# China Construction Bank Corporation

## Capital Adequacy Ratio Report 2019

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## 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 former 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 2019 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 2019 of China Construction Bank*, especially for the disclosure of credit risk exposures.

**China Construction Bank Corporation**

March 2020

# 1 BACKGROUND

## 1.1 Profile

China Construction Bank Corporation, headquartered in Beijing, is a leading large commercial bank in China. Its predecessor, China Construction Bank, was established in October 1954. It was listed on Hong Kong Stock Exchange in October 2005 (stock code: 939) and the Shanghai Stock Exchange in September 2007 (stock code: 601939). At the end of 2019, the Bank's market capitalisation reached US$217,686 million, ranking fifth among all listed banks in the world. The Group ranks second among global banks by Tier 1 capital.

The Bank provides customers with comprehensive financial services, including personal banking, corporate banking, investment and wealth management. With 14,912 banking outlets and 347,156 staff members, the Bank serves hundreds of millions of personal and corporate customers. The Bank has subsidiaries in various sectors, including fund management, financial leasing, trust, insurance, futures, pension and investment banking, and has more than 200 overseas entities covering 30 countries and regions.

## 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. The 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.

# 2 CAPITAL ADEQUACY RATIO

## 2.1 Consolidation Scope

The Group calculates 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 the Regulatory and Accounting Scopes of Consolidation

According to the regulatory requirements, the Group does not include industrial and commercial subsidiaries or insurance subsidiaries in the consolidated calculation scope of the capital adequacy ratios, resulting in certain differences between the regulatory and financial consolidation scopes. As at 31 December 2019, the differences between the Group's regulatory and accounting consolidation scopes are outlined in the table below.

*Table 1: Differences between the regulatory and accounting scopes of consolidation*

| No. | Company name | Type of business | Place of registration | Under the accounting scope of consolidation | Under the regulatory scope of consolidation |
|---|---|---|---|---|---|
| 1 | CCB Life Insurance Company Limited | Insurance | Shanghai, the PRC | Yes | No |

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

### 2.1.2 General Information of the Invested Institutions

According to the regulatory requirements, the Group treats various types of investees differently while calculating the consolidated capital adequacy ratios.

- With respect to financial institution subsidiaries that are included in both the regulatory and accounting scopes of consolidation, the Group includes their capital and risk-weighted assets in the calculation scope of consolidated capital adequacy ratios.
- With respect to insurance subsidiaries that are outside the regulatory scope of consolidation but within the accounting scope of consolidation, the Group deducts the investment in such subsidiaries from the capital while calculating the consolidated capital adequacy ratios.
- With respect to industrial and commercial subsidiaries that are outside the regulatory scope of consolidation but within the accounting scope of 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 consolidation, the Group follows the threshold deduction method for the investments in these financial institutions. The portion of the investments exceeding the threshold is deducted from the capital. For the portion not deducted from the capital, the risk-weighted assets are calculated using the regulatory risk weights.
- With respect to other industrial and commercial enterprises outside both the regulatory and accounting scopes of consolidation, the Group calculates their risk-weighted assets based on the regulatory risk weights.

*Table 2: Particulars of the top 10 investees with the regulatory scope of consolidation*

| No. | Name of the investee | Equity investment balance (in millions of RMB) | % of ownership directly held by the Bank | % of ownership indirectly held by the Bank | Place of registration |
|---|---|---|---|---|---|
| 1 | China Construction Bank (Asia) Corporation Limited | 32,878 | - | 100% | Hong Kong, the PRC |
| 2 | CCB Wealth Management Co., Ltd. | 15,000 | 100% | - | Shenzhen, the PRC |
| 3 | CCB Financial Asset Investment Co., Ltd. | 12,000 | 100% | - | Beijing, the PRC |
| 4 | CCB Brasil Financial Holding - Investimentos e Participações Ltda. | 9,542 | 99.99% | 0.01% | São Paulo, Brasil |
| 5 | CCB Financial Leasing Corporation Limited | 8,163 | 100% | - | Beijing, the PRC |
| 6 | CCB Trust Co., Ltd. | 7,429 | 67% | - | Anhui, the PRC |
| 7 | CCB International (Holdings) Limited | 4,320 | - | 100% | Hong Kong, the PRC |
| 8 | China Construction Bank (London) Limited | 2,861 | 100% | - | London, United Kingdom |
| 9 | CCB Pension Management Co., Ltd. | 1,955 | 85% | - | Beijing, the PRC |
| 10 | China Construction Bank (Europe) S.A. | 1,629 | 100% | - | Luxembourg |
| **Total** | | **95,777** | | | |

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

*Table 3: Particulars of the top 10 investees subject to deduction treatment*

| No. | Name of the investee | Equity investment balance (in millions of RMB) | % of ownership directly held by the Bank | Place of registration | Industry |
|---|---|---|---|---|---|
| 1 | CCB Life Insurance Company Limited [2] | 3,902 | 51% | Shanghai, the PRC | Insurance |
| **Total** | | **3,902** | | | |

1. Investees subject to deduction treatments refer to capital investment which shall be fully deducted or meet the threshold deductions while calculating the eligible capitals.
2. The insurance sub-subsidiaries of the Group's affiliates are also deducted.

## 2.2 Capital Adequacy Ratio

As at 31 December 2019, given relevant rules during the parallel 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 17.52%, 14.68% and 13.88%, respectively, and were in compliance with the regulatory requirements.

The total capital ratio, Tier 1 ratio and Common Equity Tier 1 ratio increased by 0.33, 0.26 and 0.05 percentage points respectively compared with those as at 31 December 2018.

The improvement of the capital adequacy ratio of the Group was mainly due to the following factors: on the one hand, capital accumulation continued to maintain a good momentum. The Group reasonably carried out external financing and achieved internal capital retention. At the end of 2019, total capital after regulatory adjustments increased by 12.30%, which improved the capital adequacy ratio increasing by 1.92 percentage points. The Group achieved rapid internal capital retention through profit retention, and successfully issued capital instruments and completed external capital replenishment. On the other hand, the Group fulfilled the responsibility of a state-owned bank to support and serve the development of the real economy, and the risk weighted assets increased reasonably. In 2019, the Group's assets and liabilities maintained a rapid growth, and loans and bond investments increased significantly year-on-year. However, through active and effective structural adjustment and intensive management, risk weighted assets increased by 10.20%, lower than capital growth by 2.10 percentage points.

*Table 4: Capital adequacy ratios*

| (In millions of RMB, except percentages) | As at 31 December 2019 | | As at 31 December 2018 | |
|---|---|---|---|---|
| | The Group | The Bank | The Group | The Bank |
| Common Equity Tier 1 capital after regulatory adjustments | 2,089,976 | 1,938,236 | 1,889,390 | 1,766,840 |
| Tier 1 capital after regulatory adjustments | 2,209,692 | 2,046,546 | 1,969,110 | 1,838,956 |
| Total capital after regulatory adjustments | 2,637,588 | 2,468,041 | 2,348,646 | 2,215,308 |
| Common Equity Tier 1 ratio[2] | 13.88% | 13.88% | 13.83% | 13.74% |
| Tier 1 ratio[2] | 14.68% | 14.65% | 14.42% | 14.30% |
| Total capital ratio[2] | 17.52% | 17.67% | 17.19% | 17.22% |

## 2.3 Regulatory Capital Shortfall of Consolidated Subsidiaries

As at the end of December 2019, financial institutions, of which the Bank holds majority of the equity or owns the control rights, had no regulatory capital shortfall in accordance with the *Capital Rules for Commercial Banks (Provisional)* and supporting policies issued by the CBRC or local regulatory requirements.

## 2.4 Restrictions on Intragroup Transfer of Capital

In 2019, none of the Group’s overseas subsidiaries experienced significant restrictions on transfer of capital such as capital increase, mergers & acquisitions and payment of dividends.

