China Construction Bank Corporation

Capital Adequacy Ratio Report 2013

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 *Measures for Capital Management of Commercial Banks (Trial)* 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 be varied 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 2013 of China Construction Bank Corporation* (the "Report") is prepared in accordance with the definition and rules of the capital adequacy ratio 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 2013 of China Construction Bank*, of which the disclosure of credit risk exposure is especially obvious.

China Construction Bank Corporation

March 2014

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 large joint stock commercial bank with a domestically leading and 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 market capitalisation of the Bank reached USD187.8 billion, ranking 5th among listed banks in the world.

With 14,650 branches and sub-branches in Mainland China, the Bank provides services to 3,065,400 corporate customers and 291 million personal customers, and maintains close cooperative relationships with a large number of high-end customers and leading enterprises of strategic industries in Chinese economy. The Bank maintains overseas branches in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo, Osaka, Seoul, New York, Ho Chi Minh City, Sydney, Melbourne, Taipei and Luxembourg, and owns multiple subsidiaries, such as CCB Asia, CCB International, CCB London, CCB Russia, CCB Dubai, CCB Europe, CCB Principal Asset Management, CCB Financial Leasing, CCB Trust and CCB Life.

1.2 Objectives

The Report is prepared in accordance with the *Measures for Capital Management of Commercial Banks (Trial)* 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.

1.3 Consolidation scope

The Group commenced to calculate the capital adequacy ratio in accordance with the *Measures for Capital Management of Commercial Banks (Trial)* 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 financial institute types (insurance companies excluded).

1.3.1 Differences between regulatory and accounting consolidation

According to the regulatory requirements, the Group includes neither the industrial and commercial enterprises, nor the subsidiaries of insurance types to the consolidated calculation scope of the capital adequacy ratio, resulting in certain differences between the regulatory and financial consolidation scopes. As at 31 December 2013, 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.

1.3.2 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 subsidiaries that are outside the scope of regulatory consolidation but within the scope of accounting consolidation, the Group deducts the investment in such type of subsidiaries 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	CCB International (Holdings) Limited	4,320	-	100%	Hong Kong, China
4	CCB Trust Co., Limited	3,409	67%	-	Anhui, China
5	China Construction Bank (London) Limited	2,861	100%	-	London, England
6	China Construction Bank (Europe) S.A.	1,629	100%	-	Luxembourg
7	Sino-German Bausparkasse Co., Ltd.	1,502	75.10%	-	Tianjin, China
8	China Construction Bank (Russia) Limited Liability Company	851	100%	-	Moscow, Russia
9	Golden Fountain Finance Limited (“Golden Fountain”)	676	100%	-	British Virgin Islands
10	China Construction Bank (Dubai) Limited	620	100%	-	Dubai, UAE
Total		**53,409**			

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 qualified capitals.

2 CAPITAL MANAGEMENT

2.1 Capital planning and capital adequacy ratio management plan

The Group's capital planning had comprehensively taken into account the regulatory requirements, strategic plans, risk appetite, risk management abilities, financing abilities, macro-environment, operational uncertainties, etc. Based on these factors, the Group projected the capital supply and need and gave considerations to the short-term and long-term capital demand, to ensure that both the regulatory requirements and internal capital management objectives were constantly met.

The Group prepared the capital adequacy ratio management plan on annually basis, and incorporated it to the annual integrated business plan, ensuring that the annual capital management plan fit in with various business plans, and also ensuring the capital level would be higher than the internal management objectives of the capital adequacy ratios. Through dynamically monitoring, analysing and reporting capital adequacy ratios, the Group assessed whether the internal management objectives of the capital adequacy ratios had been met. The Group adopt various measures such as setting proper asset growth, adjusting the structure of risk assets, accumulating internal capital and raising capital through external channels, to ensure that the Common Equity Tier 1 ratio, Tier 1 ratio and total capital ratio of the Group and the Bank were in full compliance with regulatory requirements and met internal management requirements. This helped to insulate against potential risks as well as support healthy business developments.

Financial institutions, of which the Bank held majority of the equity or owned the control rights, maintained suitable capital scale as required by their regulatory authorities based on the development demand of their own business. As at the end of December 2013, financial institutions, of which the Bank holds majority of the equity or owns the control rights, had no regulatory capital gap. In 2013, none of the Group's subsidiaries experienced significant restrictions on transfer of regulatory capital such as paying dividends.

2.2 Capital adequacy ratios

In accordance with the regulatory requirements, commercial banks have to simultaneously calculate and disclose capital adequacy ratios pursuant to the *Measures for Capital Management of Commercial Banks (Trial)* and the *Measures for the Management of Capital Adequacy Ratios of Commercial Banks.* Capital adequacy ratios, which are calculated in accordance with *the Measures for Capital Management of Commercial Banks (Trial)*, include operational risk into the measurement scope, with modifications of rules on capital definition, risk weights for on and off-balance sheet assets, and credit conversion factors for off-balance sheet assets. Changes of rules have an impact on the Group's capital adequacy ratios.

The following table shows the information related to the capital adequacy ratios of the Group and the Bank as at 31 December 2013 which were calculated in accordance with the *Measures for Capital Management of Commercial Banks (Trial)* and the *Measures for the Management of Capital Adequacy Ratios of Commercial Banks*,.

