supporting Policy Documents for the Capital Regulation and Administration of Commercial Banks* and other relevant regulations. This report provides relevant qualitative and quantitative information, such as the calculation scope of the capital adequacy ratios, composition of capital, risk management framework, measurement and management of credit risk, market risk, operational risk and other risks, and remuneration, helping the investors and the public fully understand the Group's capital, risk and remuneration management conditions.

2 CAPITAL ADEQUACY RATIOS

2.1 Consolidation scope

The Group commenced to calculate the capital adequacy ratios in accordance with the *Capital Rules for Commercial Banks (Provisional)* promulgated by the CBRC in June 2012. The scope for calculating capital adequacy ratios includes both the Bank's domestic and overseas branches and sub-branches, and subsidiaries of the financial institution type (insurance company excluded).

2.1.1 Differences between regulatory and accounting consolidation

According to the regulatory requirements, the Group includes neither the industrial and commercial enterprises, nor the subsidiaries of the insurance type to the consolidated calculation scope of the capital adequacy ratios, resulting in certain differences between the regulatory and financial consolidation scopes. As at 31 December 2014, the differences between the Group's regulatory and accounting consolidation scopes are outlined in the table below.

Table 1: Differences between regulatory and accounting consolidation

No.	Company Name	Type of Business	Place of incorporation	Under the accounting scope of consolidation	Under the regulatory scope of consolidation
1	CCB Life Insurance Company Limited	Insurance	Shanghai, China	Yes	No
2	Sing Jian Development Company Limited	Investment	Hong Kong, China	Yes	No

1. Except the differences of consolidation resulting from the above subsidiaries, in accordance with the regulatory requirements, certain sub-subsidiaries of industrial and commercial types were also not within the regulatory scope of consolidation.

2.1.2 General information of the invested institutions

According to the regulatory requirements, different types of the invested institutions are given different treatments while calculating the consolidated capital adequacy ratios.

- With respect to the financial institution type of subsidiaries that are included in both the regulatory and accounting scopes of consolidation, the Group includes their capital and risk-weighted assets to the calculation scope of consolidated capital adequacy ratios.
- With respect to the insurance subsidiary that are outside the scope of regulatory consolidation but within the scope of accounting consolidation, the Group deducts the investment in such subsidiary from the capital while calculating the consolidated capital adequacy ratios.
- With respect to the industrial and commercial enterprise type of subsidiaries that are outside the scope of regulatory consolidation but within the scope of accounting consolidation, while calculating the consolidated capital adequacy ratios, the Group

calculates the risk-weighted assets for the investment in such subsidiaries based on the regulatory risk weights.

- With respect to other financial institutions outside both the regulatory and accounting scopes of consolidations, the Group follows the threshold deduction method for the investment in such type of financial institution. The portion of the investment exceeding the materiality level is deducted from the capital, while the amounts that are not deducted from the capital will receive the corresponding regulatory risk weights.
- With respect to other industrial and commercial enterprises outside the scopes of both regulatory and accounting consolidations, the Group calculates their risk-weighted assets based on the regulatory risk weights.

Table 2: Particulars of the top 10 invested institutions under the scope of regulatory consolidation

No.	Name of the invested institutions	Equity investment balance (In millions of RMB)	Direct shareholding percentage (%)	Indirect shareholding percentage (%)	Place of incorporation
1	China Construction Bank (Asia) Corporation Limited	32,878	-	100%	Hong Kong, China
2	CCB Financial Leasing Corporation Limited	4,663	100%	-	Beijing, China
3	Banco Industrial e Comercial S.A. ("BIC Bank")	4,476	-	73.96%	Sao Paulo, Brazil
4	CCB International (Holdings) Limited	4,320	-	100%	Hong Kong, China
5	CCB Trust Co., Limited	3,409	67%	-	Anhui, China
6	China Construction Bank (London) Limited	2,861	100%	-	London, England
7	China Construction Bank (Europe) S.A.	1,629	100%	-	Luxembourg
8	Sino-German Bausparkasse Co., Ltd.	1,502	75.1%	-	Tianjin, China
9	China Construction Bank (Russia) Limited Liability Company	851	100%	-	Moscow, Russia
10	Golden Fountain Finance Limited ("Golden Fountain")	676	100%	-	British Virgin Islands
Total		**57,265**			

1. The table is listed by equity investment balance in descending order.

Table 3: Particulars of the top 10 invested institutions subject to deduction treatment

No.	Name of the invested institutions	Equity investment balance (In millions of RMB)	Direct shareholding percentage (%)	Place of incorporation	Nature of industry
1	CCB Life Insurance Company Limited	3,902	51%	Shanghai, China	Insurance
Total		**3,902**			

1. Invested institutions subject to deduction treatment refer to capital investment which shall be fully deducted or meet the threshold deductions while calculating the eligible capitals.

2.2 Capital adequacy ratios

The Group calculated the capital adequacy ratios in accordance with the *Capital Rules for Commercial Banks (Provisional)* promulgated by the CBRC in June 2012, and was approved to implement the advanced approach of capital management since the first half of 2014. As at 31 December 2014, considering relevant rules in the transition period, the Group's total capital ratio, tier 1 ratio and common equity tier 1 ratio, which were calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)*, were 14.87%, 12.12% and 12.12%, respectively, and were in compliance with the regulatory requirements. The total capital ratio, tier 1 ratio and common equity tier 1 ratio increased by 1.53, 1.37 and 1.37 percentage points respectively compared with those as at 31 December 2013.

The increase of the Group's capital adequacy ratios was principally resulted from the following factors: firstly, the Group pushed forward continuously the optimisation of the business structure and strengthened the refined capital management, as a result, the growth of internal capital accumulated by profits was faster than the growth of risk-weighted assets; secondly, the implementation of the advanced approach of capital measurement contributed to the growth of capital adequacy ratios; thirdly, the Group proactively innovated capital instruments, and the issuance of new-type and eligible capital instruments laid an effective and solid capital foundation.

Table 4: Capital adequacy ratios

(In millions of RMB, except percentages)	**As at 31 December 2014**		**As at 31 December 2013**	
	the Group	**the Bank**	**the Group**	**the Bank**
Capital adequacy ratios calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)*[1]				
Capital after deductions:				
Common Equity Tier 1 capital after deductions	1,236,730	1,166,760	1,061,684	998,380
Tier 1 capital after deductions	1,236,767	1,166,760	1,061,700	998,380
Total capital after deductions	1,516,928	1,445,219	1,316,724	1,249,850
Capital adequacy ratios:				
Common Equity Tier 1 ratio[2]	12.12%	11.78%	10.75%	10.44%
Tier 1 ratio[2]	12.12%	11.78%	10.75%	10.44%
Total capital ratio[2]	14.87%	14.59%	13.34%	13.06%
Capital adequacy ratios calculated in accordance with the *Measures for the Management of Capital Adequacy Ratios of Commercial Banks*				
Core capital adequacy ratio [3]	12.09%	12.02%	11.14%	11.05%
Capital adequacy ratio[3]	14.71%	14.39%	13.88%	13.53%

1. Since the second quarter of 2014, the Group has adopted advanced approaches and other approaches simultaneously to calculate the capital adequacy ratios, subject to relevant requirements for the capital bottom line.
2. Common Equity Tier 1 ratio, Tier 1 ratio and total adequacy ratio are the ratios of Common Equity Tier 1 capital after deductions, Tier 1 capital after deductions and total capital after deductions to the risk-weighted assets, respectively.
3. Core capital adequacy ratio and capital adequacy ratio are the ratios of the common equity capital after deductions and total capital after deductions to the risk-weighted assets, respectively.

2.3 Regulatory capital gap

As at the end of December 2014, financial institutions, of which the Bank holds majority of the equity or owns the control rights, had no regulatory capital gap in accordance with the *Capital Rules for Commercial Banks (Provisional)*.

2.4 Restrictions on intragroup transfer of capital

In 2014, none of the Group’s subsidiaries experienced significant restrictions on transfer of regulatory capital such as payment of dividends.

3 CAPITAL MANAGEMENT

3.1 Approaches and procedure of internal capital adequacy assessment

The bank's internal capital adequacy assessment procedure including governance framework, risk identification and assessment, stress test, capital assessment, capital planning and emergency management, etc. which covers the main processes of the risk management and capital management. Based on the comprehensive consideration and evaluation of major risks faced by the Bank and the matching levels of capital and risk, the Bank ensured the capital level is adapted to the risk statues in all activities with various environments by establishing the management system considering both risk and capital. The bank's internal capital adequacy assessment is conducted annually and the assessment methodology is optimizing. At present, the Bank has established relatively standardized governance framework, thorough policy system, complete evaluation process, periodic monitoring and reporting mechanism and internal audit system, which promoting the adaption between capital and strategy, operating conditions and risk level, and the system can meet requirements of the external supervision and internal management needs. Currently, the bank's capital levels adapt to the main risk level and risk management ability, capital planning match with the operating conditions, tendency of risk changes and long-term development strategy. The Bank fully covered risks and maintained appropriate capital buffers, which laid a solid foundation for stable operation and sustainable business development.

3.2 Capital planning and capital adequacy ratio management plan

In 2014, the Bank formulated *China Construction Bank Capital Planning 2015-2017* that was deliberated and approved by the Board of Directors and is planned to be reviewed by the shareholders' general meeting. In accordance with the *Capital Rules for Commercial Banks (Provisional)*, *China Construction Bank Capital Planning 2015-2017* had comprehensively considered the regulatory requirements, strategic transformation plans, risk appetite, risk level and risk management capabilities, financing capabilities, uncertainties of operational environment, etc. By adopting the latest regulatory rules, the Bank predicted the capital supplies and demands and gave considerations to the short-term and long-term capital demands, to ensure that both the regulatory requirements and internal capital management objectives were constantly met.

Based on the annual management target of capital adequacy ratios determined by the medium-and-long-term capital planning, the Bank prepared the capital adequacy ratio management plan on an annual basis, and incorporated it to the annual integrated business plan, ensuring that the annual capital management plan fits in with various business plans, and also ensuring the capital level would be higher than the internal management objectives of the capital adequacy ratios. The Bank adopted various measures such as setting proper asset growth target, adjusting risk assets structure, accumulating internal capital and raising capital through external channels, to ensure that various capital adequacy ratios of the Group and the Bank were in full compliance with regulatory requirements and met internal management requirements. This helped to mitigate potential risks as well as support healthy business developments.

3.3 Overview of capital composition

3.3.1 Composition of capital

The following table shows the information related to the Group's composition of capital as at 31 December 2014.