# 3 CAPITAL MANAGEMENT

## 3.1 Approaches and Procedures of Internal Capital Adequacy Assessment

The Bank's internal capital adequacy assessment procedure includes governance framework, risk identification and assessment, stress testing, capital assessment, capital planning and emergency management. Based on the comprehensive consideration and evaluation of major risks faced by the Bank, the Bank leverages between capital and risk, establishes a management system considering both risk and capital and ensures that the capital level is adapted to the risk statues under various market environments. The Bank conducts internal capital adequacy assessment annually and continuously promotes the optimisation of methodology. At present, the Bank has established relatively standardised governance framework, thorough policy system, complete evaluation process, periodic monitoring and reporting mechanism and internal audit system, which promoted the adaption between capital and strategy, operating conditions and risk level, and the system can meet both the requirements of external supervision and the needs of internal management. Currently, the Bank maintains an adequate risk and capital governance structure, with clearly defined processes and procedures, enabling it to effectively manage various risks, properly align its capital capability with its operations, risk shifts and movements as well as long-term development strategy, and with all risk exposures well covered, to sustain its business development.

## 3.2 Capital Planning and Capital Adequacy Ratio Management Plan

In 2018, in accordance with the *Capital Rules for Commercial Banks (Provisional)*, the Bank formulated the *China Construction Bank Capital Planning 2018-2020*, which was approved by the Board of Directors and the shareholders' general meeting. In its capital planning, the Bank aimed to achieve strategy orientation, grow through stability, serve the real economy, adhere to high quality development, including refined management, effective risk control, capital efficiency, solid profitability and being technology-driven; had given full consideration to macroeconomic situations, regulatory policy changes, its strategical transformation objectives, risk appetites and risk assessment results, and financing capacity, among other factors; set reasonable internal CAR objectives based on prudent prediction of its future capital supplies and demands, with an emphasis on internal capital build-up and complete with solid capital replenishment plans; and maintained appropriate capital buffers to ensure compliance with regulatory requirements as well as adequate coverage of various risks and sustainable business development.

Within its medium- and long-term capital planning framework, the Bank set its annual CAR targets, developed annual CAR management plans and incorporated them in its overall annual operational plan, to ensure their alignment with various business plans and the Bank's capital adequacy remained higher than the internal CAR objectives. The Bank had adopted various measures, including dynamic CAR monitoring, analyses and reporting, as well as maintaining steady growth of assets, timely adjustment of its risk asset structure, continued improvement of refined management and technology application, and issuances of capital instruments when appropriate, to ensure that capital adequacy ratios of the Group and the Bank at all levels were in full compliance with regulatory requirements and met internal management needs, and the

Group and the Bank always remained strong with respect to capital adequacy and capital quality.

## 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.

*Table 5: Composition of capital*

| (In millions of RMB) | **As at 31 December 2019** | **As at 31 December 2018** |
|---|---|---|
| **Common Equity Tier 1 capital** | | |
| Qualifying common share capital | 250,011 | 250,011 |
| Capital reserve | 134,511 | 134,511 |
| Surplus reserve | 249,178 | 223,231 |
| General reserve | 314,152 | 279,627 |
| Undistributed profits | 1,116,273 | 989,113 |
| Non-controlling interest given recognition in Common Equity Tier 1 capital | 3,535 | 2,744 |
| Others[1] | 32,573 | 19,836 |
| | | |
| **Regulatory adjustments for Common Equity Tier 1 capital** | | |
| Goodwill[2] | 2,615 | 2,572 |
| Other intangible assets (excluding land use right)[2] | 3,971 | 3,156 |
| Cash-flow hedge reserve from items that are not measured at fair value | (239) | 53 |
| Investments in common equity of financial institutions being controlled but outside the scope of consolidation | 3,910 | 3,902 |
| | | |
| **Additional Tier 1 capital** | | |
| Directly issued qualifying additional Tier 1 instruments including related premium | 119,627 | 79,636 |
| Non-controlling interest given recognition in Additional Tier 1 capital | 89 | 84 |
| | | |
| **Tier 2 capital** | | |
| Directly issued qualifying Tier 2 instruments including related premium | 201,653 | 206,615 |
| Provisions in Tier 2 | 226,102 | 172,788 |
| Non-controlling interest given recognition in Tier 2 capital | 141 | 133 |
| | | |
| **Common Equity Tier 1 capital after regulatory adjustments[3]** | **2,089,976** | **1,889,390** |
| **Tier 1 capital after regulatory adjustments[3]** | **2,209,692** | **1,969,110** |
| **Total capital after regulatory adjustments[3]** | **2,637,588** | **2,348,646** |

1. "Others" include other comprehensive income at the end of the reporting period.
2. Both balances of goodwill and other intangible assets (excluding land use right) are the net amounts after deducting relevant deferred tax liabilities.
3. Common Equity Tier 1 capital after regulatory adjustments is calculated by netting off the corresponding deduction items from the Common Equity Tier 1 capital. Tier 1 capital after regulatory adjustments is calculated by netting off the corresponding deduction items from the Tier 1 capital. Total capital after regulatory adjustments is calculated by netting off the corresponding deduction items from the total capital.

### 3.3.2 Thresholds for Deduction and Caps on the Inclusion of Provisions

As at 31 December 2019, neither the Group’s capital investments in financial institutions outside the regulatory scope of consolidation, nor other net deferred tax assets that rely on the Bank’s future profitability exceeded the thresholds; therefore, both were not required to be deducted from the corresponding capital. The following table shows relevant information of thresholds for deduction.

*Table 6: Thresholds for deduction*

<table>
<tr><td>(In millions of RMB)</td><td colspan="4">As at 31 December 2019</td></tr>
<tr><td rowspan="2">Items applicable to threshold deduction approach</td><td rowspan="2">Amount</td><td colspan="2">Capital deduction threshold</td><td rowspan="2">Amount below thresholds for deduction</td></tr>
<tr><td>Item</td><td>Amount</td></tr>
<tr><td>Non-significant investments in the capitals of financial institutions outside the regulatory scope of consolidation</td><td>75,316</td><td rowspan="4">10% of Common Equity Tier 1 capital after regulatory adjustments[1]</td><td rowspan="4">208,998</td><td rowspan="4">133,682</td></tr>
<tr><td>Common Equity Tier 1 capital</td><td>6,893</td></tr>
<tr><td>Additional Tier 1 capital</td><td>-</td></tr>
<tr><td>Tier 2 capital</td><td>68,423</td></tr>
<tr><td>Significant investments in the Common Equity Tier 1 capital of financial institutions outside the regulatory scope of consolidation</td><td>-</td><td rowspan="2">10% of Common Equity Tier 1 capital after regulatory adjustments[2]</td><td>208,998</td><td>208,998</td></tr>
<tr><td>Other deferred tax assets that rely on the Bank’s future profitability (net of related tax liability)</td><td>70,945</td><td>208,998</td><td>138,053</td></tr>
<tr><td>Amounts of significant investments in the Common Equity Tier 1 capital of financial institutions outside the regulatory scope of consolidation and other deferred tax assets that rely on the Bank’s future profitability below the above thresholds for deduction</td><td>70,945</td><td>15% of Common Equity Tier 1 capital after regulatory adjustments[3]</td><td>313,496</td><td>242,551</td></tr>
</table>

1. Common Equity Tier 1 capital after regulatory adjustments is calculated by netting off the full deduction items from the Common Equity Tier 1 capital.
2. Common Equity Tier 1 capital after regulatory adjustments 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 regulatory scope of consolidation in Common Equity Tier 1.
3. Common Equity Tier 1 capital after regulatory adjustments 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 regulatory scope of consolidation and other deferred tax assets relying on the Bank’s future profitability.