Table 4: Capital adequacy ratios

	As at 31 December 2013	
	the Group	**the Bank**
Capital adequacy ratios calculated in accordance with the *Measures for Capital Management of Commercial Banks (Trial)*[1]		
Common Equity Tier 1 ratio[2]	10.75%	10.44%
Tier 1 ratio[2]	10.75%	10.44%
Total capital ratio[2]	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]	11.14%	11.05%
Capital adequacy ratio[3]	13.88%	13.53%

1. The credit risk-weighted assets are calculated with the regulatory weight approach, the market risk-weighted assets are calculated with the standardised approach, and the operational risk-weighted assets are calculated with the basic indicator approach.
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 Composition of capital

2.3.1 Composition of capital

The following table shows the information related to the Group's composition of capital as at 31 December 2013.

Table 5: Composition of capital

(In millions of RMB)	As at 31 December 2013
Common Equity Tier 1 capital	
Qualifying common share capital	250,011
Capital reserve[1]	116,321
Surplus reserve	107,970
General reserve	153,825
Retained earnings	442,554
Minority interest given recognition in Common Equity Tier 1 capital	3,729
Others[2]	(5,948)
Deductions from Common Equity Tier 1 capital	
Goodwill[3]	1,415
Other intangible assets (excluding land use right)[3]	1,609
Cash-flow hedge reserve	(148)
Investments in common equity of financial institutions being controlled but outside the scope of regulatory consolidation	3,902
Additional Tier 1 capital	
Minority interest given recognition in Additional Tier 1 capital	16
Tier 2 capital	
Directly issued qualifying Tier 2 instruments including related stock surplus	144,000
Provisions in Tier 2	110,918
Minority interest given recognition in Tier 2 capital	106
Common Equity Tier 1 capital after deductions [4]	1,061,684
Tier 1 capital after deductions [4]	1,061,700
Total capital after deductions [4]	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. 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.

2.3.2 Threshold deductions and limit of provisions in Tier 2 capital

As at 31 December 2013, 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 2013
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	53,425	10% of Common Equity Tier 1 capital after deductions [1]	106,168	52,743
Common Equity Tier 1 capital	3,074			
Additional Tier 1 capital	0			
Tier 2 capital	50,351			
Significant investments in the Common Equity Tier 1 capital of financial institutions outside the scope of regulatory consolidation	156	10% of Common Equity Tier 1 capital after deductions [2]	106,168	106,012
Other deferred tax assets that rely on the Bank's future profitability (net of related tax liability)	38,331		106,168	67,837
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	38,487	15% of Common Equity Tier 1 capital after deductions [3]	159,253	120,766

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 principal by making full provisions for impairment losses on loans and advances to customers. As at 31 December 2013, the Group's provisions eligible for inclusion in Tier 2 were RMB110,918 million. The following table shows the information related to the limit of 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 2013
Measurement approach	**Item**	**Balance**
Regulatory weight approach	Provisions	155,948
	Caps on the inclusion of provisions in Tier 2 capital	110,918
	Gaps with the upper limit if not reach the upper limit	-
	Provisions eligible for inclusion in Tier 2 capital	110,918

2.3.3 Changes in qualifying common share capital

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

2.3.4 Significant capital investments

In 2013, the Bank involved in the seasoned equity offerings ("SEO") of VTB. To meet the transaction requirements, the Bank purchased Golden Fountain Finance Limited (A special purpose company set for this transaction, hereinafter referred to as "SPV"), and completed the investment (USD110 million) in the equity of VTB via the SPV.

To expand the overseas business and enhance the global service abilities to customers, the Bank newly established CCB Russia, CCB Dubai and CCB Europe during the reporting period, with capital injection amounting to RUB4.2 billion, USD100 million and EUR200 million, respectively. After completing the reorganisation of CCB Asia and CCB Hong Kong branch, the Bank contributed RMB17.6 billion to CCB Asia to meet the local regulatory requirements on capital adequacy ratios. Furthermore, in order to support the sustainable business developments of CCB London and better meet customers' needs for diversified financial services as to the offshore RMB in European markets, the Bank made additional capital injection (RMB1.5 billion) to CCB London.

3 RISK MANAGEMENT

3.1 Risk management framework

In 2013, under the strategic orientation featuring "Integration, multifunction and intensiveness", the Group proactively promoted the mechanism innovation of risk management frameworks, continuously refined the comprehensive risk management framework covering various businesses of RMB and foreign currency, on and off-balance sheet, domestic and overseas, enhanced the risk management and control at the Group level, and further improved the ability of comprehensive risk management.

The Group implements comprehensive risk management and development strategy. Under the sound governance framework, the Group's board of Directors, the board of Supervisions, senior management and all staff involve in and carry out corresponding risk management responsibilities by effectively identifying, evaluating, measuring, monitoring, controlling and reporting various risks covering all branches and business activities. All departments and institutions of the Bank undertake corresponding responsibilities in the comprehensive risk management.

The Board of Directors carries out the risk management responsibility pursuant to the Articles of Association of the Bank and other related regulatory requirements.