Table 5: Composition of capital

(In millions of RMB)	As at 31 December 2014	As at 31 December 2013
Common Equity Tier 1 capital		
Qualifying common share capital	250,011	250,011
Capital reserve[1]	139,761	116,321
Surplus reserve	130,515	107,970
General reserve	169,478	153,825
Retained earnings	556,756	442,554
Minority interest given recognition in Common Equity Tier 1 capital	4,456	3,729
Others[2]	(6,262)	(5,948)
Deductions from Common Equity Tier 1 capital		
Goodwill[3]	2,501	1,415
Other intangible assets (excluding land use right)[3]	1,592	1,609
Cash-flow hedge reserve	(10)	(148)
Investments in common equity of financial institutions being controlled but outside the scope of regulatory consolidation	3,902	3,902
Additional Tier 1 capital		
Minority interest given recognition in Additional Tier 1 capital	37	16
Tier 2 capital		
Directly issued qualifying Tier 2 instruments including related stock surplus	149,839	144,000
Provisions in Tier 2 [4]	127,878	110,918
Minority interest given recognition in Tier 2 capital	2,444	106
Common Equity Tier 1 capital after deductions [4]	1,236,730	1,061,684
Tier 1 capital after deductions [5]	1,236,767	1,061,700
Total capital after deductions [5]	1,516,928	1,316,724

1. The investment revaluation reserve is included in capital reserve.
2. Others mainly contain foreign exchange reserve.
3. Both balances of goodwill and other intangible assets (excluding land use right) are the net amounts after deducting relevant deferred tax liabilities.
4. Since the second quarter of 2014, the Group has adopted the advanced approach to calculate the Tier 2 capital from Provisions.
5. Common Equity Tier 1 capital after deductions is calculated by netting off the corresponding deduction items from the Common Equity Tier 1 capital. Tier 1 capital after deductions is calculated by netting off the corresponding deduction items from the Tier 1 capital. Total capital after deductions is calculated by netting off the corresponding deduction items from the total capital.

3.3.2 Threshold deductions and limit of provisions in Tier 2 capital

As at 31 December 2014, neither the Group's relevant capital investment, nor net deferred tax assets exceeded the thresholds; both of them were therefore not required to be deducted from the corresponding capital. The following table shows relevant information of threshold deductions.

Table 6: Threshold deduction limits

(In millions of RMB)	As at 31 December 2014			
Items applicable to threshold deduction method	**Amount**	**Capital deduction limits**		**Amount below thresholds for deduction**
		Item	**Amount**	
Non-significant investments in the capitals of financial institutions outside the scope of regulatory consolidation	42,881	10% of Common Equity Tier 1 capital after deductions [1]	123,673	80,792
Common Equity Tier 1 capital	3,411			
Additional Tier 1 capital	-			
Tier 2 capital	39,470			
Significant investments in the Common Equity Tier 1 capital of financial institutions outside the scope of regulatory consolidation	190	10% of Common Equity Tier 1 capital after deductions [2]	123,673	123,483
Other deferred tax assets that rely on the Bank's future profitability (net of related tax liability)	39,389		123,673	84,284
Amounts of significant investments in the Common Equity Tier 1 capital of financial institutions outside the scope of regulatory consolidation and other deferred tax assets that rely on the Bank's future profitability below the above thresholds for deduction	39,579	15% of Common Equity Tier 1 capital after deductions [3]	185,510	145,931

1. Common Equity Tier 1 capital after deductions is calculated by netting off the full deduction items from the Common Equity Tier 1 capital.
2. Common Equity Tier 1 capital after deductions is calculated by netting off the full deduction items and the amounts exceeding the 10% recognition cap of the non-significant investments in financial institutions outside the scope of regulatory consolidation in Common Equity Tier 1.
3. Common Equity Tier 1 capital after deductions is calculated by netting off the full deduction items and the amounts exceeding the 10% recognition caps of the non-significant and significant investments in the common equity Tier 1 of financial institutions outside the scope of regulatory consolidation and other deferred tax assets relying on the Bank's future profitability.

The Group always adhered to the prudent principle by making full provisions for impairment losses on loans and advances to customers. As at 31 December 2014, the Group's provisions eligible for inclusion in Tier 2 were RMB127,878 million in total. The following table shows the information relating to the limit of capital provisions eligible for inclusion in Tier 2 capital.

Table 7: Limit of provisions eligible for inclusion in Tier 2 capital

(In millions of RMB)		As at 31 December 2014
Measurement approach	**Item**	**Balance**
Uncovered by internal rating-based approach	Provisions	1,186
	Caps on the inclusion of provisions in Tier 2 capital	21,788
	Gaps with the upper limit if not reach the upper limit	20,602
	Provisions eligible for inclusion in Tier 2 capital	1,186
Covered by internal rating-based approach	Provisions	131,526
	Caps on the inclusion of provisions in Tier 2 capital	126,692
	Gaps with the upper limit if not reach the upper limit	-
	Provisions eligible for inclusion in Tier 2 capital [1]	126,692

1. Provisions eligible for inclusion in Tier 2 capital considers the parallel period adjustment factors.

3.3.3 Changes in qualifying common share capital

During the reporting period, the Group experienced no change in qualifying common share capital, and separation or consolidation event.

3.3.4 Significant capital investments

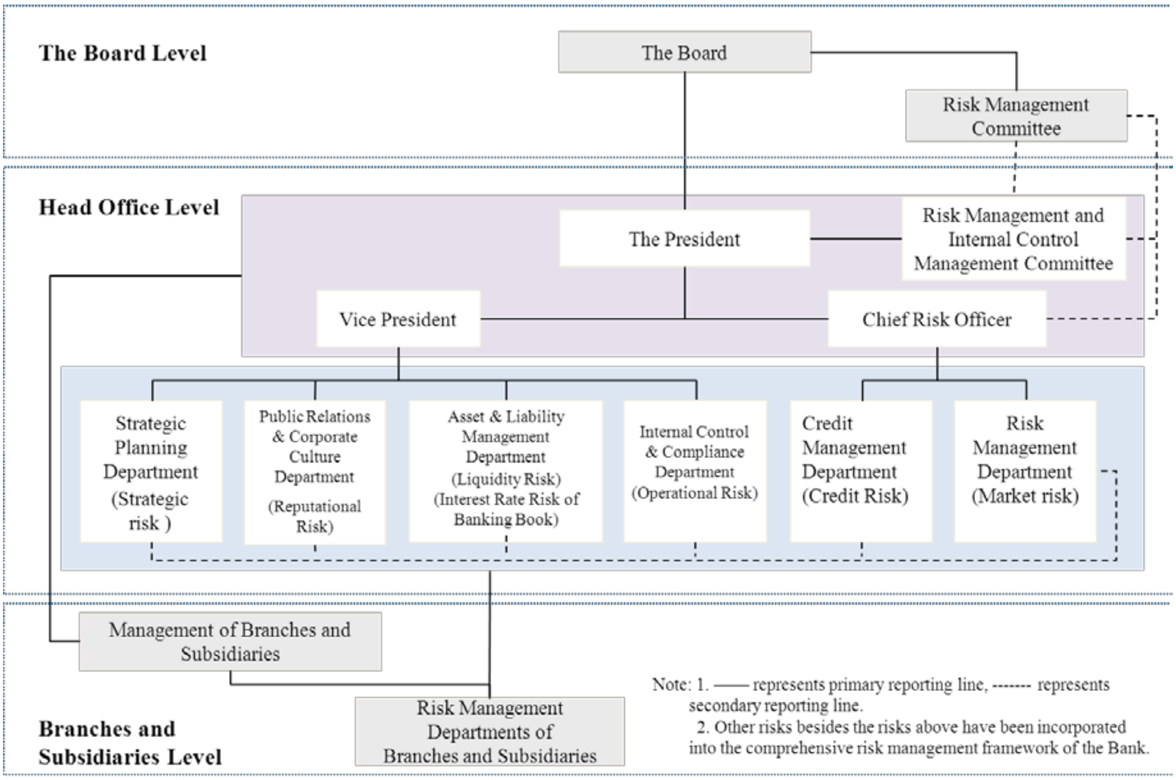
To expand the overseas business and enhance the global service capabilities, the Bank newly established CCB New Zealand, with capital injection amounting to USD50 million equivalents (NZD58.62 million).

On 29 August 2014, the Bank acquired 72.00% of the total share capital of BIC Bank and completed the settlement process of the shares transaction. The Bank paid the investment amount of about BRL1.6 billion and the price will be adjusted by the pricing mechanism defined in the share purchase and sale agreement. The Bank will give the integrated tender offer to the minority shareholders, including the mandatory tender offer, according to the requirement of the Brazilian Securities Commission.

4 RISK MANAGEMENT

4.1 Risk management framework

The Bank's risk management framework was consisted of the Board of Directors and its special committee, senior management and its special committee and risk management departments, etc. The following picture shows the framework of the Bank's risk management.



The Board of Directors of the Group carries out the risk management responsibility pursuant to the Articles of Association of the Group and other related regulatory requirements. The Board of Directors of has established Risk Management Committee, which is responsible for formulating risk management strategies, monitoring the implementation, and evaluating the overall risk profile on a regular basis. The Board of Directors regularly deliberates and approves the Group's risk appetite statement, and plays the core part to the risk management framework to ensure that the Bank's business activities were in line with the risk appetite, reflected and communicated through related capital management policies, risk management policies and business policies. The Board of Supervisors oversights the establishment of the overall risk management system as well as the performance of the Board of Directors and the senior management in assuming their comprehensive risk management responsibilities. The senior management of the Group is responsible for carrying out the risk strategy set up by the Board of Directors and the implementation of the comprehensive risk management of the Group. The senior management appoints Chief Risk Officer who assists the president with the corresponding risk management work.

Risk Management Department is responsible for the overall business risk management of the Bank. Credit Management Department is responsible for the overall credit risk management. Credit Approval Department is responsible for the Bank's credit granting and approval. Asset and liability management department is responsible for the comprehensive liquidity risk management and interest rate risk management of banking book. Internal Control and Compliance Department is the coordinating department responsible for internal control management, compliance risk and operational risk management. Other specialised departments are responsible for various corresponding risks.

The Bank exercised consolidation management over the risk of the subsidiaries, in accordance with regulatory guidelines, the Group's risk appetite, management policies and relevant risk indicators, standards and threshold. Subsidiaries implemented risk management via governance mechanism as required by the head office, established comprehensive internal risk appetite, risk management system and risk policies. The Bank established a risk "firewall" covering all members within the Group, preventing the risks spreading across department and across business within the Group.

4.2 Risk-weighted assets

On 2 April 2014, the CBRC officially approved the Group to implement the advanced measurement approach for capital management. Therefore, since the second quarter of 2014, the Group commenced to adopt the advanced approaches to calculate capital adequacy ratios. The capital requirements of corporate credit risk that meet regulatory requirements are calculated with the foundation internal rating-based (FIRB) approach, the capital requirements of retail credit risk exposures are calculated with the internal rating-based (IRB) approach, the capital requirements of market risk are calculated with the internal models approach, and the capital requirements of operational risk are calculated with the standardised approach. Pursuant to the regulatory requirements, from this reporting period on, the Bank calculates capital adequacy ratios simultaneously with advanced capital measurement approach and other methods, and complies with the relevant capital floors.