*Table 7: Caps on the inclusion of provisions in Tier 2 capital*

<table>
<tr><td colspan="2">(In millions of RMB)</td><td>As at 31 December 2019</td></tr>
<tr><td>Measurement approach</td><td>Item</td><td>Balance</td></tr>
<tr><td rowspan="4">Uncovered by IRB approach</td><td>Excess of provisions</td><td>26,613</td></tr>
<tr><td>Caps on the inclusion of provisions in Tier 2 capital</td><td>62,675</td></tr>
<tr><td>Amount below the caps if not reach the caps</td><td>36,062</td></tr>
<tr><td>Provisions eligible for inclusion in Tier 2 capital</td><td>26,613</td></tr>
<tr><td rowspan="4">Covered by IRB approach</td><td>Excess of provisions</td><td>242,334</td></tr>
<tr><td>Caps on the inclusion of provisions in Tier 2 capital</td><td>199,489</td></tr>
<tr><td>Amount below the caps if not reach the caps</td><td>-</td></tr>
<tr><td>Provisions eligible for inclusion in Tier 2 capital</td><td>199,489</td></tr>
</table>

### 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

In July 2018, the Bank signed the Sponsor Agreement and undertook a capital commitment of RMB3 billion to the National Financing Guarantee Fund Co., Ltd., which will be in place in four years. The Bank has completed the initial and secondary capital contributions of RMB0.75 billion in November 2018 and June 2019, respectively.

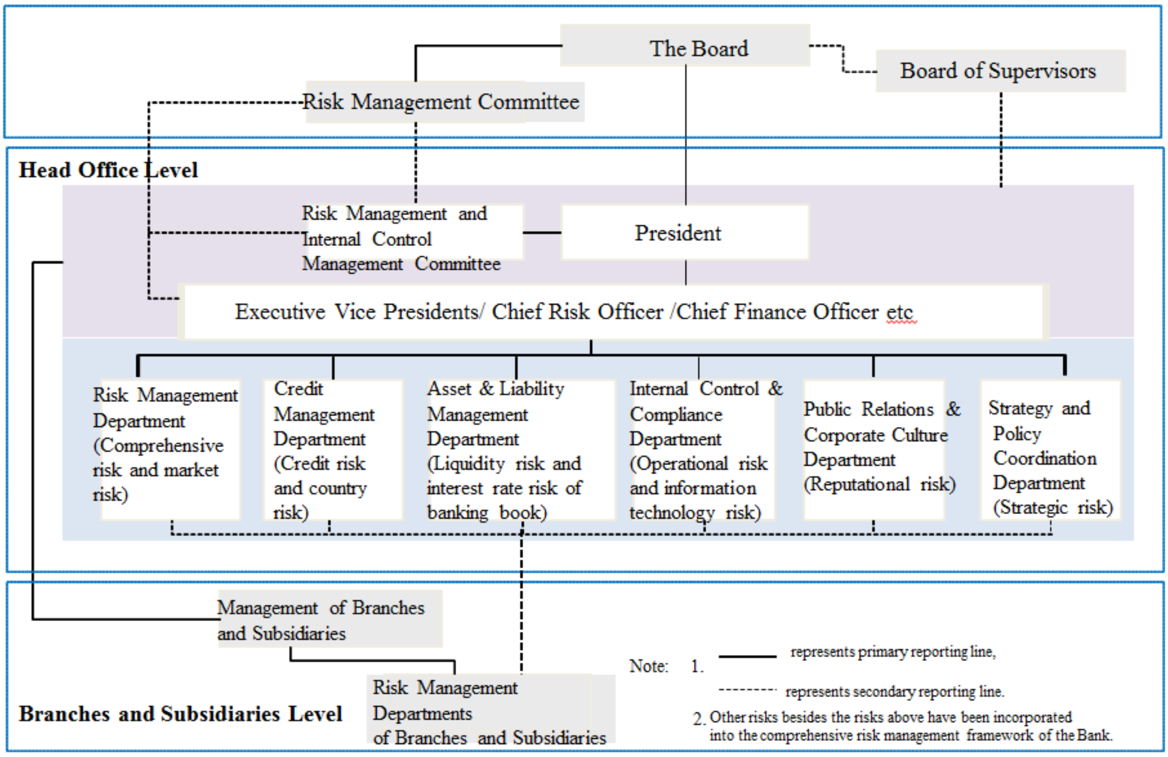
In December 2019, the Bank increased capital of CCB Trust by RMB 4.02 billion based on shareholding percentage for the company to increase registered capital step by step. At present, part of the procedures are still in progress.

In May 2019, the Bank established a wholly-owned subsidiary, CCB Wealth Management Co., Ltd., with paid-in capital contribution of RMB15 billion. The subsidiary is registered in Shenzhen, Guangdong Province, and conducts businesses such as public issuance of wealth management products ("WMPs") to the unspecified public for the purpose of investment and management of entrusted investor assets; private issuance of WMPs to qualified investors for the purpose of investment and management of entrusted investor assets; wealth management consulting and advisory services; and others businesses approved by the banking regulators of the State Council.

# 4 RISK MANAGEMENT

## 4.1 Risk Management Framework

The risk management organisational structure of the Bank comprises the Board of Directors and its special committees, senior management and its special committees and the risk management departments, etc. The basic structure is as follows:




The Board carries out the risk management responsibility pursuant to the Articles of Association of the Bank and other related regulatory requirements. The risk management committee under the Board is responsible for making risk management strategies, monitoring their implementation, and evaluating the overall risk profile on a regular basis. The Board reviews the statements of risk appetite regularly and communicates risk appetite through relevant policies. The board of supervisors oversees the building of the comprehensive risk management system, as well as the performance of the Board and the senior management in delivering their comprehensive risk management responsibilities. The senior management is responsible for carrying out the risk strategies adopted by the Board and organising the implementation of the comprehensive risk management activities across the Group.

The Bank's Chief Risk Officer assists the Bank's president with the corresponding risk management work within designated responsibilities. Risk management department is the leading management department responsible for the Group's comprehensive risk management, and its subordinate department, market risk management department takes the lead in market risk management. Credit management department is the leading management department responsible for the overall credit risk management and country risk management. Asset & liability management department is the leading management department responsible for the management of liquidity risk and interest rate risk of banking book. Internal control &

compliance department is the leading management department responsible for operational risk and information technology risk management. Public relations & corporate culture department is the leading management department responsible for reputational risk management. Strategy and policy coordination department is the leading management department responsible for strategic risk management. Other specialised departments are responsible for other respective risks.

## 4.2 Risk-Weighted Assets

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

*Table 8: Risk-weighted assets*

| (In millions of RMB) | **As at 31 December 2019** | **As at 31 December 2018** |
|---|---|---|
| **Credit risk-weighted assets** | **13,788,746** | **12,473,529** |
| Covered by the IRB approach | 8,748,138 | 8,369,011 |
| Uncovered by the IRB approach | 5,040,608 | 4,104,518 |
| **Market risk-weighted assets** | **123,700** | **120,524** |
| Covered by the internal model approach | 74,509 | 72,578 |
| Uncovered by the internal model approach | 49,191 | 47,946 |
| **Operational risk-weighted assets** | **1,140,845** | **1,065,444** |
| **Additional risk-weighted assets due to the application of capital floor** | **-** | **-** |
| **Total** | **15,053,291** | **13,659,497** |

# 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 aims at establishing credit risk management processes that are aligned with the nature, scale and complexity of businesses, effectively identifying, measuring, controlling, monitoring and reporting the credit risk, keeping the credit risk within the limits that the Bank could bear, and realising revenue maximisation after risk adjustment.

The Bank develops 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 trend of economic structure adjustment, keep pace with implementation of major national strategies, support traditional industry upgrading and enterprise technological innovation, comprehensively promote green financial services and initiatives, guide the whole Bank to proactively adjust the industry structure, optimise and improve the industry policies and credit arrangement through refining the industry classification management, and effectively guard against the systematic and concentration risk of industry.
- Customer policies: based on the national industry policies, the risk appetite of the Bank, as well as the distinctive risk characteristics of industry customers, specify the acceptance baseline and classification standards for customers from different industries and enhance the customer selections; adopt differentiated credit policy arrangements for financial service needs of different customer bases to improve comprehensive service capabilities.
- Regional policies: according to the state regional development strategy, the development strategy of important regions and the economic characteristics of various regions, and fully considering the resource availability, market environment, market potentials and management foundation of the regions where the branches are located, specify the regional differentiated policies on key industries.
- Product policies: excavate customers' needs, focus on capital saving, consolidate traditional advantageous products, promote innovative products and improve market competitiveness of products.