The Board of Directors of the Bank has established Risk Management Committee, responsible for making risk management strategies, monitoring the implementation, and evaluating the overall risk profile on a regular basis.

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 is responsible for carrying out the risk strategy established 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 the comprehensive management department responsible for the overall business risk management. Credit Management Department is the comprehensive management department responsible for the overall credit risk management. Credit Approval Department is the comprehensive management department responsible for the approval of the overall credit business. Internal Control and Compliance Department is the coordinating management department responsible for internal control management, compliance risk and operational risk management. Other competent departments are responsible for various corresponding risks.

3.2 Risk-weighted assets

The following table shows the information related to the risk-weighted assets of the Group in accordance with the *Measures for Capital Management of Commercial Banks (Trial)*. The credit risk-weighted assets were calculated with the regulatory weight approach, the market risk-weighted assets were calculated with the standardised approach, and the operational risk-weighted assets were calculated with the basic indicator approach.

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	718,753	8,984,419
Market risk-weighted assets	3,495	43,685
Operational risk-weighted assets	67,575	844,686
Total	**789,823**	**9,872,790**

4 CREDIT RISK

4.1 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 Group'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 all bear, and realising revenue maximisation after the risk adjustment.

The Group 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, 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 degrees of the customers.
- Regional policies: according to the state regional development strategy and the economic characteristics of various regions, and fully taking into account the resource endowment, 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 Group's credit risk management process comprised series of comprehensive and timely risk management activities, such as risk identification, risk measurement, risk monitoring, risk mitigation & 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 objects of individual credit risk comprise borrowers or transaction objects as well as specific loans or transactions; while the measurement and evaluation objects of portfolio credit risk comprise the Bank's mechanisms at all levels, countries, regions, 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 risks from excessive 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 facing 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 different risk levels and functional departments' diversified needs in credit risk

4.2 Credit risk measurement

The Group measured credit risk with regulatory weight approach, strictly applied risk weights pursuant to relevant regulations under the *Measures for Capital Management of Commercial Banks (Trial),* and calculated credit risk-weighted assets.

4.2.1 Credit risk exposure

The following table shows the information related to risk exposure by entities and weights as at 31 December 2013.

Table 9: Credit risk exposure by entities

(In millions of RMB)	As at 31 December 2013	
	Risk exposure	**Risk exposure after mitigation**
On-balance sheet credit risk items	**15,236,894**	**14,529,459**
Cash and cash equivalents	2,459,544	2,459,544
Claims on central governments and central banks	1,287,374	1,287,374
Claims on public sector entities	250,468	125,266
Claims on domestic financial institutions	2,309,924	2,110,142
Claims on financial institutions registered in other countries/areas	35,158	34,976
Claims on general enterprises and public institutions	6,065,600	5,688,211
Claims on qualifying micro and small enterprises	96,632	93,371
Claims on individual customers	2,468,625	2,467,006
Equity investments	12,797	12,797
Securitisation	4,341	4,341
Other on-balance sheet items	246,431	246,431
Off-balance sheet credit risk items	**1,165,245**	**956,410**
Counterparty credit risk	**38,327**	**38,327**
Total	**16,440,466**	**15,524,196**

Table 10: Credit risk exposure by risk weights

(In millions of RMB)	As at 31 December 2013	
Risk weights	**Risk exposure**	**Risk exposure after mitigation**
0%	5,004,844	5,004,844
20%	634,044	392,723
25%	521,688	520,174
50%	1,892,204	1,892,154
75%	780,878	772,517
100%	7,553,811	6,888,787
250%	41,560	41,560
350%	19	19
400%	4,978	4,978
1,250%	6,440	6,440
Total	**16,440,466**	**15,524,196**

Table 11：Credit exposure 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 2013
	Risk exposure
Investments in capital instruments issued by other financial banks	30,828
Common Equity Tier 1 Capital	1,637
Other Tier 1 Capital	-
Tier 2 Capital	29,191
Investments in equity of industrial and commercial enterprises	9,568
Non-self-use real estate	1,368

4.2.2 Risk mitigation management

Management policies and processes

In accordance with the requirements under the *Measures for Capital Management of Commercial Banks (Trial)* and through the active construction and improvement of relevant policies and systems, the Bank has primarily developed a policy system integrating basis measures, special and specific management measures together to define the baselines for the risk mitigation management. The basis measures principally specify the Bank's basic management requirements and policy baselines for standardising the collaterals, such as collaterals' acceptance standard, 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 special management measures based on the basis measures and policy baseline are formulated to fulfil the management requirements of special collaterals. While specific management measures are the requirements aimed at the specific management issues occurred during the management process of collaterals.

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., outstandingly characterised by being closely combined with business processes, and managed by front, middle and back offices. Except that all staffs on the process positions are from different departments, the collateral management processes are basically unified，throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring, and accomplishing the management in the full life cycle of collaterals to a great extent.

Types of major collaterals

In terms of the types of assets, the collaterals accepted by the Bank are mainly classified into such four types as 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, resource assets, construction in progress of facility types, etc.