The Group always adhered to the prudent principle in calculating capital adequacy ratios. The application of advanced approaches of capital management reduced the capital requirements for the Group's credit risk and operational risk, representing the improvement of the quality of the Group' s risk management and measurement.

Table 8: Capital requirements and risk-weighted assets

(In millions of RMB)	As at 31 December 2013	
	Capital requirements	**Risk-weighted assets**
Credit risk-weighted assets	**699,166**	**8,739,574**
Covered by the internal rating-based approach	561,675	7,020,935
Uncovered by the internal rating-based approach	137,491	1,718,639
Market risk-weighted assets	**4,344**	**54,302**
Covered by the internal model approach	2,811	35,137
Uncovered by the internal model approach	1,533	19,165
Operational risk-weighted assets	**73,258**	**915,727**
Additional risk-weighted assets due to the application of capital bottom line	**39,523**	**494,040**
Total	**816,291**	**10,203,643**

5 CREDIT RISK

5.1 Credit risk management

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its obligation or commitment to the Bank.

The Bank's credit risk management aimed at establishing credit risk management processes that were aligned with the nature, scale and complexity of businesses, effectively identifying, measuring, controlling, monitoring and reporting credit risk, keeping the credit risk within the limits that the Bank can bear, and realising revenue maximisation after risk adjustment.

The Bank developed the management policies for credit risk based on the development strategies and risk appetites, including:

- Industry policies: strictly implement the macroeconomic and industry policies, comply with the national economic structure adjustment and industry transformation and upgrading trends, proactively support the development of new types of industry and new industries, guide the whole Bank to enhance its industry structure adjustment and optimisation, optimise and improve the orientation of industry policies and credit arrangement through refining the industry classification management, and effectively guard against the systematic and concentric risk of industry.
- Customer policies: based on the national industry policies, the risk appetite of the Bank, as well as different customer risk characteristics of industry, specify the acceptance baseline and classification standards for customers from different industries and enhance the customer selections; adopt differentiated credit policies for financial service needs from different customer bases to improve comprehensive contribution by the customers.
- Regional policies: according to the state regional development strategy, development strategy of important regions and the economic characteristics of various regions, and fully taking into account the resource availability, market environment, market potentials and management foundations of the regions where the branches are located, specify the development orientation and the differentiated credit policies of credit businesses in various branches.
- Product policies: collect customer's needs, focus on capital saving, consolidate traditional advantage products, improve the proportions of products occupied with low capital and the self-liquidating products; strengthen product innovations and develop differentiated management processes, management requirements and acceptance conditions based on the characteristics of different product risks and key risk points.
- Limit policies: based on the Bank's current asset portfolios, and taking into account the credit risk, income, macro-policies, market development potentials and other factors, set multi-dimensional limit indicators covering the state, regional, industry, customer and CCB's mechanism at all levels, to realise the optimised allocations to credit resources.

The Bank's credit risk management process comprised series comprehensive and timely risk management activities, such as risk identification, risk measurement, risk monitoring, risk mitigation and control and risk report, capable of implementing the specified risk appetite and strategic targets, and effectively maintaining the sound operation and sustainable development of the Bank. This process was aligned with the risk management culture of the Bank.

- Risk identification: identify the credit risk in the products and businesses, and give attentions to the relevance between the credit risk and other risks to prevent other risks from resulting in credit risk loss events.
- Risk measurement: measure and evaluate the credit risk at individual and portfolio levels. The measurement and evaluation subjects of individual credit risk comprise of borrowers or transaction counterparties as well as specific loans or transactions; The measurement and evaluation subjects of portfolio credit risk comprise of the Bank's overall mechanisms, countries, regions and industries, etc.
- Risk monitoring: monitor the contract implementation of individual debtor or counterparty; and oversight the investment portfolio on an overall basis to prevent the excessive risk concentration in countries, industries, regions, products and other dimensions.
- Risk mitigation & control: comprehensively balance the cost and returns, finalise corresponding risk control strategies aimed at different risk characteristics, and take measures, such as risk avoidance, risk diversification, risk hedging, risk transfer, risk compensation, risk mitigation, to effectively mitigate the credit risk the Bank is exposing and reduce the occupation of the Bank's regulatory capital.
- Risk report: establish and optimise the credit risk reporting system, explicitly specify the reporting scopes, processes and frequencies that the credit risk report shall comply with, and prepare credit risk report at various levels and of various types, to meet the demand for credit risk at different risk levels and functional departments' risk.

In 2014, in face of complex and changing economic environment and increasingly fierce market competition, the Bank adhered to the risk bottom line, and continuously improved the abilities of credit risk management by respond proactively and addressing the symptoms and the root cause of problems simultaneously. The Group launched the "the year of credit risk prevention and control", improving the long-term mechanism of credit risk management, and consolidating the foundational management of the whole credit process. The Group timely adjusted and optimised the credit policies, strengthened the credit risk management of key industries, regions and customer groups, and strictly controlling the total volume of credit in high-risk areas. The Group strengthened the effort to identify and check credit risks, and boosted the application of the strategy of "early detection, early solution and early disposal" to potential risks, ensuring a stable quality of the assets.

5.2 Credit risk exposures

5.2.1 Overview of credit exposures

The following table shows the information related to the credit exposures of the Group in accordance with the *Capital Rules for Commercial Banks (Provisional)*.

Table 9: Credit exposures

(In millions of RMB)	**As at 31 December 2014**
	Exposure at default
Covered by the internal rating-based approach	**9,751,490**
Corporate exposures	6,869,764
Retail exposures	2,881,726
	Exposure
Uncovered by the internal rating-based approach	**8,564,059**
On-balance sheet credit exposures	8,347,294
Including: securitisation exposures	5,304
Off-balance sheet credit exposures	188,639
Counterparty credit exposures	28,126

5.2.2 Overdue and non-performing loans

Overdue loans

Overdue loans represent loans of which the whole or part of the principal or interest are overdue by 1 or more days. As at the end of 2014, the Group's overdue loans (under the accounting scope of consolidation) were RMB133,216 million, an increase of RMB46,512 million compared to the beginning of the year.

Non-performing loans (NPLs)

The Group adopts a loan risk classification approach to manage the loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their risk level. Substandard, doubtful and loss loans are considered as NPLs and advances.

Since the beginning of the year, the Group has continued to promote the adjustment of its credit portfolio structure, comprehensively enhanced post-lending management, strengthened risk prevention and mitigation, and expedited NPLs disposal. As a result, credit asset quality continued to be stable. As at the end of December 2014, the Group's NPLs (under the accounting scope of consolidation) were RMB113,171 million, an increase of RMB27,907 million compared to the beginning of the year.

5.2.3 Allowances for impaired loans

The Group's method to assess the allowances for impaired loans consists of individual and collective assessments.

Loans and advances with amounts that are individually significant are subject to assessment for impairment on an individual basis. If there exists objective evidence that the loans and advances are impaired, then the carrying amount of such loans are reduced to present values of the expected future cash flow, which are determined based on discounting such loans with the original effective interest rate. The impaired amount is recognised as the allowances for impairment losses on such loans in the profit or loss of the current period.

Loans and advances of same nature with amounts that are not individually significant, the Group assesses the impairment losses of portfolios using migration model. The method calculates the impairment losses based on the probability of default and loss given default, and adjust the output based on the observable data that reflects the current economic conditions.

With respect to loans and advances that are not impaired through an individual assessment method, the Group includes them in the loan portfolios with the similar credit risk characteristics, and assesses their impairment losses on a collective basis. The assessment on a collective basis takes into account following factors: (i) historic loss experience having similar characteristic of credit risk mix; (ii) time spent from emerging of losses to recognition of such losses; and (iii) current economic and credit environment, as well as the Group's judgments on losses under current environment based on historic experience.

The Group always adhered to the prudent principle by fully considering the impact of changes in external environment including macro economy and government control policies on credit asset quality, and made full allowances for impairment losses on loans and advances to customers. As at the end 2014, the Group's allowances for impairment losses (under the accounting scope of consolidation) were RMB251,613 million, an increase of RMB22,917 million compared to the beginning of the year.

5.3 Credit risk measurement

5.3.1 Internal rating-based approach

Having performed pre-evaluation, on-site evaluation and assessment and acceptance for the Group's IRBA implementation from 2010 to 2012, the CBRC approved the Group to implement IRBA in April 2014. The CBRC considered that the Group had established relatively complete management structure of internal rating system, and its policy systems covered the aspects of risk identification, risk measurement, risk mitigation, model verification, internal audit, asset management, etc. With standardised rating process, the Group's model development methodology and parameter estimations were basically in compliance with regulatory requirements. With the establishment of data quality control system and continuous intensification control of data record system, the Group steadily improved its data quality, and set up a relatively sound model with the support of the IT system. Internal rating-based results were thoroughly applied in risk management policy making, credit approval, credit limit monitoring, reporting, economic capital, risk-adjusted return on capital (RAROC), etc., and used as an important reference and source of risk appetite and performance assessment.

In accordance with the approval of the CBRC, exposures of the Group's IRB approach and relevant measurement method are as follows: the foundation internal rating-based approach for general corporate exposures, exposures to small- and medium sized entities (SME) and specialised lending; the internal rating-based approach for individual residential mortgage exposures, eligible revolving retail exposures and other retail exposures; and the risk-weighted approach for other exposures to sovereign and financial institutions.

Governance structure

The Group defined clear roles for implementation and governance structure of internal rating system to make sure effective implementation and complete development of internal rating system under the structure of comprehensive risk management.

Risk Management and Internal Control Management Committee of the Board of Directors is responsible for overall management of internal rating system to monitor and ensure senior management to develop and carry out necessary internal rating policies and procedures. Senior management is responsible for overall execution of the management of internal rating system. Risk Management Department is responsible for overall structure design of internal rating system, organising development, choosing and promotion of internal rating model, monitoring and continuously optimising the model, and taking the lead in making relevant management measures of internal rating system. Credit Management Department participates in the establishment and implementation of internal rating system and is in charge of approval of internal rating. Business Management Department participates in the establishment of internal rating system and is in-charge of initiation of internal rating. Audit Department is in charge of auditing the internal rating system and risk parameter valuation. Information Management Department is in-charge of information management of internal rating system to ensure data accuracy and appropriateness of the internal rating IT system. Information Technology Department is in-charge of establishment of internal rating IT system to support effective operation of internal rating system and risk parameter quantification.

Internal rating system

Based on the features of different customers within the scope of non-retail exposures, the Group established refined rating models suitable for large and medium scale corporate customers, small corporate customers, public institution customers, specialised lending customers, etc. to measure customers' probability of default. Combination of qualitative and quantitative methods is used for the modelling approach and the modelling data meets the requirements of "no less than 5 years" formulated by the *Capital Rules for Commercial Banks (Provisional)* based on the Group's adequate historical data. At present, internal rating system of non-retail customer has basically covered all non-retail customers.