The Bank's credit risk management process comprises a series of 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 appetites and strategic targets, and effectively maintaining the sound operation and sustainable development of the Bank. This process is 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 assess the credit risk on an individual or collective basis. The measurement and assessment of credit risk on an individual basis applies to

borrowers or transaction counterparties as well as specific loans or transactions; and the measurement and assessment of credit risk on a collective basis applies to the Bank's entities at all levels, countries, regions and industries, etc.

- Risk monitoring: monitor the contract implementation of individual debtors or counterparties; and oversee the investment portfolio on an overall basis to prevent the excessive risk concentration by country, industry, region, product and other dimensions.
- Risk mitigation & control: comprehensively balance the costs and returns, finalise corresponding risk control strategies and mitigation strategies targeted at different risk characteristics, and take measures, such as risk avoidance, risk diversification, risk hedging, risk transfer, risk compensation and risk mitigation, to effectively mitigate the credit risk the Bank was exposed to and reduce the occupation of the Bank's regulatory capital.
- Risk report: establish and optimise the credit risk reporting system, explicitly specify the reporting scope, process and frequency that the credit risk report shall comply with and prepare the credit risk report at various levels and of various types, to meet the needs of different risk levels and functional departments for understanding credit risk conditions.

In 2019, facing complex and severe external situation, the Group established and continuously improved a comprehensive, active and intelligent risk prevention, monitoring and management system. The Group improved credit management by adjusting credit structure, raising the level of refined process management, and strengthening risk management, and achieved steady asset quality.

## 5.2 Credit Risk Exposure

### 5.2.1 Overview of Credit Risk Exposure

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

*Table 9: Credit risk exposure*

| (In millions of RMB) | As at 31 December 2019 | | As at 31 December 2018 | |
|---|---|---|---|---|
| | **Covered by the IRB approach** | **Uncovered by the IRB approach[1]** | **Covered by the IRB approach** | **Uncovered by the IRB approach[1]** |
| **On and off-balance sheet credit risk exposures** | **13,468,584** | **13,849,167** | **12,646,709** | **12,318,868** |
| Corporate exposure | 7,105,037 | 2,153,528 | 7,013,594 | 1,886,729 |
| Sovereign exposure | - | 4,636,660 | - | 4,158,495 |
| Financial institution exposure | - | 3,293,694 | - | 2,714,098 |
| Retail exposure | 6,363,547 | 649,317 | 5,633,115 | 604,413 |
| Equity exposure | - | 94,578 | - | 20,295 |
| Securitisation exposure | - | 70,203 | - | 50,616 |
| Other exposures | - | 2,951,187 | - | 2,884,222 |
| **Counterparty credit risk exposure** | **-** | **139,859** | **-** | **120,070** |
| **Total** | **13,468,584** | **13,989,026** | **12,646,709** | **12,438,938** |

1. Due to categorisation under the IRB approach, the credit risk exposures uncovered by the IRB approach are exposures before impairments. The data here is not comparable to that in "5.3.2 Regulatory Weighting Approach".

## 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 one or more days. As at the end of 2019, the Group’s overdue loans (within the accounting scope of consolidation) were RMB172,883 million, a decrease of RMB2,838 million as compared to the beginning of the year.

**Non-performing loans (“NPLs”)**

The Group adopts a loan risk classification approach to monitor 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.

In 2019, the Group solidly promoted the adjustment of credit structure, strengthened the management of the whole credit process and improved the Group's unified credit risk monitoring system. The quality of credit assets improved steadily. As at the end of 2019, the Group’s NPLs (within the accounting scope of consolidation) were RMB212,473 million an increase of RMB11,592 million as compared to the beginning of the year.

## 5.2.3 Allowances for Impaired Loans

At the balance sheet date, the Group, adopting the expected credit loss approach, accounts for impairments and accrues impairment allowances for debt instrument investments, including financial assets measured at amortised cost and those at fair value through other comprehensive income, as well as loan commitments and financial guarantee contracts.

Expected credit losses are the weighted average of the credit losses of financial instruments using risks of default as weights. Credit loss refers to the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate, or, the present value of all cash shortfalls. Financial assets that are purchased by or originated from the Group and have been credit-impaired are discounted using the credit-adjusted effective interest rates of the financial assets.

The Group measures expected credit losses of a financial instrument in a way that reflects: (i) an unbiased probability-weighted average amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and (iii) reasonable and reliable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

At each balance sheet date, the Group assesses whether the credit risk of relevant financial instruments has increased significantly since initial recognition, and measures the expected credit losses, makes allowances for impairment losses and determines their movements as follows: (i) if the credit risk of the financial instruments has not increased significantly since initial recognition, the Group makes allowances for impairment losses at the amount equivalent to the expected credit losses of the financial instrument in the next 12 months; otherwise, (ii) the Group makes allowances for impairment losses based on the lifetime expected credit losses of the financial instrument. Either way, whether or not the Group's assessment of credit losses is based on a single financial instrument or a group of financial instruments, the increase in or reversal of the allowances for impairment losses resulting therefrom are recognised in profit or loss for the current period as impairment losses or gains.

For debt instrument investments measured at fair value through other comprehensive income, the Group makes allowances for impairment losses in other comprehensive income and recognises the impairment losses or gains in profit or loss for the current period, but does not decrease the carrying amount of the financial assets presented in the balance sheet.

If a financial asset, for which loss allowance has been measured at an amount equal to its lifetime expected credit loss in the previous accounting period, no longer qualifies as one whose credit risk has increased significantly since initial recognition at the balance sheet date of the current period, the Group makes allowances for its impairment loss at an amount equal to its 12-month expected credit loss. Any subsequent reversal of loss allowance is recognised in profit or loss for the current period.

For credit-impaired financial assets that are purchased by or originated from the Group, the Group recognises loss allowances at the balance sheet date at amounts equal to the cumulative changes in their lifetime expected credit losses since initial recognition. At each balance sheet date, the Group recognises the amounts of the changes in their lifetime expected credit losses in profit or loss for the current period as impairment losses or gains.

The Group always adhered to the prudent principle by fully considering the impact of changes in the 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 2019, the Group's allowances for impairment losses on loans (within the accounting scope of consolidation) were RMB483,780 million, an increase of RMB65,211 million over the beginning of the year.

## 5.3 Credit Risk Measurement

### 5.3.1 Internal Ratings-Based Approach

The CBRC carried out pre-evaluations, on-site inspections and acceptance reviews of the Group's internal ratings-based ("IRB") approach implementation from 2010 to 2012 and approved the Group's adoption of the IRB approach in April 2014. The CBRC considered that the Group had established a relatively complete internal rating management structure, and its policies covered risk identification, risk measurement, risk mitigation, model verification, internal audit, capital management, etc. With a standardised rating process, the Group's model development methodology and parameter estimations were basically in compliance with the regulatory requirements. With the establishment of data quality control system and continuously intensified control of data inputting system, the Group steadily improved its data quality, and set up a relatively comprehensive model with the support of the IT system. Internal ratings-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.