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 defining the acceptance standards and establishing exit mechanism for cooperative appraisal institutions, and performing normal and dynamic "List of Names" management through regularly examining and irregularly checking the external appraisal 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-leading re-valuations, also including valuations to some collaterals of which the values can be directly assessed during the first-time valuations. The Bank requires the internal assessors to perform dynamic valuations and monitoring over collaterals at different frequencies based on collaterals' types and value fluctuation characteristics. The post-lending examination and 12-level classified work should involve in reviewing the collateral and confirming its form on a quarterly basis. In case of any changes in the 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

The Bank only recognises the mitigation effects of qualified collaterals or qualified guarantors under the regulations while calculating the credit risk-weighted assets with the regulatory weight approach.

The following table shows the information related to the exposure covered by qualified collaterals and guarantors as at 31 December 2013.

Table 12: Particulars on credit risk mitigation coverage

(In millions of RMB)	As at 31 December 2013						
	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	226,322	345,552	2,206	133,186	28	27	114
off-balance sheet credit risk items	198,993	200	124	9,145	373	-	-
Counterparty credit risk	-	-	-	-	-	-	-
Total	**425,315**	**345,752**	**2,330**	**142,331**	**401**	**27**	**114**

4.3 Overdue and non-performing loans

Overdue loans

Overdue loans represent loans of which the whole or part of the principal or interest are overdue 1 day or above. As at the end of December 2013, the Group's overdue loans (under the accounting scope of consolidation) were RMB86,704 million, an increase of RMB9,628 million over the figure at the beginning of the year.

Non-performing loans (NPLs) and advances

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 level of risk. Substandard, doubtful and loss loans are considered as NPLs and advances.

Since the beginning of the year, the Group has continued to further promoted the adjustment of its credit portfolio structure, comprehensively enhanced post-lending management, strengthened risk prevention and mitigation, and expedited NPL disposal. As a result, credit asset quality continued to be stable. As at the end of December 2013, the Group's NPLs (under the accounting scope of consolidation) were RMB85,264 million, an increase of RMB10,646 million over the figure at the beginning of the year.

4.4 Allowances for impaired loans

The Bank's methods to assess the allowances for impaired loans are divided into 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 the discount of such loans' original effective interest rate; while the reduced 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 on portfolios with delinquency flow methods. The methods calculate the impairment losses based on the statistical analysis on the probability of default and historic loss experience, and are capable of performing adjustment 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 combinations of credit risk; (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 of December 2013, the Group's allowances for impairment losses (under the accounting scope of consolidation) were RMB228,696 million, an increase of RMB26,263 million over the figure at beginning of the year.

4.5 Securitisation

4.5.1 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, release scale, raise capital adequacy ratio, 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 Group was mainly exposed to risks in potential future losses arising from substandard portions that were held in accordance with the regulatory requirements; besides that, all other risks were transferred to other entities via securitisation operations. As at the end of December 2013, the Group's securitisation still in the duration included such two projects of personal housing mortgage loans as "Jianyuan 2005-1" and "Jianyuan 2007-1". The external rating agencies for "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. 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 throughout provided services as loan servicer, such as asset pool's subsequent management, collection, transfer and recovery of the principals and interests of loans.

As investor

As the investor in the asset-backed securities market, the Bank obtained returns on investments through purchasing and holding asset-backed securities, and bore corresponding credit risk, market risk and liquidity risk. The Group started the securitisation investment in 2001, and determined the investment amount based on the annual investment strategy, as well as the risk and returns of securities.

4.5.2 Accounting policies

A financial asset is derecognised when the Group transfers substantially all (95% and above, similarly 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 is 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.

4.5.3 Securitisation exposure

As at 31 December 2013, the Group's total securitisation risk exposure was RMB4,341 million, more details and the distribution of underlying assets are as shown in the following tables:

Table 13: Securitisation exposure

(In millions of RMB)	As at 31 December 2013	
	Traditional securitisation exposure	**Synthetic securitisation exposure**
As originator[1]	230	-
As investor	4,111	-
Total	**4,341**	**-**

1. As originator refers to the exposure 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 14: Securitisation underlying assets as originator: non-performing assets, overdue and loss information

(In millions of RMB)	As at 31 December 2013			
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	1,097	6	17	-
Total	**1,097**	**6**	**17**	**-**

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 during the reporting period.

4.5.4 Measurement of securitisation risk

The Group's securitisation exposure was measured with standardised method, of which the risk weights were finalised based on the credit ratings assessed by qualified external appraisal agencies approved by the Bank, as well as the type of securitisation assets. As at 31 December 2013, the Bank's capital requirements of the securitisation assets were RMB1,264 million.

4.6 Counterparty credit risk

The Group's counterparty credit risk ("CCR") exposure mainly arose from OTC derivatives, including OTC forward, swap, option, structured derivatives and others. So far, the Group has no positions of securities financing types which are required to calculate counterparty credit risk-weighted assets. Over the last two years, the Bank has constantly improved policies for the management of CCR, clearly specified the "List of Names" management and concentration management policies over counterparties in the financial markets, and developed specific management processes and requirements for CCR of derivative transactions. Furthermore, the Group has performed dynamic adjustment in the management requirements on CCRs to tailor for the fast changes of markets and businesses.