The Group's retail exposures are divided into three categories, i.e. individual residential mortgage exposures, qualifying revolving retail exposures and other retail exposures. Each category of exposures is subject to pool assignments of risks by using internal rating model, to measure risk parameters such as probability of default (PD), loss given default (LGD) and exposure at default (EAD) and to monitor capital. Meanwhile, the Group has established retail scorecard models, covering the whole life cycle including retail customer admission, credit approval and business management, and realising the measurement of future risk profiles of retail customers or individual loans.

Definitions of key risk parameters

The definitions of key risk parameters such as probability of default (PD), loss given default (LGD) and exposure at default (EAD) are in accordance with those in the *Capital Rules for Commercial Banks (Provisional)*. PD refers to the default possibility of individual loan in future one year. LGD refers to the ratio of loss amount due to debt default to debt default exposure, i.e. the percentage of loss to total exposures. The probability of default is measured based on economic loss, no matter direct or indirect, taking into account of factors such as time value of recovered amount. EAD refers to the total exposures expected on and off-balance sheet during default of debtor, including used credit balance, overdue interest, expected withdrawal of unused credit limit and possible expenses.

Currently, the Group’s non-retail exposures are calculated with the foundation internal rating based (FIRB) approach. Under the FIRB approach, PD relies on the internal estimates, and other parameters (LGD and EAD) rely on the regulatory parameters. The Group’s retail exposures are calculated with the internal rating based (IRB) approach, where PD, LGD and EAD all rely on the internal estimates.

Application of internal rating

As the basis for the Group’s management and control over customers’ credit risks, credit rating for customers plays an important role for improving the Group’s refined management capabilities through its application in making credit policy, selecting customers, making policy bottom lines, approval of guidance, determination and adjustment of customers’ credit limits, setting limit of industrial loans, product pricing, 12-category risk classification of credit asset risks, provision for losses, risk warning, economic capital allocation, performance assessment, etc.

In 2014, the Group continued to strengthen the depth and breadth of the application of internal rating. With respect to non-retail risks, the Group optimised rating models for customers from small enterprises and construction industry, deepened the application of internal rating results in customers’ comprehensive pricing and in innovation of comprehensive financial service solutions, and pushed forward the establishment of central measurement engines and overall risk monitoring and early warning system in order to improve accuracy of rating models and to improve monitoring, validation and early warning functions of the models. While in terms of retail risks, the Group put forward the development and application of various scorecard tools such as business loans and credit card instalment, thus either continuously helping retail business to deepen the development, or providing support for the Group’s Internet financial services.

The following table shows the corporate exposures and retail exposures under the IRB approach of the Group.

Table 10: Corporate exposures under the internal rating-based approach

(In millions of RMB)	As at 31 December 2014				
PD grade	**EAD**	**Average PD**	**Weighted average LGD**	**Risk-weighted assets**	**Average risk weight**
Grade 1	4,780	0.04%	45.00%	758	15.85%
Grade 2	17,842	0.14%	45.00%	6,422	35.99%
Grade 3	132,634	0.19%	44.67%	56,063	42.27%
Grade 4	268,719	0.25%	44.54%	131,495	48.93%
Grade 5	1,065,475	0.59%	44.12%	780,556	73.26%
Grade 6	1,305,544	0.70%	40.94%	940,039	72.00%
Grade 7	1,294,953	0.93%	41.79%	1,049,700	81.06%
Grade 8	1,252,950	1.23%	41.23%	1,089,038	86.92%
Grade 9	519,093	1.63%	39.24%	456,380	87.92%
Grade 10	321,898	2.15%	39.60%	308,813	95.94%
Grade 11	131,396	2.85%	37.34%	126,824	96.52%
Grade 12	101,256	4.29%	37.80%	111,394	110.01%
Grade 13	90,448	5.69%	38.46%	113,435	125.41%
Grade 14	98,506	7.49%	38.16%	134,182	136.22%
Grade 15	70,104	9.99%	38.69%	108,108	154.21%
Grade 16	39,901	12.99%	37.39%	63,337	158.74%
Grade 17	65,749	16.99%	36.88%	109,738	166.90%
Grade 18	2,799	99.99%	41.18%	1	0.05%
Grade 19	85,717	100.00%	41.00%	53,768	62.73%
Total	**6,869,764**			**5,640,051**	

Table 11: Retail exposures under the internal rating-based approach

(In millions of RMB)	As at 31 December 2014				
Category of retail assets	**EAD**	**Average PD**	**Weighted average LGD**	**Risk-weighted assets**	**Average risk weight**
Individual residential mortgage	2,259,784	1.35%	23.73%	591,492	26.17%
Qualifying revolving retail	319,068	1.85%	38.00%	38,147	11.96%
Other retails	302,874	3.20%	27.51%	87,794	28.99%
Total	**2,881,726**			**717,433**	

5.3.2 Risk-weighted approach

In terms of exposures not covered by the IRB approach, the Group determines related applicable risk weight and calculates credit risk-weighted assets in accordance with regulations related to regulatory weight approach in the *Capital Rules for Commercial Banks (Provisional)*. The following table shows the information related to exposures by entities and weights covered by risk-weighted approach as at 31 December 2014.

Table 12: Credit exposures by entities covered by regulatory weight approach

(In millions of RMB)	As at 31 December 2014	
	Exposure	**Unmitigated exposure**
On-balance sheet credit risk items	**8,347,294**	**7,702,898**
Cash and cash equivalents	2,611,579	2,611,580
Claims on central governments and central banks	1,311,993	1,311,993
Claims on public sector entities	345,173	170,724
Claims on domestic financial institutions	2,576,503	2,486,417
Claims on financial institutions registered in other countries/areas	95,422	89,235
Claims on general enterprises and public institutions	917,130	545,546
Claims on qualifying micro and small enterprises	48,945	47,257
Claims on individual customers	165,629	165,226
Equity investments	13,650	13,650
Securitisation	5,304	5,304
Other on-balance sheet items	255,966	255,966
Off-balance sheet credit risk items	**188,639**	**151,503**
Counterparty credit risk	**28,126**	**28,126**
Total	**8,564,059**	**7,882,527**

Table 13: Credit exposures by risk weights covered by regulatory weight approach

(In millions of RMB)	As at 31 December 2014	
Risk weights	**Exposure**	**Unmitigated exposure**
0%	5,345,674	5,345,674
20%	734,573	512,786
25%	711,586	710,719
50%	59,755	59,754
75%	204,837	200,261
100%	1,453,700	999,399
250%	42,991	42,991
400%	3,767	3,767
1250%	7,176	7,176
Total	**8,564,059**	**7,882,527**

Table 14：Credit exposures of investments in capital instruments issued by other financial banks, investments in equity of industrial and commercial enterprises, and non-self-use real estate

(In millions of RMB)	As at 31 December 2014
	Exposure
Investments in capital instruments issued by other financial banks	13,759
Common Equity Tier 1 Capital	2,749
Other Tier 1 Capital	-
Tier 2 Capital	11,010
Investments in equity of industrial and commercial enterprises	10,049
Non-self-use real estate	1,395

5.3.3 Risk mitigation management

Management policies and processes

In accordance with the requirements under the *Capital Rules for Commercial Banks (Provisional)* and through the active formulation and improvement of relevant policies and systems, the Bank has developed an improved and integral policy system, and defined the baselines for the risk mitigation management. It specifies the Bank's basic management requirements and policy baselines for standardising the collaterals, such as requirements for eligible collaterals, classifications, pledge and mortgage rate, receipt and examination, value assessment, establishment and changes, warrant management, monitoring, return and disposal, information input and data maintenance.

The risk mitigation system sets the management processes as the main line, mainly covering the processes of acceptance and examination, value assessment, receipt and changes, warrant management, monitoring, return and disposal, etc., characterised by being closely combined with business processes, and managed by front, middle and back offices. The collateral management processes are basically throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring, and achieved in the full life cycle management of the collaterals to a great extent.

Types of major collaterals

In terms of the types of collaterals, the collaterals accepted by the Bank are mainly classified into four types, namely financial collaterals, receivables, commercial and residential properties, and other collaterals. Financial collaterals include cash and cash equivalents, precious metals, debt securities, discounted bills, stocks/funds, insurance policy, etc.; receivables include receivables held for trading, road tolling rights, rent receivables, etc.; commercial and residential properties include commercial properties, residential properties, commercial and residential land use rights, etc.; while other collaterals comprise current assets, machines and equipment, transportation equipment, resources, construction in progress, etc. In addition to traditional collaterals, principal-guaranteed wealth management products, mining rights, intellectual property and forest ownership are included as acceptable collaterals, marking progress in the business.

Collaterals' valuation policies and processes

With respect to the valuation method of collaterals, the Bank adopts external valuations and internal valuations. Some special collaterals, such as licensed operation of projects, need to be assessed with both internal and external valuation methods.

Most of the external valuations are adopted for collaterals' first-time valuation, and professional appraisal institutions will be entrusted to assess the values of collaterals during the disposal phase. The Bank asked for clearly defined acceptance standards and establishing exit mechanism of the valuation institutions, and performing static and dynamic name list management through regularly ad-hoc checking of the external valuation institutions on a random basis. As per the regulations, the valuation results from the external appraisal institutions are subject to the Bank's internal examination. All branches are required to designate internal assessors and heads of department to perform preliminary examination and re-examination to the valuation results acquired from the external appraisal institutions.

The internal assessors are mainly responsible for the post-lending re-valuations. This also includes valuations of some collaterals, whose values can be directly assessed during the first-time valuations. The Bank requires the internal assessors to perform dynamic valuations and monitor the collaterals at different frequencies based on collaterals' types and value fluctuation characteristics. The post-lending examination and 12-level classification should carry out on a quarterly basis to examine and verify the collaterals. In case of any forms of collaterals or any deterioration in collaterals' market prices or other adverse circumstances, re-valuations are required to be duly performed to reflect collaterals' fair values.

Guarantors

According to the characteristics of guarantors, the Bank classifies the acceptable guarantors into general corporate and institution, cooperative guarantee institution and natural person. The general corporate and institution guarantor comprises sovereigns, public sector entities, multilateral Development Banks (MDBs) and other legal persons and organisations. The cooperative guarantee institution guarantor specially refers to professional guarantee institutions accepted by the Bank, as well as real estate developers, automobile dealers, housing brokerage companies and other intermediary organisations which provide guarantee for personal loans. The natural person guarantors refer to those having complete civil capacities and certain compensation abilities. Unless the business rules explicitly specifies that natural persons may be adopted as the only way to guarantee, natural persons are only played as supplementary guarantors.

Regulatory measurement

When measuring credit risk-weighted assets covered by the IRB approach, the Group finalises eligible collaterals and reasonable guarantee strictly pursuant to risk mitigation management requirement of the IRB approach in the *Capital Rules for Commercial Banks (Provisional).* Risk mitigation instruments of net settlement and credit derivatives are temporarily not available for credit exposures covered by the IRB approach of the Group at the moment.