**Governance structure**

The Group defines clear roles for implementation and governance structure of internal rating systems to ensure effective implementation and complete development of internal rating systems under the structure of comprehensive risk management. Risk Management Committee of the Board of Directors is responsible for overall management of internal rating systems to monitor and ensure that the senior management develops and carries out necessary internal rating policies and procedures. The senior management is responsible for overall execution of the internal rating system management. Risk Management Department is responsible for overall structure design of internal rating systems, organising development, selection and promotion of internal rating models, monitoring and continuously optimising the models, and leading to formulate related regulations on internal rating systems. Credit Management Department participates in the construction and implementation of internal rating systems and oversees internal rating approval. Business Management Department participates in the establishment of internal rating systems and oversees initiating internal rating. Audit Department oversees auditing internal rating systems and risk parameter valuation. Data Management Department is responsible for the establishment of data governance mechanism for internal rating systems to ensure data accuracy and appropriateness of internal rating IT systems. FinTech Department oversees the establishment of internal rating IT systems to support effective operation of internal rating systems and risk quantification.

**Internal rating systems**

Based on the features of different customers within the scope of non-retail exposures, the Group established refined rating models which are suitable for large and medium sized corporate customers, small corporate customers, public institution customers, specialised lending customers, etc. to measure customers' probability of default ("PD"). A combination of qualitative and quantitative methods is used for the modelling, 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, the internal rating system of non-retail customers has basically covered all non-retail customers. Meanwhile, the Group has established a sophisticated measurement system for retail risks, which covers the whole life cycles of three types of retail exposures, including retail customer admission, credit approval and business management, and is able to measure the future risk status of retail customers as well as 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 a debtor/an individual loan in the coming year. LGD refers to the ratio of loss amount due to default to exposure at default, i.e. the percentage of loss to total exposure. The LGD is measured based on economic losses, both direct and indirect, considering time value of recovered amount. EAD refers to the total exposures expected on and off-balance sheet at default of a debtor, including used credit balance, overdue interest, expected withdrawal of unused credit limit and possible expenses.

**Application of internal ratings**

As the basis for the Group's management and control over customers' credit risks, credit ratings for customers play an important role in improving the Group's refined management capabilities through its application in credit policies conduction, customer selection, credit approval guidance, determination and adjustment of customers' credit limits, setting industrial lending risk limits, product pricing, 12-category risk classification of credit asset risks, loss provision, risk warning, economic capital allocation, performance assessment, etc.

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

*Table 10: Non-retail exposures under the IRB approach*

| (In millions of RMB) | | | | | As at 31 December 2019 |
|---|---|---|---|---|---|
| **PD grade** | **EAD** | **Average PD** | **Weighted average LGD** | **Risk-weighted assets** | **Average risk weight** |
| Grade 1 | 3,811 | 0.04% | 45.00% | 604 | 15.85% |
| Grade 2 | 85,612 | 0.14% | 45.00% | 30,813 | 35.99% |
| Grade 3 | 160,724 | 0.19% | 45.00% | 65,424 | 40.71% |
| Grade 4 | 234,390 | 0.25% | 45.00% | 114,034 | 48.65% |
| Grade 5 | 950,065 | 0.59% | 44.32% | 691,014 | 72.73% |
| Grade 6 | 1,150,220 | 0.70% | 42.86% | 861,086 | 74.86% |
| Grade 7 | 1,293,459 | 0.93% | 42.78% | 1,064,399 | 82.29% |
| Grade 8 | 1,510,587 | 1.23% | 42.97% | 1,357,983 | 89.90% |
| Grade 9 | 599,624 | 1.63% | 42.64% | 571,561 | 95.32% |
| Grade 10 | 554,385 | 2.15% | 42.30% | 554,275 | 99.98% |
| Grade 11 | 179,670 | 2.85% | 42.02% | 188,373 | 104.84% |
| Grade 12 | 80,766 | 4.29% | 41.49% | 93,918 | 116.28% |
| Grade 13 | 40,152 | 5.69% | 40.65% | 49,879 | 124.23% |
| Grade 14 | 29,620 | 7.49% | 41.33% | 41,775 | 141.04% |
| Grade 15 | 23,173 | 12.99% | 40.89% | 39,234 | 169.31% |
| Grade 16 | 23,136 | 22.99% | 41.71% | 47,798 | 206.60% |
| Grade 17 | 11,420 | 41.99% | 40.82% | 22,875 | 200.30% |
| Grade 18 | 16,023 | 99.99% | 42.94% | 9 | 0.05% |
| Grade 19 | 158,200 | 100.00% | 43.12% | 45,121 | 28.52% |
| **Total** | **7,105,037** | | | **5,840,175** | |

| (In millions of RMB) | | | | | As at 31 December 2018 |
|---|---|---|---|---|---|
| **PD grade** | **EAD** | **Average PD** | **Weighted average LGD** | **Risk-weighted assets** | **Average risk weight** |
| Grade 1 | 8,204 | 0.04% | 45.00% | 1,300 | 15.85% |
| Grade 2 | 113,262 | 0.14% | 45.00% | 40,765 | 35.99% |
| Grade 3 | 81,544 | 0.19% | 45.00% | 34,201 | 41.94% |
| Grade 4 | 119,734 | 0.25% | 45.00% | 58,689 | 49.02% |
| Grade 5 | 1,106,007 | 0.59% | 44.09% | 800,934 | 72.42% |
| Grade 6 | 1,088,227 | 0.70% | 42.25% | 808,670 | 74.31% |
| Grade 7 | 1,257,763 | 0.93% | 42.67% | 1,033,759 | 82.19% |
| Grade 8 | 1,478,086 | 1.23% | 42.48% | 1,312,951 | 88.83% |
| Grade 9 | 588,495 | 1.63% | 41.66% | 552,348 | 93.86% |
| Grade 10 | 555,281 | 2.15% | 42.25% | 561,203 | 101.07% |
| Grade 11 | 179,452 | 2.85% | 41.31% | 188,052 | 104.79% |
| Grade 12 | 94,799 | 4.29% | 40.69% | 111,860 | 118.00% |
| Grade 13 | 53,237 | 5.69% | 40.49% | 67,451 | 126.70% |
| Grade 14 | 45,679 | 7.49% | 41.92% | 67,612 | 148.02% |
| Grade 15 | 35,693 | 12.99% | 40.65% | 62,117 | 174.03% |
| Grade 16 | 23,821 | 22.99% | 42.12% | 49,841 | 209.23% |
| Grade 17 | 15,754 | 41.99% | 41.45% | 32,657 | 207.30% |
| Grade 18 | 31,508 | 99.99% | 40.80% | 16 | 0.05% |
| Grade 19 | 137,048 | 100.00% | 43.18% | 796 | 0.58% |
| **Total** | **7,013,594** | | | **5,785,222** | |

*Table 11: Retail exposures under the IRB approach*

| (In millions of RMB) | As at 31 December 2019 | | | | |
|---|---|---|---|---|---|
| **Category of retail exposures** | **EAD** | **Average PD** | **Weighted average LGD** | **Risk-weighted assets** | **Average risk weight** |
| Individual residential mortgage | 5,317,049 | 1.19% | 23.67% | 1,312,569 | 24.69% |
| Qualified revolving retail | 792,236 | 1.54% | 29.00% | 50,640 | 6.39% |
| Other retails | 254,262 | 3.30% | 33.18% | 86,972 | 34.21% |
| **Total** | **6,363,547** | | | **1,450,181** | |

| (In millions of RMB) | As at 31 December 2018 | | | | |
|---|---|---|---|---|---|
| **Category of retail exposures** | **EAD** | **Average PD** | **Weighted average LGD** | **Risk-weighted assets** | **Average risk weight** |
| Individual residential mortgage | 4,763,616 | 1.24% | 23.77% | 1,208,631 | 25.37% |
| Qualified revolving retail | 631,516 | 1.63% | 30.53% | 43,836 | 6.94% |
| Other retails | 237,983 | 3.57% | 27.97% | 65,724 | 27.62% |
| **Total** | **5,633,115** | | | **1,318,191** | |

## 5.3.2 Regulatory Weighting Approach

In terms of exposures not covered by the IRB approach, the Group determines related applicable risk weights and calculates credit risk-weighted assets in accordance with regulations related to regulatory weighting approach in the *Capital Rules for Commercial Banks (Provisional)*. The following table shows the information related to exposures covered by regulatory weighting approach broken down by entities and weights as at 31 December 2019.