The Group adopted the current risk exposure approach to measure the counterparty credit risk exposure and the regulatory weight approach to measure the counterparty credit risk-weighted assets. The following table shows the information related to the counterparty credit risk exposure by product classifications as at 31 December 2013.

Table 15: Counterparty credit risk exposure by product classifications

(In millions of RMB)	As at 31 December 2013
	exposure
Interest rate contracts	1,698
Exchange rate and gold contracts	35,805
Equity contracts	463
Precious metals and other commodities contracts (excluding gold)	361
Total	**38,327**

5 MARKET RISK

5.1 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 positions in financial instruments and commodities held either with trading intent or in order to hedge other elements 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 aimed at building a smooth process in risk identification, measurement, monitoring and reporting. The Group has established a complete management framework for market risk. In this system, the Risk Management Department is responsible for formulating standardised market risk management policies and rules and supervising the implementation of market risk management policies and rules of the Bank. The Asset and Liability Management Department (the "ALM") and the International Business Department are responsible for managing the size and structure of the assets and liabilities in response to banking book market risk. The Financial Market Department manages the Head Office's RMB and foreign currency investment portfolios, conducts 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.

Since 2007, with the high attention of and active promotion by the board of Directors and senior management, the Bank has introduced a range of management policies over market risk, risk management of traders' behaviours, provisions for the impairment of debt securities, risk management of counterparties, etc.

5.2 Market risk measurement

The Group calculated the regulatory capital with a standardised approach for interest rate risk, equity position risk, foreign exchange risk, commodity risk and option risk. The following table shows the information related to the capital requirements of market risk by different types as at 31 December 2013.

Table 16: Capital requirements of market risk

(In millions of RMB)	**As at 31 December 2013**
Type of risk	**Capital requirements**
Interest rate risk	1,871
Equity position risk	153
Foreign exchange risk	1,445
Commodity risk	24
Option risk	2
Total	**3,495**

6 OPERATIONAL RISK

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

Operational risk is a critical part of the Group's comprehensive risk management. The aims of the Bank'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 enhance sound businesses development of the Bank;

(3) Reduce cost of management and increase income level;

(4) Lower the impact of emergent events and ensure the normal and consistent operation of various 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 defending 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 & 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 & Supervisory Department are the third defence line for guarding against operational risk, taking charge of re-examining of management, control and monitoring system of operational risk, as well as the accountability identification.

The process of 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 and key 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 plan to ensure the safe and consistent operation of various businesses.

The Group adopted the basic indicator approach to measure operational risk regulatory capital, and simultaneously applied the standardised approach to the measurement and allocation of internal economic capital, to promote branches to continuously enhance their operational risk management levels. As at 31 December 2013, the Group's operational capital requirements were RMB 67,575 million.

7 OTHER RISKS

7.1 Equity risk exposure of banking book

The equity risk exposure of banking book of the Group mainly relates 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 that 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 Valuation under the notes to the financial statement in 'Annual Report 2013 of China Construction Bank Corporation' for the critical policies on assessment and accounting treatment of banking book equity.

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

- 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 17: Equity risk exposure of banking book

(In millions of RMB)			As at 31 December 2013
Invested institution categories	**Publicly traded equity risk exposures [1]**	**Non-publicly traded equity risk exposure [1]**	**Unrealised potential risk gains and losses[2]**
Financial institutions	1,834	1,395	519
Non-financial institutions	5,570	3,998	2,698
Total	**7,404**	**5,393**	**3,217**

1. Publicly traded equity risk exposures are the equity risk exposures of invested institutions that are listed companies. Non-publicly traded equity risk exposures are the equity risk exposures 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.

7.2 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 maintain steady growth of net interest income, while keeping interest rate risk within a tolerable range in accordance with the risk appetite and risk management capability.

In 2013, the Bank strengthened management of net interest margin by adjusting the credit portfolio structure and investment strategies and optimizing investment portfolio structure. Meanwhile, the Bank actively responded to the impact of interest rate liberalization by dynamically tracking market changes, adopting a pricing strategy which combined the differentiated and standardized techniques, and adjusting internal and external prices and authorization in a timely manner to enhance its pricing capability for deposits and loans. The Bank conducted regular analysis by comprehensively using multiple tools such as interest rate sensitivity gap, net interest income sensitivity analysis, scenario simulation, stress tests and other methods. The overall interest rate risk was kept within the set tolerable level and the net interest margin was kept stable.

8 REMUNERATION

8.1 Nomination and Remuneration Committee of the Board of Directors

The 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, and 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;
- 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 to the Board for deliberation;
- formulating remuneration plans for directors, supervisors and senior management and submitting to the Board for deliberation;
- proposing advice on the remuneration plan for supervisors in accordance with the performance assessment of the supervisors by the board of supervisors and submitting to the Board for deliberation; and
- monitoring the implementation of the Bank’s performance assessment and remuneration systems.

In 2013, the Nomination and Remuneration Committee convened seven meetings in total.

The remuneration of the Nomination and Remuneration Committee is disclosed in Remunerations for Directors, Supervisors and Senior Management in the ‘Annual Report 2013 of China Construction Bank Corporation’.