The following table shows the information related to the credit risk mitigation covered by the foundation IRB.

Table 15: Particulars on credit risk mitigation of credit exposures covered by the foundation IRB approach

(In millions of RMB)	**As at 31 December 2014**		
Exposure category	**Exposure covered by financial collaterals**	**Exposure covered by other eligible collaterals**	**Exposure covered by guarantee**
Corporate exposures	326,563	994,792	581,113
Total	**326,563**	**994,792**	**581,113**

When calculating credit risk-weighted assets covered by the regulatory risk weight approach, the Group only took risk mitigation, which was permitted by the *Capital Rules for Commercial Banks (Provisional),* of the eligible collaterals and guarantors covered by regulatory risk weight approach in consideration. The following table shows the information related to the risk mitigation distribution of credit exposures covered by the regulatory risk weight approach.

Table 16: Particulars on credit risk mitigation of credit exposures covered by the regulatory risk weight approach

(In millions of RMB)	As at 31 December 2014						
	Cash and cash equivalents	Domestic central government, PBOC, Chinese policy banks	Domestic public sector entities	Domestic commercial banks	National or regional governments and Central Banks in other countries or regions	Commercial banks and public sector entities in other countries or regions	MDBs, Bank for International Settlements and IMF
On-balance sheet credit risk items	215,504	277,613	-	147,058	4,218	3	-
off-balance sheet credit risk items	36,549	171	-	416	-	-	-
Counterparty credit risk	-	-	-	-	-	-	-
Total	**252,053**	**277,784**	**-**	**147,474**	**4,218**	**3**	**-**

5.4 Securitisation

5.4.1 Overview of Securitisation activity

The Group involved in the securitisation activity mainly as originator, investor, loan servicer and other roles.

As originator and loan servicer

In order to optimise assets portfolios, improve asset and liability structure, increase scale, raise capital adequacy ratios, etc., the Group involved in the securitisation activity as originator, and proactively explores new liquidity management, risk management and capital management instrument through securitisation. The level of credit risk of securitisation assets transferred to other entities by the Group and risk level undertaken by the Bank relied on factors such as the amount of holding of the subordinated debt securities. Such amount should be calculated and judged by accountants in accordance with output from return on risk transfer model of securitisation project.

As at the end of December 2014, the Group's unexpired securitisation still included two projects of personal housing mortgage loans as "Jianyuan 2005-1" and "Jianyuan 2007-1". The underlying assets of these projects were the personal housing mortgage loans held by the Bank. As the originator of such two projects, the Bank involved in the projects' overall design coordination, screening of underlying assets, due diligence, transaction structure design, security ratings, submission for approval and subsequent issuance, information disclosures, etc., and provided services, such as asset pool's subsequent management, collection, transfer and recovery of the principals and interests of loans throughout the process as loan servicer.

The external credit assessment institutions for the two projects of securitisation of personal housing mortgage loans of "Jianyuan 2005-1" and "Jianyuan 2007-1" were China Cheng Xin International Credit Rating Co., Ltd. (CCXI) and China Lianhe Credit Rating Co., Ltd., respectively.

As investor

As the major investor in the asset-backed securities market, the Group obtained returns on investments through purchasing and holding asset-backed securities, and bore corresponding credit risk, market risk and liquidity risk. The Group determined the investment amount based on the annual investment strategy, as well as the risk and returns of securities.

5.4.2 Accounting policies

A financial asset is derecognised when the Group transfers substantially all (95% and above, same hereinafter) the risks and rewards of ownership of the financial asset to the transferee, namely that the financial assets is written off from the Group's accounts and balance sheets; while a financial asset continued to be recognised when substantially all the risks and rewards of ownership of the financial asset are reserved.

The transfer of financial assets meeting the derecognisation conditions is measured using the following methods. Where the overall transfer meets the derecognisation conditions, the difference of the following two items is recognised in the profit and loss of the current period: (i) the carrying amount of the transferred financial asset; (ii) the sum of the transfer consideration received and the accumulated changes in fair values that are initially recorded in the owner's equity directly (the financial asset transferred is the available-for-sale financial asset); where part of the transfer meets the derecognisation conditions, the overall carrying amount of the financial asset transferred is amortised over the deregoconised and recognised portions (the reserved service assets are deemed as a part of the recognised financial assets) according to respective fair value, and the difference between the following items is recognised in the profit and loss of the current period: (i) the carrying amount of the deregoconised portion; (ii) the sum of the consideration of the deregoconised portion and the accumulated changes in fair values that are initially recorded in the owner's equity directly (including the circumstance that the financial asset transferred is the available-for-sale financial asset).

Where the Group still reserves substantially all the risks and rewards of ownership of the financial asset transferred, the overall financial asset transferred is continued to be recognised, and the consideration received is recognised as a financial liability. The financial asset and the recognised financial liability are not allowed to be offset. The Group continues recognising the income arising from such financial asset, as well as the expenses arising from such financial liability in subsequent accounting periods. Where the transferred financial asset is measured at amortised cost, the recognised financial liability is not allowed to be designated as the financial liability at fair value through profit and loss.

5.4.3 Securitisation exposures

As at 31 December 2014, the Group's total securitisation exposures were RMB5,304 million, more details and the distribution of underlying assets are as shown in the following tables:

Table 17: Securitisation exposures

(In millions of RMB)	As at 31 December 2014	
	Traditional securitisation exposure	**Synthetic securitisation exposure**
As originator[1]	230	-
As investor	5,074	-
Total	**5,304**	**-**

1. As originator refers to the exposures arising from the substandard portions of the securitisation held by the Bank where the Bank also acts as originator, other than the total securitisation amount issued by the Bank as originator.

Table 18: Securitisation underlying assets as originator: non-performing assets, overdue and loss information

(In millions of RMB)	As at 31 December 2014			
Type of underlying assets	**Balance of underlying assets[2]**	**Total non-performing assets[3]**	**Total overdue assets**	**Losses recognised during the reporting period[4]**
Claims on individual customers	866	9	25	-
Total	**866**	**9**	**25**	**-**

1. This table provides the information with reference to the Group's unsettled securitisation at the end of reporting period as both originator and servicer.
2. The balance of underlying assets refers to the carrying amount of securitisation assets at the end of reporting period
3. Losses recognised during the reporting period refers to the provisions for impairment and writing off aimed at the securitisation assets holding during the reporting period.

5.4.4 Measurement of securitisation risk

The Group's securitisation exposures are measured with the standardised approach, of which the risk weights are finalised based on the credit ratings assessed by eligible external credit assessment institutions approved by the Bank, as well as the type of securitisation assets. As at 31 December 2014, the Group's capital requirements of the securitisation assets were RMB311 million.

5.5 Counterparty credit risk

In recent years, the Group has constantly improved management system of CCR, specified the Names List management and concentration management policies over counterparties in the financial markets, optimised specific management processes and requirements for CCR management, and pushed forward development and construction of management system of CCR of derivative transactions, further strengthening development and management of business and offering consolidated support and guarantee for responding to rapid change of market and business.

The Group adopt the current exposure approach to measure the counterparty credit exposures and the regulatory weight approach to measure the counterparty credit risk-weighted assets. The following table shows the information of CCR exposures by product classifications of the Group as at 31 December 2014.

Table 19: Counterparty Credit exposures by product classifications

(In millions of RMB)	As at 31 December 2014
	Exposure
Interest rate contracts	1,738
Exchange rate and gold contracts	25,641
Equity contracts	720
Precious metals and other commodities contracts (excluding gold)	27
Total	**28,126**

6 MARKET RISK

6.1 Market risk management

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from adverse movements in market rates, including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk arises from both the Group's trading and banking book. A trading book consists of financial instruments and commodity positions held either with trading intent or in order to hedge other risks of the trading book. A banking book records those financial instruments and commodity positions which are not included in the trading book.

The market risk management of the Group aims at building a comprehensive risk management system of market risk management and transaction business throughout the Group, effectively identifying, measuring, controlling, monitoring and reporting market risk. By effectively operating and managing various market risks, the Group keeps competitive net interest spread and return on investment portfolio, and balances risk and return, further improving market competitiveness of the Bank.

The Group has constantly improved market risk management system. The Market Risk Management Department plays the leading role in formulating overall market risk management policies and rules, developing market risk measurement instruments, monitoring and reporting trading market risks and doing other daily management works. The Asset and Liability Management Department is responsible for the management of banking book market risk, and for the management of the total volume and structure of assets and liabilities, for the purpose of addressing structural market risks. The Financial Market Department is responsible for the overall management of RMB and foreign currency investment portfolios, conducting proprietary and customer-driven transactions, as well as implementing market risk management policies and rules. The Audit Department is responsible for regularly performing independent audits of the reliability and effectiveness of the processes constituting the risk management system.

In 2014, the Group optimised risk control and management system, improved risk control and management instrument, innovated management method, promoted all-process management and constantly accomplished market risk monitoring and warning. First, the Group took the program of analysis and control of financial market business risk events as the opportunity, and became the first to manage risk events with a problem base, by digging deeply the historical risk events that occurred within the Bank and banking industry in the financial market area, in order to thoroughly analyse the root causes of these events, propose IT and non-IT resolutions, and make overall testing over the resolutions, preventing events of such kinds from happening again and promoting risk management and control to a higher level. Second, the Group achieved automatic real-time monitoring over the foreign exchange and precious metal exposures. Third, the Group formulated an initiative risk management model featuring integration of procedure, and achieved domestic and overseas branches' effective control over the key business risk points, by setting up policies such as *Procedure for Incorporation of Domestic Branches' Risk Management into Transaction Business* and *Procedure for Incorporation of Overseas Institutions' Risk Management into Financial Market Business*. Meanwhile, the Group strengthened risk management on financial market business of overseas institutions, with "Eight Forbiddances" at the core. Fourth, the Group proactively explored transaction business management model at the Group level, and made breakthrough in risk reporting mechanism for the Group's wealth management products, price management and control of bonds transaction, management methods of traders, and internal control name list system of transaction counterparts at the Group level. Fifth, the Group formulated and improved a set of policies and systems with "Six Transactions" at the core, as well as detected potential risks and proposed prevention and control suggestions by stronger field inspection of transaction business. As a result, the Bank's transaction business was further standardised. Sixth, the Group constantly improved independent measurement capability and completed the planning and consulting program of independent research and development of market risk measurement engine system. Seventh, the Group kept up with the regulatory requirements, made research into the potential risk exposure of transaction counterparties, wrong-way risks, and the latest evolution of Standardised Approach of Basel Committee on Banking Supervision, and continued to optimise capital measurement methods. Eighth, the Group proactively addressed the changes in market, and launched specific research on foreign exchange rate, interest rate liberalization, and economic capital plan, etc., which provided basis for management decisions.