*Table 12: Credit risk exposure covered by regulatory weighting approach by portfolio*

| (In millions of RMB) | As at 31 December 2019 | | As at 31 December 2018 | |
|---|---|---|---|---|
| | **Exposure** | **Exposure after mitigation** | **Exposure** | **Exposure after mitigation** |
| **On-balance sheet credit risk exposures** | **13,491,174** | **12,512,043** | **12,014,702** | **11,427,550** |
| Cash and cash equivalents | 2,459,191 | 2,459,191 | 2,479,960 | 2,479,960 |
| Claims on central governments and central banks | 1,496,939 | 1,496,938 | 1,424,641 | 1,424,641 |
| Claims on public sector entities | 3,132,093 | 3,112,093 | 2,727,825 | 2,679,238 |
| Claims on domestic financial institutions | 2,821,899 | 2,329,229 | 2,341,536 | 2,209,310 |
| Claims on financial institutions registered in other countries/regions | 132,274 | 123,684 | 75,840 | 75,840 |
| Claims on ordinary enterprises and public institutions | 1,540,484 | 1,089,739 | 1,573,717 | 1,178,561 |
| Claims on qualified micro and small enterprises | 622,528 | 619,383 | 326,616 | 323,672 |
| Claims on individual customers | 618,386 | 614,406 | 582,347 | 574,108 |
| Equity investments | 94,551 | 94,551 | 28,608 | 28,608 |
| Securitisation | 68,152 | 68,152 | 49,379 | 49,379 |
| Other on-balance sheet items | 504,677 | 504,677 | 404,233 | 404,233 |
| **Off-balance sheet credit risk exposures** | **284,768** | **255,204** | **245,070** | **160,515** |
| **Counterparty credit risk exposure** | **139,859** | **139,859** | **120,070** | **113,287** |
| **Total** | **13,915,801** | **12,907,106** | **12,379,842** | **11,701,352** |

*Table 13: Credit risk exposure covered by regulatory weighting approach by risk weight*

| (In millions of RMB) | As at 31 December 2019 | | As at 31 December 2018 | |
|---|---|---|---|---|
| **Risk weights** | **Exposure** | **Exposure after mitigation** | **Exposure** | **Exposure after mitigation** |
| 0% | 4,775,717 | 4,775,717 | 4,687,647 | 4,687,647 |
| 2% | 29,723 | 29,723 | 36,761 | 36,761 |
| 20% | 3,986,063 | 3,750,142 | 3,347,647 | 3,231,821 |
| 25% | 781,721 | 772,756 | 802,125 | 794,984 |
| 50% | 81,062 | 81,062 | 69,794 | 69,794 |
| 75% | 1,235,687 | 1,227,368 | 868,707 | 856,565 |
| 100% | 2,793,542 | 2,038,052 | 2,431,923 | 1,888,542 |
| 250% | 77,838 | 77,838 | 61,744 | 61,744 |
| 400% | 74,358 | 74,358 | 12,802 | 12,802 |
| 1250% | 80,090 | 80,090 | 60,692 | 60,692 |
| **Total** | **13,915,801** | **12,907,106** | **12,379,842** | **11,701,352** |

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

| (In millions of RMB) | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|
| | **Exposure** | **Exposure** |
| Investments in capital instruments issued by other commercial banks | 54,979 | 19,334 |
| Common Equity Tier 1 Capital | 3,764 | 2,212 |
| Additional Tier 1 Capital | - | - |
| Tier 2 Capital | 51,215 | 17,122 |
| Investments in equity of industrial and commercial enterprises | 87,658 | 24,328 |
| Non-self-use real estate | 721 | 1,400 |

## 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 a completed 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, classification, pledge and mortgage rate, receipt and examination, value assessment, establishment and modification of rights, warrant management, monitoring, return and disposal, information input and data maintenance.

The risk mitigation system sets the collateral management processes as the main line, mainly covering the processes of collateral due diligence, collateral admission review, value assessment, review on assessed value, approval of collateral arrangements, establishment of rights, warrant conservation, daily monitoring, collateral change (termination) and disposal, substantially realising collateral management throughout the process. For these processes, the collateral management team under the Credit Management Department is responsible for collateral admission review, value assessment, valuation review, establishment of rights, warrant conservation and collateral changes/replacement (termination), the Business Operation Department is responsible for collateral due diligence and daily monitoring, and collateral disposal, while the Credit Approval Department is responsible for the approval of collateral arrangements.

### Major collateral types

In terms of the categories 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, principal-guaranteed wealth management products, 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, resources, construction in progress, mining rights, intellectual property right and forest ownership, etc.

### Collateral valuation policies and processes

With respect to the valuation method of collaterals, the Bank adopts the approach of external valuations in combination of internal valuations. The Bank should review the compliance of operation procedures and the results of valuations upon the completion of either internal or external valuations. External valuations are mostly adopted for collaterals' initial valuation, and professional appraisal institutions will be entrusted to assess the values of collaterals during the disposal phase. The Bank clearly defines access standards for appraisal institutions, establishes their post-assessment and exit mechanism, and performs regular and dynamic name list management through regular and ad-hoc checking of the external appraisal institutions. As per the regulations, the valuation results from the external appraisal institutions are subject to the Bank's internal examination. The examination is performed by the collateral management team under Credit Management Department.

The Bank requires to perform dynamic re-valuations and monitor the collaterals with varied frequencies based on collaterals' categories and value fluctuation characteristics. Re-valuations are performed by the collateral management team under Credit Management Department. The post-lending examination and 12-level risk classification should be carried out at least on a quarterly basis to examine and verify the collaterals. In case of any forms change 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 institutions, professional guarantee companies, and natural persons. The general corporate and institution guarantor comprises sovereigns, public sector entities, Multilateral Development Banks ("MDBs"), other banks and other legal persons and organisations. The professional guarantee company refers to a limited liability company or an incorporated company legally established and engaged in financing guarantee businesses. The natural person guarantors refer to those having full capacity for civil conduct and certain debt repaying capacity as a guarantor. Natural persons are only considered as supplementary guarantors unless they are exclusively designated as the only guarantors by specific business rules.

### Regulatory measurement

When measuring credit risk-weighted assets covered by the IRB approach, the Group finalises eligible collaterals and qualified guarantee strictly pursuant to risk mitigation management requirement of the IRB approach in the *Capital Rules for Commercial Banks (Provisional)*. Two types of risk mitigation instruments, namely netting arrangement and credit derivatives, have not currently been applied to certain credit risk exposures of the Group covered by the IRB approach.

The following table shows the information related to the credit risk mitigation covered by the FIRB approach.

*Table 15: Credit risk mitigation for exposures covered by the FIRB approach*

| (In millions of RMB) | As at 31 December 2019 | | | As at 31 December 2018 | | |
|---|---|---|---|---|---|---|
| **Exposure category** | **Exposures covered by financial collaterals** | **Exposures covered by other eligible collaterals** | **Exposures covered by guarantees** | **Exposures covered by financial collaterals** | **Exposures covered by other eligible collaterals** | **Exposures covered by guarantees** |
| Corporate exposures | 176,794 | 618,828 | 866,573 | 225,132 | 657,530 | 544,940 |
| **Total** | **176,794** | **618,828** | **866,573** | **225,132** | **657,530** | **544,940** |

When calculating credit risk-weighted assets covered by the regulatory weighting approach, the Group considers only risk mitigations by eligible collaterals and guarantors, as permitted under regulatory weighting approach of the *Capital Rules for Commercial Banks (Provisional)*. The following table shows the information related to the risk mitigation distribution of credit risk exposures covered by the regulatory weighting approach.