8.2 Remuneration policy

The Bank upholds its philosophy of standardising distribution order, and building a harmonious distribution relationship, and sticks to strengthening intensive management in developing remuneration policy and payment, enhancing the guidance to the remuneration distribution of its sub-branch level staff and staff at key positions, and aiming to establish an intensive, standardised and scientific remuneration system, which will make 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 under the Board for assessment and approval. Material proposals relating to remuneration allocation are required to be voted and approved by the shareholders' general meeting, or reported to the competent authorities of the state 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 period 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 persisted in its principle of balancing internal fairness and external competition, and pairing post responsibilities with risk-adjusted contributions. It puts greater emphasis on the value creation, frontline posts and sub-branch level staff when determining remuneration distribution, in order to increase the satisfaction level of its staff and better reflect their value to the Bank. When distributing the employees' performance remuneration, the Bank encouraged behaviour that complied with the Bank's risk framework and long-term financial indicators, and tried to truly reflect performance in terms of remuneration. The Bank also established relevant remuneration reduction measures for staff who were facing disciplinary actions or other penalties due to violation of rules or breach 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 on 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 of 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 harmoniousness. Performance bonus principally stimulates performance improvement and value creation, reflecting efficiency and effectiveness. The Bank consistently focuses on the balance of 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 strongly guided and realised.

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 appropriate balance. The fixed salary portion can attract and keep skilled staff, while flexible remuneration can stimulate staff who 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 under frozen state in compliance with relevant government policies.

8.3 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 distribution of performance remuneration. Gross staff cost-linked allocation method for the Bank’s internal staff is adjusted according to risk types, and both the quantitative index and the qualitative index play their roles in risk assessment and adjustment.

The remuneration of directors, supervisors and senior management is disclosed in Remunerations for Directors, Supervisors and Senior Management in the ‘Annual Report 2013 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 as at 31 December 2013.

(In millions of RMB, except percentages)		As at 31 December 2013	
		Amount	**Code**
Common Equity Tier 1 capital:			
1	Qualifying common share capital	250,011	l
2	Retained earnings	704,349	
2a	Surplus reserve	107,970	p
2b	General reserve	153,825	q
2c	Undistributed profits	442,554	r
3	Accumulated other comprehensive income and undisclosed reserves	110,373	
3a	Capital reserve	116,321	m+o
3b	Others	(5,948)	s
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	3,729	t
6	**Common Equity Tier 1 capital before regulatory adjustment**	1,068,462	
Common Equity Tier 1 capital: Regulatory adjustment			
7	Prudent valuation adjustment	-	
8	Goodwill (excluding deferred tax liabilities)	1,415	i
9	Other intangible assets (excluding land use rights) (excluding deferred tax liabilities)	1,609	h
10	Net deferred tax assets relying on future profits and arising from operating losses	-	
11	Cash-flow hedge reserves	(148)	n
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	

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	
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	3,902	f
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**	6,778	
29	**Common Equity Tier 1 capital after regulatory adjustment**	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	16	u
35	of which: Portions not given recognition in Additional Tier 1 capital after the transition period	-	
36	**Additional Tier 1 capital before regulatory adjustment**	16	
Additional Tier 1 capital: regulatory adjustments			
37	Directly or indirectly 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**	16	
45	**Tier 1 capital after regulatory adjustment (Common Equity Tier 1 capital after regulatory adjustment + Additional Tier 1 capital after regulatory adjustment)**	1,061,700	
Tier 2 capital:			
46	Directly issued qualifying Tier 2 instruments plus stock surplus	144,000	k×90%
47	of which: Portions not given recognition in Tier 2 capital after the transition period	144,000	k×90%
48	Minority interest given recognition in Tier 2 capital	106	v

49	of which: Portions not given recognition after the transition period	-	
50	Provisions in Tier 2	110,918	-b
51	**Tier 2 capital before regulatory adjustments**	255,024	
Tier 2 capital: regulatory adjustments			
52	Directly or indirectly investments in own 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**	255,024	
59	**Total capital after regulatory adjustment (Tier 1 capital after regulatory adjustment +Tier 2 capital after regulatory adjustment)**	1,316,724	
60	**Total risk-weighted assets**	9,872,790	
Capital adequacy ratio and reserve capital requirements			
61	**Common Equity Tier 1 ratio**	10.75%	
62	**Tier 1 ratio**	10.75%	
63	**Total Capital ratio**	13.34%	
64	Specific buffer requirements of regulators	0.50%	
65	of which: capital conservation buffer requirements	0.50%	
66	of which: countercyclical buffer requirements	0.00%	
67	of which: Additional buffer requirements of Global systemically important Banks	0.00%	
68	Common Equity Tier 1 capital available to meet buffers as a percentage of risk-weighted assets	5.75%	
Domestic minimum regulatory capital requirements			
69	Common Equity Tier 1 ratio	5.00%	
70	Tier 1 ratio	6.00%	
71	Total Capital ratio	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	53,425	c+d+e
73	Significant investments in the capital of other financial institutions outside of the scope of regulatory consolidation	156	g
74	Mortgage-servicing rights (net of deferred tax liabilities)	N/A	
75	Other deferred tax assets relying on the Bank's future profitability (net of deferred tax liabilities)	38,331	j
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)	155,948	-a
77	Provisions eligible for inclusion in Tier 2 capital under regulatory weight approach	110,918	-b
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to the application of cap)	N/A	
79	Provisions eligible for inclusion in Tier 2 capital under internal ratings-based approach	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	144,000	k×90%
85	Amount not given recognition in current-period Tier 2 capital due to transitional arrangements	16,000	k×10%

The following table shows the balance sheet of the accounting and regulatory consolidation as at 31 December 2013.