6.2 Market risk measurement

In 2014, the CBRC approved the Group to implement the advanced approaches of capital management and the capital requirements of market risk are calculated with the internal model approach. The following table shows the market risk capital requirements of the Group as at 31 December 2014.

Table 20: Market risk capital requirements

(In millions of RMB)	As at 31 December 2014
	Capital requirement
Covered by the internal model approach	**2,811**
Uncovered by the internal model approach	**1,533**
Interest rate risk	1,052
Equity position risk	142
Foreign exchange risk	339
Commodity risk	-
Option risk	-
Total	**4,344**

The Group measures market risk by using Value-at-risk (VaR) model. The VaR model is an approach to estimate potential losses that could occur on risk positions taken, due to movements in market interest rates, foreign exchange rates and other market prices within a specific timeframe and a fixed confidence interval. The Group calculates VaR and stressed VaR and conducts back-testing in compliance with the regulatory requirements. As of the reporting period, the number of back-testing breakthroughs occurred within the green zone according to the requirements of the CBRC, and no abnormal model was identified.

The following table shows the VaR and stressed VaR of the Group covered by the internal model approach.

Table 21: VaR and stressed VaR of the Group covered by the internal model approach

(In millions of RMB)	For the year ended 31 December 2014			
	Amount			
	Average	Maximum	Minimum	Period end
VaR	230	1,424	48	1,406
Stressed VaR	309	1,424	113	1,406

7 OPERATIONAL RISK

Operational risk is the risk of losses due to inadequate or flawed internal processes, staff and IT systems, and external events. The definition includes legal risk, other than strategic risk and reputation risk.

Operational risk management is a critical part of the Group's comprehensive risk management. The aims of the Group's operational risk management are as follows:

(1) Reduce the uncertainties of operational risk and control the risk within a reasonable range that is acceptable to the Bank;

(2) Improve service efficiency, realise process optimisation and advance sound businesses development of the Bank;

(3) Reduce management cost and increase income level;

(4) Lower the impact of emergencies and ensure the normal and consistent operation of businesses.

The Group has established an operational risk management system with a cascaded protection named "Three Lines of Defence" as the core, among which each business department is the first defence line for guarding against operational risk. The business departments are the direct bearers and managers of operational risk and take important responsibility for identifying, assessing, monitoring and managing operational risk. Internal Control and Compliance Department, Risk Management Department and Legal Affairs Department are the second defence line, taking charge of coordinating, guiding, evaluating and monitoring activities of operational risk management in the first defence line. Audit Department and Disciplinary and Supervisory Department are the third defence line for guarding against operational risk, taking charge of auditing, monitoring and evaluating the formation and implementation of operational risk management framework.

The process of the Group's operational risk management includes risk identification, assessment, control/mitigation, monitoring and reporting. Apart from identification and monitoring with risk management tools such as risk and control self-assessment risk indicators, the Group transfers, disperses, reduces and avoids operational risk through a series of control/mitigation methods such as system control, process control, behaviour monitoring, electronisation and insurance so as to adjust the risk to acceptable levels. Meanwhile, the Group has established a business continuity management system and enhanced the establishment and drill of emergency plans to ensure the safe and consistent operation of businesses.

The Group adopts the standardised approach to measure the capital requirements of operational risk as approved by the CBRC. As at 31 December 2014, the Group's capital requirements of operational risk were RMB73,258 million.

8 OTHER RISKS

8.1 Equity exposures of banking book

The Group's equity exposures of banking book mainly relate to investment in equity of associates and joint ventures, available-for-sale equity investments, etc. The investment in equity of associates and joint ventures is the equity investment by which the Bank, together with other associates and joint ventures, intends to exercise significant impact on or joint control over investees. Available-for-sale equity investment mainly refers to equity investment with uncertain financial income and proposed holding period.

Please refer to the relevant contents in the 'Significant Accounting Policies and Accounting Estimates under the notes to the financial statement in 'Annual Report 2014 of China Construction Bank Corporation' for the critical policies on valuation and accounting treatment of banking book equity.

According to the regulatory requirements, the Group adopted different handling methods based on investment nature and proportion while calculating regulatory capital for equity exposures of banking book.

- With respect to the subsidiaries of the industrial and commercial enterprise type that are outside the scope of regulatory consolidation but within the scope of accounting consolidation, the Group calculates the risk-weighted assets for the investment in such subsidiaries based on the regulatory risk weights while calculating the consolidated capital adequacy ratios.
- With respect to other financial institutions outside the scopes of both the regulatory and accounting consolidations, the Group follows the threshold deduction method for the investment in such financial institutions. The portion of the investment exceeding the materiality level is deducted from the capital, while the amounts that are not deducted from the capital receive the corresponding regulatory risk weights.
- With respect to other industrial and commercial enterprises outside the scopes of both regulatory and accounting consolidations, the Group calculates their risk-weighted assets based on the regulatory risk weights.

Table 22: Equity exposures of banking book

(In millions of RMB)			**As at 31 December 2014**
Invested institution categories	**Publicly traded equity exposure [1]**	**Non-publicly traded equity exposure [1]**	**Unrealised potential risk gains and losses [2]**
Financial institutions	2,036	1,566	1,030
Non-financial institutions	4,583	5,466	2,071
Total	**6,619**	**7,032**	**3,101**

1. Publicly traded equity exposure is the equity exposure of invested institutions that are listed companies. Non-publicly traded equity exposure is the equity exposure of invested institutions that are unlisted companies.
2. Unrealised potential risk gains or losses are the portion of gains or losses that have been recognised in the balance sheet but not in the income statement.

8.2 Interest rate risk

Interest rate risk is the risk of loss in the overall income and economic value of the banking book as a result of adverse movements in interest rates, term structure and other interest-related factors. Re-pricing risk and basis risk arising from mismatch of term structure and pricing basis of assets and liabilities are the primary sources of interest rate risk for the Bank, while yield curve risk and option risk have relatively less impact on interest rate risk. The overall objective of the Bank's interest rate risk management is to minimise the decrease of net interest income due to interest rate movement, while keeping interest rate risk within a tolerable range in accordance with the risk appetite and risk management capability.

In 2014, the Bank actively responded to the challenge of interest rate liberalisation, continuously improved the ability of making market-oriented, independent and differentiated pricing, and further pushed forward the application of Loan Prime Rate (LPR). The Bank measured interest rate risk by comprehensively using multiple tools such as interest rate sensitivity gap, net interest income sensitivity analysis and stress testing, conducted regular analysis and net interest income prediction, and reasonably designed the term structure and product structure of asset and liability portfolios, in order to maintain the overall interest rate risk within the set tolerable range.

9 REMUNERATION

9.1 Nomination and Remuneration Committee of the Board of Directors

The Bank's Nomination and Remuneration Committee consists of seven directors. Ms. Elaine La Roche, independent non-executive director of the Bank, currently serves as chairperson of the Nomination and Remuneration Committee. Members include Mr. Chung Shui Ming Timpson, Mr. Wim Kok, Mr. Murray Horn, Mr. Guo Yanpeng, Ms. Margaret LEUNG KO May Yee and Mr. Dong Shi. Among them, two are non-executive directors, and five are independent non-executive directors.

The primary responsibilities of the Nomination and Remuneration Committee include:

- formulating criteria and procedures for the selection and appointment of directors and senior management;
- proposing candidates for directors, presidents, chief audit officer, secretary to the Board and board committee members to the Board of Directors;
- evaluating the structure, number of members and formation of the Board (including terms of expertise, knowledge and experience), and proposing suggestions on the adjustment of the Board to implement the corporate strategies;
- evaluating candidates for senior management nominated by the president;
- formulating development plans for senior management and back-up personnel for key positions;
- reviewing the remuneration management system submitted by the president;
- formulating performance evaluation measures for directors and senior management and submitting the measures to the Board of Directors for deliberation;
- organizing performance evaluation of directors and senior management, proposing advice to the remuneration plan for directors and senior management in accordance with the performance evaluation results and the diligence evaluation made by the Board of Supervisors and submitting to the Board of Directors for deliberation;
- proposing advice to the remuneration plan for supervisors in accordance with the performance evaluation of the supervisors made by the Board of Supervisors and submitting the plan to the Board of Directors for deliberation;
- monitoring the implementation of the Bank's performance evaluation and remuneration systems; and
- other matters authorised by the Board of Directors.

In 2014, the Nomination and Remuneration Committee convened five meetings in total.

The remuneration of members of the Nomination and Remuneration Committee is disclosed in Remunerations for Directors, Supervisors and Senior Management in the 'Annual Report 2014 of China Construction Bank Corporation'.

9.2 Remuneration policy

The Bank upholds its philosophy of standardising distribution order and building a harmonious distribution relationship and constantly improves intensive management in developing remuneration policy and payment, making due contribution to strategic development of the Bank. The Bank's major allocation rules and other significant matters relating to remuneration management need to be proposed to the Nomination and Remuneration Committee of the Board for review and approval. Important proposals relating to remuneration allocation are required to be voted and approved by the shareholders' general meeting, or reported to the state competent authorities for approval and filing.

Remuneration and risks

Pursuant to relevant government policies, the annual remuneration standard of the Bank's directors, supervisors and senior executives needs to be reviewed and approved by the competent authorities of the state, and deferred payment for their performance remuneration has been implemented. The vesting period of deferred payment for performance remuneration needs to match the business cycle and risk cycles, so as to make remuneration an accurate reflection of one's performance. If a risk is exposed or business performance deteriorates within the vesting period, the deferred payment of performance remuneration can be retroactively deducted.

The Bank brings performance remuneration's function of intensive and restraint into full play. It persists to favour frontline posts, sub-branch level and the posts which directly create value when determining remuneration distribution, strengthens remuneration management over overseas institutions and share-holding subsidiaries and adheres to strategy of comprehensive operation of the Bank and overseas development. The Bank further consolidated performance assessment orientation, making remuneration match the performance. The Bank also established relevant remuneration reduction measures for staff that were facing disciplinary actions or other penalties due to violation of rules or dereliction of duty.

The remuneration for staff engaging in risk and compliance management is independent from the business areas they supervise, and has nothing to do with the performance evaluation of the business areas they supervise. Their performance objective is consistent with the risk control responsibilities they undertake.

Remuneration and performances

The distribution of gross staff remuneration focuses on the balance between fairness and efficiency. The gross remuneration includes fixed salary and performance bonus. Fixed salary mainly guarantees the staff's basic living standard, is endowed with overall balance function and reflects fairness and harmony. Performance bonus principally stimulates performance improvement and value creation, reflecting efficiency and effectiveness.

The Bank consistently focuses on the balance between long-term and short-term development, coordination of business development and risk control in the distribution of remuneration. Performance remuneration is mainly distributed on the basis of economic value added ("EVA") which serves as comprehensive efficiency indicator excluding expected and unexpected risk cost. Linked with performance remuneration, quality performance improvement could be guided and achieved.