*Table 16: Credit risk mitigation for exposures covered by the regulatory weighting approach*

| (In millions of RMB) | As at 31 December 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Cash and cash equivalents** | **The Central Government, PBOC, Chinese policy banks** | **Domestic public sector entities** | **Domestic commercial banks** | **Central governments and central banks of other countries or regions** | **Commercial banks and public sector entities registered in other countries or regions** | **MDBs, Bank for International Settlements and IMF** |
| On-balance sheet credit risk exposures | 195,368 | 525,611 | - | 249,363 | 8,787 | 2 | - |
| Off-balance sheet credit risk exposures | 29,382 | 61 | - | 32 | 89 | - | - |
| Counterparty credit risk | - | - | - | - | - | - | - |
| **Total** | **224,750** | **525,672** | **-** | **249,395** | **8,876** | **2** | **-** |

| (In millions of RMB) | As at 31 December 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Cash and cash equivalents** | **The Central Government, PBOC, Chinese policy banks** | **Domestic public sector entities** | **Domestic commercial banks** | **Central governments and central banks of other countries or regions** | **Commercial banks and public sector entities registered in other countries or regions** | **MDBs, Bank for International Settlements and IMF** |
| On-balance sheet credit risk exposures | 174,058 | 192,921 | - | 220,088 | 33 | 52 | - |
| Off-balance sheet credit risk exposures | 82,750 | 70 | - | 1,735 | - | - | - |
| Counterparty credit risk | 3,405 | 3,378 | - | - | - | - | - |
| **Total** | **260,213** | **196,369** | **-** | **221,823** | **33** | **52** | **-** |

## 5.4 Securitisation

## 5.4.1 Overview of Securitisation Activity

**As originator**

The risk exposures covered by the underlying assets of the Group's securitisation business mainly include performing corporate credit assets, non-performing corporate credit assets, inclusive finance credit assets, individual residential mortgage (performing and non-performing), non-performing individual commercial mortgage loans, non-performing individual consumer loans, non-performing credit card loans, performing automobile instalment loans via credit card.

The Group acts as the originator in issuing credit securitisation products mainly to achieve the following:

**Optimisation of its credit structure**: to adjust its credit size and optimise its credit structure, so as to more effectively employ its available credit resources and improve the overall return on its assets;

**Revitalisation of its assets**: to attract market funding and enhance the liquidity with its high-quality assets when funding supply from loans becomes insufficient;

**Improvement of operational efficiency**: adopt more disciplined information disclosures and market-based asset pricing to heighten the transparency of its credit business, enhance risk management, and improve operational efficiency;

Meanwhile, the Group started the business of non-performing asset securitisation so as to maintain the stability of asset quality as well as explore new means for disposing of non-performing assets.

The degree of credit risk of securitised assets transferred out by the Group to other entities is determined by external third-party independent accountants considering the transaction structures of each securitisation project and the testing results of the risk-reward transfer model, among other considerations. The main risks assumed by the Group include: 1) the possible loss arising from senior and subordinated securities retained by the Group as per regulatory requirements; 2) reputational risk arising from failure to pay the principal or interest of senior securities on time due to overdue or default of a large amount of underlying assets; and 3) the possible loss arising from cash advance facilities as a result of advance payment of disposal expenses by the Group as the loan servicer in non-performing asset securitisation projects.

The Group mainly plays the following roles in the securitisation of credit assets:

As the originator, the Group is responsible for establishing asset pools, setting up special purpose trusts for the transfer of underlying assets, as well as providing necessary assistance to the intermediaries, including the trustees, underwriters, law firms, rating agencies, and accounting firms.

As the loan servicer, the Group undertakes the duties of managing loan-related matters, collecting the principals and interests on loans, disposal of defaulted loans, file maintenance, and delivering reports as the loan servicer.

As the issuer and the trustee of a trust plan, CCB Trust transfers underlying assets and issues asset-backed securities.

As the product financial advisor, CCB Capital provides professional advice and undertakes some work tasks.

For details of the external credit rating agencies used by asset securitization products for all asset securitisations with outstanding principals and interests (including fixed income) that were issued by the Group as an originator, please refer to *"Appendix 1: External Credit Rating Agencies For Securitisation Products"*.

**As investor**

As one of the major investors in the asset-backed securities market, the Group purchases and holds asset-backed securities to obtain returns on investments, and assumes corresponding credit risks, market risks and liquidity risks. The Group determines the amount of its investments in accordance with its annual investment strategy as well as the risk and return performance of securities.

## 5.4.2 Accounting Policies

The Group's approach to running asset securitisation business is as follows: The Bank as an originator agrees to entrust specified credit assets to a trustee. The trustee sets up special purpose trusts to hold entrusted assets. The trustee will issue asset-backed securities, the holder of which will obtain trust beneficial rights arising from entrusted assets. The Bank has been appointed by the trustee as a loan servicer. The Bank achieves credit enhancements by holding subordinated or senior tranches of the issued asset-backed securities.

When the Bank has control over the transferee of financial assets, in addition to applying Accounting Standard for Business Enterprises No.23 to the Bank's financial statements, the Bank should also include special purpose trusts in the scope of the Group's consolidated financial statements in accordance with Accounting Standard for Business Enterprises No. 33.

(I) Derecognition of financial assets

Whether a financial asset should be derecognised falls into the following three scenarios:

1. When the Group has transferred substantially all the risks and rewards of ownership of the financial asset to the transferee, it should derecognise the financial asset;

2. When the Group has retained substantially all the risks and rewards of ownership of the financial asset, it should not derecognise the financial asset;

3. When the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, it should assess whether it still controls the financial asset and account for the financial asset accordingly:

(1) The asset is derecognised when the Group has given up its control over the asset;

(2) If the Group still has control over the financial asset, the Group will continue to recognise the asset to the extent of its continuing involvement and recognise an associated liability.

The extent of the Group's continuing involvement represents its continuing exposure to the changes in the value of the financial asset.

For partial derecognition, the carrying amount of the transferred financial asset as a whole should be allocated between the part that continues to be recognised and the part that is derecognised, based on their respective relative fair values, and the difference between the carrying amount of and consideration for the derecognised part is included in profit or loss. The fair value of the part that continues to be recognised shall be the recent actual transaction price of the transferred financial asset or similar financial assets, and in the absence of a quoted market price or recent transactions, shall be the difference between the fair value of the financial asset as a whole before the transfer and the consideration received for the derecognised part.

(II) Recognition and measurement of assets and liabilities that the Group continues to be involved in

If the Group has neither transferred nor retained substantially all the risks and rewards of ownership of a financial asset and still retained control over the financial asset, the Group continues to recognise the financial asset to the extent of its continuing involvement, and also recognise an associated liability. The transferred financial asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained as a result of the transfer of the asset. The Group measures the associated liability as follows:

1. If the transferred financial asset is measured at amortised cost, the carrying amount of associated liability shall be the carrying amount of the transferred financial asset to the extent of the Group’s continuing involvement, less the amortised cost of the rights retained by the Group (if the Group retains any rights from the transfer of financial asset), plus the amortised cost of the obligations the Group has assumed (if the Group assumes any obligations from the transfer of financial asset); the option to designate a financial liability as at fair value through profit or loss is not applicable to the associated liability.

2. If the transferred financial asset is measured at fair value, the carrying amount of the associated liability shall be the carrying amount of the transferred financial asset to the extent of the Group’s continuing involvement, less the fair value of any rights retained by the Group (if the Group retains any rights from the transfer of financial asset), plus the fair value of the obligations the Group has assumed (if the Group assumes any obligations from the transfer of financial asset); the fair values of the rights and obligations shall be the fair values measured on a stand-alone basis.