(In millions of RMB)	As at 31 December 2013	
	Balance sheet of the accounting consolidation	**Balance sheet of the regulatory consolidation**
Assets		
Cash and deposits with central banks	2,475,001	2,474,958
Deposits with banks and non-bank financial institutions	321,286	315,951
Precious metals	35,637	35,637
Placements with banks and non-bank financial institutions	152,065	154,010
Financial assets at fair value through profit or loss	364,050	358,524
Positive fair value of derivatives	18,910	18,854
Financial assets held under resale agreements	281,447	281,022
Interest receivable	80,731	80,361
Loans and advances to customers	8,361,361	8,359,333
Available-for-sale financial assets	760,292	755,074
Held-to-maturity investments	2,100,538	2,098,190
Debt securities classified as receivables	189,737	182,942
Investments to subsidiaries	-	5,641
Interests in associates and jointly controlled entities	2,624	795
Fixed assets	135,678	134,762
Land use rights	15,731	15,731
Intangible assets	2,053	1,609
Goodwill	1,610	1,415
Deferred tax assets	38,448	38,331
Other assets	26,011	28,684
Total assets	**15,363,210**	**15,341,824**
Liabilities		
Borrowings from central banks	79,157	79,157
Deposits from banks and non-bank financial institutions	692,095	692,095
Placements from banks and non-bank financial institutions	155,917	158,562

Financial liabilities at fair value through profit or loss	380,380	380,588
Negative fair value of derivatives	19,872	18,825
Financial assets sold under repurchase agreements	61,873	61,580
Deposits from customers	12,223,037	12,226,644
Accrued staff costs	34,080	33,942
Taxes payable	60,209	60,053
Interest payable	153,627	153,815
Provisions	5,014	5,013
Debt securities issued	357,540	357,540
Deferred tax liabilities	138	(13)
Other liabilities	65,942	44,674
Total liabilities	**14,288,881**	**14,272,475**
Equity		
Share capital	250,011	250,011
Capital reserve	135,523	135,497
Investment revaluation reserve	(19,290)	(19,176)
Surplus reserve	107,970	107,970
General reserve	153,835	153,825
Retained earnings	444,084	442,554
Exchange reserve	(6,182)	(5,948)
Total equity attributable to equity shareholders of the Bank	1,065,951	1,064,733
Minority interests	8,378	4,616
Total equity	**1,074,329**	**1,069,349**

The following table shows the information related to the expanded balance sheet under regulatory scope of consolidation as at December 31 2013.

(In millions of RMB)	**As at 31 December 2013**	
	Balance sheet of the regulatory consolidation	**Code**
Assets		
Cash and deposits with central banks	2,474,958	
Deposits with banks and non-bank financial institutions	315,951	
Precious metals	35,637	
Placements with banks and non-bank financial institutions	154,010	
Financial assets at fair value through profit or loss	358,524	
Positive fair value of derivatives	18,854	
Financial assets held under resale agreements	281,022	
Interest receivable	80,361	
Loans and advances to customers	8,359,333	
of which: Provisions eligible for inclusion in Tier 2 in respect of exposures subject to regulatory weight approach (prior to the application of cap)	(155,948)	a

of which: Provisions eligible for inclusion in Tier 2 in respect of exposures subject to regulatory weight approach	(110,918)	b
Available-for-sale financial assets	755,074	
of which: non-significant investments in the capitals of other financial institutions outside of the scope of regulatory consolidation	5,557	c
Held-to-maturity investments	2,098,190	
of which: non-significant investments in the capitals of other financial institutions outside of the scope of regulatory consolidation	22,883	d
Debt securities classified as receivables	182,942	
of which: non-significant investments in the capitals of other financial institutions outside of the scope of regulatory consolidation	24,985	e
Investments to subsidiaries	5,641	
of which: investments in common equity of financial institutions being controlled but outside the scope of regulatory consolidation	3,902	f
Interests in associates and jointly controlled entities	795	
of which: significant investments in the Common Equity Tier 1 capital of other financial institutions outside of the scope of regulatory consolidation	156	g
Fixed assets	134,762	
Land use rights	15,731	
Intangible assets	1,609	h
Goodwill	1,415	i
Deferred tax assets	38,331	j
Other assets	28,684	
Total assets	**15,341,824**	
Liabilities		
Borrowings from central banks	79,157	
Deposits from banks and non-bank financial institutions	692,095	
Placements from banks and non-bank financial institutions	158,562	
Financial liabilities at fair value through profit or loss	380,588	
Negative fair value of derivatives	18,825	
Financial assets sold under repurchase agreements	61,580	
Deposits from customers	12,226,644	
Accrued staff costs	33,942	
Taxes payable	60,053	
Interest payable	153,815	
Provisions	5,013	
Debt securities issued	357,540	
of which: subordinated bonds issued	160,000	k
Deferred tax liabilities	(13)	
Other liabilities	44,674	
Total liabilities	**14,272,475**	
Equity		
Share capital	250,011	l
Capital reserve	135,497	m
of which: deferred hedging reserves	(148)	n
Investment revaluation reserve	(19,176)	o