Flexible remuneration

Risk measurement factors are reflected in allocation of gross staff cost, allocation linked with staff cost in line of business and staff salary distribution. The Bank supports risk control behaviours, as well as the other behaviours that are consistent with the risk framework system and long-term finance indicator, and focuses on the ratio of fixed to flexible remuneration, in order to achieve an appropriate balance. The fixed salary portion can attract and keep skilled staff, while flexible remuneration can stimulate staff that have remarkable performance but prohibit excessive risk-taking, both of which support the Bank in realising its business strategies and targets within the controllable risk goals and risk management framework.

Pursuant to relevant government restriction policies, the Bank's payment tools of flexible remuneration include cash and equity; however, Bank's Employee Stock Incentive Plan implemented in 2007 is frozen in compliance with relevant government policies.

9.3 Remuneration of senior management

The annual remuneration standard of the Bank's directors, supervisors and senior executives needs to be in compliance with relevant government review and approval policies, and risk adjustment factors, according to the approval method, are directly reflected in individual performance evaluation results which match with the distribution of performance remuneration.

The remuneration of directors, supervisors and senior management is disclosed in Remunerations for Directors, Supervisors and Senior Management in the 'Annual Report 2014 of China Construction Bank Corporation'.

APPENDIX 1: INFORMATION RELATED TO COMPOSITION OF CAPITAL

In accordance with the *regulatory requirements for the disclosure of information on capital composition of commercial banks* issued by CBRC, the following table shows the Group's composition of capital, minimum regulatory capital requirements, as well as their connections with the balance sheets under the scope of regulatory consolidation.

(In millions of RMB, except percentages)		Code	As at 31 December 2014	As at 31 December 2013
Common Equity Tier 1 capital:				
1	Qualifying common share capital	n	250,011	250,011
2	Retained earnings		856,749	704,349
2a	Surplus reserve	r	130,515	107,970
2b	General reserve	s	169,478	153,825
2c	Undistributed profits	t	556,756	442,554
3	Accumulated other comprehensive income and disclosed reserves		133,499	110,373
3a	Capital reserve	o+q	139,761	116,321
3b	Others	u	(6,262)	(5,948)
4	Amount given recognition in Common Equity Tier 1 capital (Only applicable to unlisted companies, while banks of joint-stock companies to be completed with “0”)		-	-
5	Minority interest given recognition in Common Equity Tier 1 capital	v	4,456	3,729
6	**Common Equity Tier 1 capital before regulatory adjustment**		1,244,715	1,068,462
Common Equity Tier 1 capital: Regulatory adjustment				
7	Prudent valuation adjustment		-	-
8	Goodwill (excluding deferred tax liabilities)	k	2,501	1,415
9	Other intangible assets (excluding land use rights) (excluding deferred tax liabilities)	j	1,592	1,609
10	Net deferred tax assets relying on future profits and arising from operating losses		-	-
11	Cash-flow hedge reserves	p	(10)	(148)
12	Gaps of loan loss provisions		-	-
13	Gains from sales of asset securitisation		-	-
14	Unrealised profit/loss arising from the changes in own credit risk on fair values of liability		-	-
15	Net defined-benefit pension assets (excluding deferred tax liabilities)		-	-
16	Directly or indirectly investments in own shares		-	-
17	Reciprocal cross-holdings in common equity		-	-
18	Non-significant investments in capital of financial institutions outside the scope of regulatory consolidation(amount above 10% threshold)		-	-
19	Significant investments in capital of financial institutions outside the scope of regulatory consolidation(amount above 10% threshold)		-	-
20	Mortgage-servicing rights		N/A	N/A
21	Other deferred tax assets relying on the Bank's future profitability(amount above 10% threshold)		-	-

22	Significant investments in the capital of financial institutions outside the scope of regulatory consolidation and other deferred tax assets that rely on the Bank's future profitability after all regulatory adjustment (amount exceeding the 15% threshold)		-	-
23	of which: significant investments in the capital of financial institutions		-	-
24	of which: Mortgage-servicing rights		N/A	N/A
25	of which: Other deferred tax assets that rely on the Bank's future profitability		-	-
26a	Investments in common equity of financial institutions being controlled but outside the scope of regulatory consolidation	h	3,902	3,902
26b	Gaps of common equity of financial institutions being controlled but outside the scope of regulatory consolidation		-	-
26c	Total regulatory adjustments to Common Equity Tier 1 capital		-	-
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions		-	-
28	**Total regulatory adjustment in Common Equity Tier 1 capital**		7,985	6,778
29	**Common Equity Tier 1 capital after regulatory adjustment**		1,236,730	1,061,684
Additional Tier 1 capital:				
30	Directly issued qualifying Additional Tier 1 capital instruments including related stock surplus		-	-
31	of which: classified as equity		-	-
32	of which: classified as liabilities		-	-
33	of which: Instruments not given recognition in Additional Tier 1 capital after the transition period		-	-
34	Minority interest given recognition in Additional Tier 1 capital	w	37	16
35	of which: Portions not given recognition in Additional Tier 1 capital after the transition period		-	-
36	**Additional Tier 1 capital before regulatory adjustment**		37	16
Additional Tier 1 capital: regulatory adjustments				
37	Direct or indirect investments in own Additional Tier 1 instruments		-	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments		-	-
39	Non-significant investments in the capital of financial institutions outside the scope of regulatory consolidation(amount above 10% threshold)		-	-
40	Significant investments in the Additional Tier 1 capital of financial institutions outside the scope of regulatory consolidation		-	-
41a	Investments in Additional Tier 1 capital of financial institutions being controlled but outside the scope of regulatory consolidation		-	-
41b	Gaps of Additional Tier 1 capital of financial institutions being controlled but outside the scope of regulatory consolidation		-	-
41c	Other deductions from Additional Tier 1 capital		-	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		-	-
43	**Total regulatory adjustments to Additional Tier 1 capital**		-	-
44	**Additional Tier 1 capital after regulatory adjustment**		37	16
45	**Tier 1 capital after regulatory adjustment (Common Equity Tier 1 capital after regulatory adjustment + Additional Tier 1 capital after regulatory adjustment)**		1,236,767	1,061,700
Tier 2 capital:				
46	Directly issued qualifying Tier 2 instruments plus stock surplus	m	149,839	144,000
47	of which: Portions not given recognition in Tier 2 capital after the transition period		127,868	144,000
48	Minority interest given recognition in Tier 2 capital	x	2,444	106

49	of which: Portions not given recognition after the transition period		-	-
50	Provisions in Tier 2	-(b+d)	127,878	110,918
51	**Tier 2 capital before regulatory adjustments**		280,161	255,024
Tier 2 capital: regulatory adjustments				
52	Direct or indirect investments in the Bank's Tier 2 instruments		-	-
53	Reciprocal cross-holdings in Tier 2 instruments		-	-
54	Non-significant investments in capital of financial institutions outside the scope of regulatory consolidation (amount above 10% threshold)		-	-
55	Significant investments in the Tier 2 capital of financial institutions outside the scope of regulatory consolidation		-	-
56a	Investments in Tier 2 capital of financial institutions being controlled but outside the scope of regulatory consolidation		-	-
56b	Gaps of Tier 2 capital of financial institutions being controlled but outside the scope of regulatory consolidation		-	-
56c	Other deductions from Tier 2 capital		-	-
57	**Total regulatory adjustments in Tier 2 capital**		-	-
58	**Tier 2 capital after regulatory adjustment**		280,161	255,024
59	**Total capital after regulatory adjustment (Tier 1 capital after regulatory adjustment +Tier 2 capital after regulatory adjustment)**		1,516,928	1,316,724
60	**Total risk-weighted assets**		10,203,643	9,872,790
Capital adequacy ratio and reserve capital requirements				
61	**Common Equity Tier 1 ratio**		12.12%	10.75%
62	**Tier 1 ratio**		12.12%	10.75%
63	**Total Capital ratio**		14.87%	13.34%
64	Specific buffer requirements of regulators		0.90%	0.50%
65	of which: capital conservation buffer requirements		0.90%	0.50%
66	of which: countercyclical buffer requirements		0.00%	0.00%
67	of which: Additional buffer requirements of Global Systemically Important Banks		0.00%	0.00%
68	Common Equity Tier 1 capital available to meet buffers as a percentage of risk-weighted assets		7.12%	5.75%
Domestic minimum regulatory capital requirements				
69	Common Equity Tier 1 ratio		5.00%	5.00%
70	Tier 1 ratio		6.00%	6.00%
71	Total Capital ratio		8.00%	8.00%
Amounts below the threshold deductions				
72	Non-significant investments in the capital of other financial institutions outside of the scope of regulatory consolidation	e+f+g	42,881	53,425
73	Significant investments in the capital of other financial institutions outside of the scope of regulatory consolidation	i	190	156
74	Mortgage-servicing rights (net of deferred tax liabilities)		N/A	N/A
75	Other deferred tax assets relying on the Bank's future profitability (net of deferred tax liabilities)	l	39,389	38,331
Limit of provisions in Tier 2 capital				
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to regulatory weight approach (prior to the application of cap)	-a	1,186	155,948
77	Provisions eligible for inclusion in Tier 2 capital under regulatory weight approach	-b	1,186	110,918

78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal rating-based approach (prior to the application of cap)	-c	131,526	N/A
79	Provisions eligible for inclusion in Tier 2 capital under internal rating-based approach	-d	126,692	N/A
Capital instruments subject to phase-out arrangements				
80	Amount given recognition in current-period Common Equity Tier 1 capital due to transitional arrangements		-	-
81	Amount not given recognition in current-period Common Equity Tier 1 capital due to transitional arrangements		-	-
82	Amount given recognition in current-period Additional Tier 1 capital due to transitional arrangements		-	-
83	Amount not given recognition in current-period Additional Tier 1 capital due to transitional arrangements		-	-
84	Amount given recognition in current-period Tier 2 capital due to transitional arrangements		127,868	144,000
85	Amount not given recognition in current-period Tier 2 capital due to transitional arrangements		10,010	16,000

The following table shows the balance sheet of the accounting and regulatory consolidation.

(In millions of RMB)	**As at 31 December 2014**	
	Balance sheet of the accounting consolidation	**Balance sheet of the regulatory consolidation**
Assets		
Cash and deposits with central banks	2,610,781	2,610,729
Deposits with banks and non-bank financial institutions	266,461	261,128
Precious metals	47,931	47,931
Placements with banks and non-bank financial institutions	248,525	250,667
Financial assets at fair value through profit or loss	332,235	329,515
Positive fair value of derivatives	13,769	13,765
Financial assets held under resale agreements	273,751	273,497
Interest receivable	91,495	90,819
Loans and advances to customers	9,222,910	9,220,791
Available-for-sale financial assets	926,170	917,941
Held-to-maturity investments	2,298,663	2,296,297
Debt securities classified as receivables	170,801	154,576
Investments to subsidiaries	-	5,212
Interests in associates and jointly controlled entities	3,084	1,344
Fixed assets	151,607	150,579
Land use rights	15,758	15,758
Intangible assets	2,043	1,592
Goodwill	2,696	2,501
Deferred tax assets	39,436	39,389
Other assets	26,014	28,817
Total assets	**16,744,130**	**16,712,848**
Liabilities		
Borrowings from central banks	91,216	91,216

Deposits from banks and non-bank financial institutions	1,004,118	1,004,118
Placements from banks and non-bank financial institutions	202,402	206,789
Financial liabilities at fair value through profit or loss	296,009	296,443
Negative fair value of derivatives	12,373	11,585
Financial assets sold under repurchase agreements	181,528	181,082
Deposits from customers	12,898,675	12,902,198
Accrued staff costs	34,535	34,258
Taxes payable	62,644	62,549
Interest payable	185,874	186,169
Provisions	7,068	7,064
Debt securities issued	431,652	431,652
Deferred tax liabilities	401	213
Other liabilities	83,272	51,340
Total liabilities	**15,491,767**	**15,466,676**
Equity		
Share capital	250,011	250,011
Capital reserve	135,391	135,365
Investment revaluation reserve	4,562	4,396
Surplus reserve	130,515	130,515
General reserve	169,496	169,478
Retained earnings	558,705	556,756
Exchange reserve	(6,501)	(6,262)
Total equity attributable to equity shareholders of the Bank	1,242,179	1,240,259
Minority interests	10,184	5,912
Total equity	**1,252,363**	**1,246,171**

The following table shows the information related to the expanded balance sheet under regulatory scope of consolidation.

(In millions of RMB)	**As at 31 December 2014**	
	Balance sheet of the regulatory consolidation	**Code**
Assets		
Cash and deposits with central banks	2,610,729	
Deposits with banks and non-bank financial institutions	261,128	
Precious metals	47,931	
Placements with banks and non-bank financial institutions	250,667	
Financial assets at fair value through profit or loss	329,515	
Positive fair value of derivatives	13,765	
Financial assets held under resale agreements	273,497	
Interest receivable	90,819	
Loans and advances to customers	9,220,791	

of which: Provisions eligible actual accrued subject to the regulatory weight approach	(1,186)	a
of which: Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the regulatory weight approach	(1,186)	b
of which: Provisions eligible actual accrued subject to subject to the IRB approach	(131,526)	c
of which: Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach	(126,692)	d
Available-for-sale financial assets	917,941	
of which: non-significant investments in the capitals of other financial institutions outside of the scope of regulatory consolidation	4,765	e
Held-to-maturity investments	2,296,297	
of which: non-significant investments in the capitals of other financial institutions outside of the scope of regulatory consolidation	6,298	f
Debt securities classified as receivables	154,576	
of which: non-significant investments in the capitals of other financial institutions outside of the scope of regulatory consolidation	31,818	g
Investments to subsidiaries	5,212	
of which: investments in common equity of financial institutions being controlled but outside the scope of regulatory consolidation	3,902	h
Interests in associates and jointly controlled entities	1,344	
of which: significant investments in the Common Equity Tier 1 capital of other financial institutions outside of the scope of regulatory consolidation	190	i
Fixed assets	150,579	
Land use rights	15,758	
Intangible assets	1,592	j
Goodwill	2,501	k
Deferred tax assets	39,389	l
Other assets	28,817	
Total assets	**16,712,848**	
Liabilities		
Borrowings from central banks	91,216	
Deposits from banks and non-bank financial institutions	1,004,118	
Placements from banks and non-bank financial institutions	206,789	
Financial liabilities at fair value through profit or loss	296,443	
Negative fair value of derivatives	11,585	
Financial assets sold under repurchase agreements	181,082	
Deposits from customers	12,902,198	
Accrued staff costs	34,258	
Taxes payable	62,549	
Interest payable	186,169	
Provisions	7,064	
Debt securities issued	431,652	
of which: Tier 2 capital tool and its premium	149,839	m
Deferred tax liabilities	213	
Other liabilities	51,340	

Total liabilities	**15,466,676**	
Equity		
Share capital	250,011	n
Capital reserve	135,365	o
of which: deferred hedging reserves	(10)	p
Investment revaluation reserve	4,396	q
Surplus reserve	130,515	r
General reserve	169,478	s
Retained earnings	556,756	t
Exchange reserve	(6,262)	u
Total equity attributable to equity shareholders of the Bank	1,240,259	
Minority interests	5,912	
of which: minority interest given recognition in common equity tier 1 capital	4,456	v
of which: minority interest given recognition in other equity tier 1 capital	37	w
of which: minority interest given recognition in tier 2 capital [1]	2,444	x
Total equity	**1,246,171**	

1. According to regulatory requirements, the issuance of eligible secondary capital tool by the wholly owned subsidiary does not include in the secondary capital tool and its premium, but it includes in the interests of minority shareholders. The treatment is different with the accounting policy,

Main features of eligible regulatory capital instruments

The following table shows the information related to main features of various kinds of eligible regulatory capital instruments issued by the Group.

o.	Main features of eligible regulatory capital instruments	H Share	A Share	Rights issues	Tier 2 capital instrument	Tier 2 capital instrument
1	Issuer	CCB	CCB	CCB	CCB	CCB
2	Unique identifier	0939.HK	601939.SH	0939.HK、601939.SH	ISIN:CND100007Z10	ISIN: HK0000223849
3	Governing law(s)	Hong Kong SAR law	Chinese law	Chinese/Hong Kong SAR law	Chinese law	Hong Kong SAR law
	Regulatory treatment					
4	of which: transitional rules under *the Capital Rules for Commercial Banks (Provisional)*	Common Equity Tier 1 capital	Common Equity Tier 1 capital	Common Equity Tier 1 capital	Tier 2 capital	Tier 2 capital
5	of which: post-transitional rules under the *Capital Rules for Commercial Banks (Provisional)*	Common Equity Tier 1 capital	Common Equity Tier 1 capital	Common Equity Tier 1 capital	Tier 2 capital	Tier 2 capital
6	of which: eligible at solo/group/group& solo	the Bank and the Group	the Bank and the Group	the Bank and the Group	the Bank and the Group	the Bank and the Group
7	Instrument type	Equity instrument	Equity instrument	Equity instrument	Tier 2 capital instrument	Tier 2 capital instrument
8	Amount recognised in regulatory capital (In	72,550	57,119	61,159	20,000	2,000

	millions of RMB, as at the latest reporting date)					
9	Par value of instrument	RMB 30,459 million	RMB 9,000 million	RMB 16,322 million	RMB 20,000 million	RMB 2,000 million
10	Accounting classification	Share capital and	Share capital and	Share capital and	Debt securities issued	Debt securities issued
11	Original date of issuance	27 October 2005	25 September 2007	19 November 2010, 16 December 2010	15 August 2014	12 November 2014
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Dated	Dated
13	of which: original maturity date	No maturity	No maturity	No maturity	18 August 2029	12 November 2024
14	Issuer call subject to prior supervisory approval	No	No	No	Yes	Yes
15	of which: optional call date, contingent call dates and redemption amount	N/A	N/A	N/A	18 August 2024, all redeemed	12 November 2019, all redeemed
16	of which: subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A
	Coupons / dividends					
17	of which: fixed or floating dividend/coupon	Floating	Floating	Floating	Fixed	Fixed for the first five years while floating for the rest five years
18	of which: coupon rate and any related index	N/A	N/A	N/A	5.98%	Fixed rate of 4.90% for the first five years while reseting (plus 1.538% on the CNHHibor) for the rest five years.
19	of which: existence of a dividend stopper	N/A	N/A	N/A	No	No
20	of which: fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory	Mandatory
21	of which: existence of step up or other incentive to redeem	No	No	No	No	No
22	of which: noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	N/A	N/A	N/A	Non-convertibl e	Non-convertible
24	of which: if convertible, conversion trigger (s)	N/A	N/A	N/A	N/A	N/A
25	of which: if convertible, fully	N/A	N/A	N/A	N/A	N/A

	or partially					
26	of which: if convertible, conversion rate	N/A	N/A	N/A	N/A	N/A
27	of which: if convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A
28	of which: if convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A
29	of which: if convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A
30	Write-down feature	N/A	N/A	N/A	Yes	Yes
31	of which: if write-down, write-down trigger(s)	N/A	N/A	N/A	Write-down is triggered at the earlier of followings: (1) CBRC determines issuer cannot survive if no write-down is conducted; (2) related authorities confirm that issuer cannot survive if public capital injection or equivalent support will not be offered.	Write-down is triggered at the earlier of followings: (1) CBRC determines issuer cannot survive if no write-down is conducted; (2) related authorities confirm that issuer cannot survive if public capital injection or equivalent support will not be offered.
32	of which: if write-down, full or partial	N/A	N/A	N/A	Full	Full
33	of which: if write-down, permanent or temporary	N/A	N/A	N/A	Permanent	Permanent
34	of which: if temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	the lowest priority of all claims	the lowest priority of all claims	the lowest priority of all claims	the lower priority behind the depositor and general creditor, the same priority with other tier 2 debt	the lower priority behind the depositor and general creditor, the same priority with other tier 2 debt
36	Non-compliant transitioned features	No	No	No	No	No

37	of which: if yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A

APPENDIX 2: THE INDICATORS FOR ASSESSING GLOBAL SYSTEMIC IMPORTANCE OF THE BANK

In accordance with the *Guidelines for the Disclosure of the Indicators for Assessing Global Systemic Importance of Commercial Banks* issued by the CBRC, the following table shows the information of the Group's indicator data for assessing global systemic importance.

(In billions of RMB)		**As at 31 December 2014**
No.	**Indicator**	**Amount[3]**
1	Total on and off balance sheet assets after adjustment[1]	18,998.6
2	Intra-financial system assets	1,971.0
3	Intra-financial system liabilities	1,203.5
4	Securities outstanding and other financing tools	1,722.2
5	Total payments through payment system and as a correspondent for other banks	142,886.1
6	Assets under custody	4,282.5
7	Securities underwriting activity	399.0
8	Notional amount of over-the-counter (OTC) derivatives	1,800.2
9	Trading and available-for-sale securities[2]	105.1
10	Level 3 assets	182.2
11	Cross-jurisdictional claims	386.2
12	Cross-jurisdictional liabilities	744.2

1. On-balance sheet assets after adjustment include derivatives using the current exposure approach and other on-balance sheet assets. Off-balance sheet items after adjustment include unconditionally cancellable commitments with a conversion factor of 10% and other off-balance sheet assets.
2. As per the regulatory requirements, trading and available-for-sale securities are calculated by netting off the level 1 and level 2 securities. Level 1 and Level 2 assets are defined in the *Measures for Liquidity Risk Management of Commercial Banks (Trial)* issued by the CBRC.
3. As per the regulatory requirements, the indicators for assessing global systemic importance are calculated under regulatory scope of consolidation, which will cause certain differences from the data under accounting scope of consolidation.