Surplus reserve	107,970	p
General reserve	153,825	q
Retained earnings	442,554	r
Exchange reserve	(5,948)	s
Total equity attributable to equity shareholders of the Bank	1,064,733	
Minority interests	4,616	
of which: minority interest given recognition in common equity tier 1 capital	3,729	t
of which: minority interest given recognition in other equity tier 1 capital	16	u
of which: minority interest given recognition in tier 2 capital	106	v
Total equity	**1,069,349**	

Main features of qualified regulatory capital instruments

The following table shows the information related to main features of various kinds of qualified regulatory capital instruments issued by the Group as at 31 December 2013.

No.	Main features of qualified regulatory capital instruments	H Share	A Share	Rights issues
1	Issuer	CCB	CCB	CCB
2	Unique identifier	0939.HK	601939.SH	0939.HK,601939.SH
3	Governing law(s)	*Measures for Capital Management of Commercial Banks (Trial)*	*Measures for Capital Management of Commercial Banks (Trial)*	*Measures for Capital Management of Commercial Banks (Trial)*
	Regulatory treatment			
4	of which: transitional rules under *the Measures for Capital Management of* Commercial Banks *(Trial)*	Common Equity Tier 1 capital	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	of which: post-transitional rules under the *Measures for Capital Management of Commercial Banks (Trial)*	Common Equity Tier 1 capital	Common Equity Tier 1 capital	Common Equity Tier 1 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
7	Instrument type	Equity instruments	Equity instruments	Equity instruments
8	Amount recognised in regulatory capital (In millions of RMB, as at the latest reporting date)	72,550	57,119	61,159
9	Par value of instrument	RMB30,459 million	RMB9,000 million	RMB16,322 million
10	Accounting classification	RMB30,459 million is recognised in share capital, and RMB42,091 million arising from stock surplus is recognised in capital reserve	RMB9,000 million is recognised in share capital, and RMB48,119 million arising from stock surplus is recognised in capital reserve	RMB16,322 million is recognised in share capital, and RMB44,837 million arising from stock surplus is recognised in capital reserve
11	Original date of issuance	27 October 2005	25 September 2007	19 November 2010, 16 December 2010
12	Perpetual or dated	Perpetual	Perpetual	Perpetual
13	of which: original maturity date	No maturity	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	No	No	No
15	of which: optional call date, contingent call dates and redemption amount	N/A	N/A	N/A
16	of which: subsequent call dates, if applicable	N/A	N/A	N/A
	Coupons / dividends			
17	of which: fixed or floating dividend/coupon	Floating	Floating	Floating
18	of which: coupon rate and any related index	N/A	N/A	N/A
19	of which: existence of a dividend stopper	N/A	N/A	N/A
20	of which: fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary	Fully discretionary
21	of which: existence of step up or other incentive to redeem	No	No	No

22	of which: noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	N/A	N/A	N/A
24	of which: if convertible, conversion trigger (s)	N/A	N/A	N/A
25	of which: if convertible, fully or partially	N/A	N/A	N/A
26	of which: if convertible, conversion rate	N/A	N/A	N/A
27	of which: if convertible, mandatory or optional conversion	N/A	N/A	N/A
28	of which: if convertible, specify instrument type convertible into	N/A	N/A	N/A
29	of which: if convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
30	Write-down feature	N/A	N/A	N/A
31	of which: if write-down, write-down trigger(s)	N/A	N/A	N/A
32	of which: if write-down, full or partial	N/A	N/A	N/A
33	of which: if write-down, permanent or temporary	N/A	N/A	N/A
34	of which: if temporary write-down, description of write-up mechanism	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	the lowest priority of all claims	the lowest priority of all claims	the lowest priority of all claims
36	Non-compliant transitioned features	No	No	No
37	of which: if yes, specify non-compliant features	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 CBRC, the following table shows the information of the Group's indicator data for assessing global systemic importance as at 31 December 2013.

(In billions of RMB)		**As at 31 December 2013**
No.	**Indicator**	**Amount**[3]
1	Total on and off balance sheet assets after adjustment[1]	17,664.7
2	Intra-financial system assets	1,358.4
3	Intra-financial system liabilities	870.1
4	Securities outstanding and other financing tools	1,494.3
5	Total payments through payment system and as a correspondent for other banks	142,113.6
6	Assets under custody	3,100.2
7	Securities underwriting activity	342.5
8	Notional amount of over-the-counter (OTC) derivatives	2,018.2
9	Trading and available-for-sale securities[2]	342.0
10	Level 3 assets	10.4
11	Cross-jurisdictional claims	241.5
12	Cross-jurisdictional liabilities	507.3

1. On-balance sheet assets after adjustment include derivatives using the current risk 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 is 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 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.