## 5.4.3 Securitisation Exposures

As at 31 December 2019, the Group’s total securitisation exposures were RMB 69,781 million, and details and the distribution of underlying assets where the Group acted as the originator are shown as follows:

*Table 17: Securitisation exposures*

| (In millions of RMB) | As at 31 December 2019 | | As at 31 December 2018 | |
|---|---|---|---|---|
| | **Traditional** | **Synthetic** | **Traditional** | **Synthetic** |
| As originator[1] | 69,169 | - | 49,259 | - |
| As investor | 612 | - | 1,014 | - |
| **Total** | **69,781** | **-** | **50,273** | **-** |

1. Exposures under "As originator" refer to those arising from the senior and subordinated tranches of asset-backed securities held by the Group as the originator, and the off-balance exposures arising from the process of the origination other than the total amount of asset-backed securities issued by the Group as originator.

*Table 18: Securitisation underlying assets as originator[1]: non-performing assets, overdue and loss information*

| (In millions of RMB) | As at 31 December 2019 | | | |
|---|---|---|---|---|
| **Type of underlying assets** | **Balance of underlying assets[2]** | **Total non-performing assets** | **Total overdue assets** | **Losses recognised during the reporting period[3]** |
| Performing corporate credit assets | 18,235 | - | - | - |
| Non-performing corporate credit assets | - | - | - | - |
| Individual residential mortgage loans | 374,783 | 8,507 | 10,357 | - |
| Non-performing individual consumer loans | 4,733 | 4,733 | 4,733 | - |
| Non-performing individual commercial mortgage loans | 688 | 672 | 681 | - |
| Instalment loans for vehicles | 353 | 6 | 9 | - |
| Non-performing credit card loans | 22,218 | 22,218 | 22,218 | - |
| **Total** | **421,010** | **36,136** | **37,998** | **-** |

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 the underlying assets of asset securitisation 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 held by the Group during the reporting period.

### 5.4.4 Measurement of Securitisation Risk

The Group's risk exposures of asset securitisation are measured by standardised approach. As at 31 December 2019, the Group's asset securitization exposure and total capital requirement were RMB69,781 million and 26,676 million, respectively.

## 5.5 Counterparty Credit Risk

In recent years, the Group has been making continuous improvement to the risk management system for counterparty credit risk ("CCR"), including strong management of financial market counterparties using counterparty lists and optimisation of the measurement parameters, processes, systems and management mechanisms for CCR management in light of the market and business changes and conditions. Continued efforts in 2019, including the optimisation and promotion of the CCR management components, improvement of the timeliness and accuracy of risk exposure measurement, streamlining of the straight-through operations across the front, middle and back office processes, significant improvement in automated risk management, and timely stress testing and early warning, provided solid support and safeguard to enable the Bank to adequately respond to the rapid market and business changes.

To address the counterparty risk of the flat plate of over-the-counter (“OTC”) derivative transactions and foreign currency repurchase transactions, the Bank signs the Credit Support Annex (“CSA”) agreement and the GMRA agreement under the ISDA agreement if necessary and regulates the process of collection and payment of collaterals and margins under the CSA and GMRA agreements. If the credit rating is downgraded, the threshold and minimum transfer amount of collaterals of the Bank's foreign currency OTC derivatives transactions and repurchase transactions with some counterparties are adjusted according to the CSA and GMRA agreements.

In order to empower the real economy, support the development of the credit derivative market in China, hedge credit risks arising from the debt securities held, increase returns on investments and transactions, and develop new products, the Bank launched its credit risk mitigation instruments, all in the form of Credit Risk Mitigation Warrants (“CRMW”) in 2019. As at 31 December 2019, as the Group did not have credit derivatives, thus there is no counterparty credit exposure for credit derivatives.

The Group measures the counterparty credit risk exposures in accordance with the *Measurement Rules for Derivative Counterparty Default Risks Assets* approved by CBIRC and adopts the regulatory weighting approach to measure the credit risk-weighted assets of the counterparties. The following table presents CCR exposures of the Group by product type as at 31 December 2019.

*Table 19: Counterparty credit risk exposure by product classification*

| (In millions of RMB) | **As at 31 December 2019** | **As at 31 December 2018** |
|---|---|---|
| | **Exposure** | **Exposure** |
| **Counterparty credit risks from OTC derivative transactions under the regulatory weighting approach** | **110,137** | **76,342** |
| Interest rate contracts | 4,230 | 2,272 |
| Exchange rate and gold contracts | 104,603 | 72,481 |
| Equity contracts | 27 | - |
| Precious metals and other commodities contracts (excluding gold) | 1,277 | 1,587 |
| Credit derivative contracts | - | 2 |
| **Counterparty credit risks from transactions with central counterparties** | **29,722** | **36,761** |
| **Counterparty credit risks from securities financing transactions** | **-** | **6,967** |
| **Total** | **139,859** | **120,070** |

# 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 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 the market risk in the banking book, and for the management of the total volume and structure of assets and liabilities, for addressing structural market risks. The Financial Market Department is responsible for the overall management of RMB and foreign currency investment portfolios, and the Financial Market Transaction Centre is responsible for 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 2019, the Bank, in line with the guideline for "comprehensive, active and intelligent risk management", actively responded to external market changes, with the focus on preventing and mitigating key business risks. In pursuit of "market risk management on a Group basis, comprehensive risk management for investment and trading activities, and automated end-to-end risk management for trading activities", the Bank further improved its management and control capabilities for trading business, trading products, trading processes, trading systems, counterparties and traders to minimize cross-systematic financial risks.

## 6.2 Market Risk Measurement

In 2014, the CBRC approved the Group to implement the advanced approach of capital management, including the use of the internal models approach to measure market risk. The following table shows the market risk capital requirements of the Group as at 31 December 2019.

*Table 20: Market risk capital requirements*

| (In millions of RMB) | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|
| | **Capital requirement** | **Capital requirement** |
| **Covered by the internal models approach** | **5,961** | **5,806** |
| **Uncovered by the internal models approach** | **3,935** | **3,836** |
| Interest rate risk | 1,187 | 1,305 |
| Equity position risk | 187 | 67 |
| Foreign exchange risk | 2,561 | 2,464 |
| Commodity risk | - | - |
| Option risk | - | - |
| **Total** | **9,896** | **9,642** |

The Group measures market risk using the 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. At the end of the reporting period, the number of back testing breaches fell within the yellow zone set by the CBIRC, mainly due to movements in foreign exchange rates, and no model anomalies had been identified. The following table shows the VaR and stressed VaR of the Group covered by the internal models approach.

*Table 21: VaR, stressed VaR of the Group covered by the internal models approach*

| (In millions of RMB) | For the year ended 31 December 2019 | | | |
|---|---|---|---|---|
| | **Amount** | | | |
| | **Average** | **Maximum** | **Minimum** | **Period end** |
| VaR | 634 | 791 | 542 | 623 |
| Stressed VaR | 1,205 | 1,495 | 1,001 | 1,162 |

| (In millions of RMB) | For the year ended 31 December 2018 | | | |
|---|---|---|---|---|
| | **Amount** | | | |
| | **Average** | **Maximum** | **Minimum** | **Period end** |
| VaR | 514 | 824 | 257 | 788 |
| Stressed VaR | 808 | 1,242 | 470 | 1,066 |

# 7 OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, staff, systems, or external events. The definition includes legal risk but excludes strategic risk and reputation risk.

Operational risk management is a critical part of the Group's comprehensive risk management. The aims of operational risk management are as follows: reduce the uncertainties of operational risk and control the risk within a reasonable range that is acceptable to the Bank; improve service efficiency, realise process optimisation and advance sound businesses development of the Bank; reduce management cost and increase income level; 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, controlling, and mitigating 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 is 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, monitoring, control/mitigation and reporting. The Group identifies, assesses and monitors operational risks by using risk management tools such as operational risk loss data, operational risk self-assessment and key risk indicators; avoids, transfers, disperses, and reduces operational risk through a series of control/mitigation methods such as process control, behaviour monitoring, electronisation and insurance so as to adjust the risk to acceptable levels; establishes regular and irregular reporting rules to understand the daily status of operational risk management, any significant operational risk and emergencies.

In 2019, the Group continued to enhance its operational risk management ability and improve its emergency responses. The Group has revised the operational risk management measures, improved the operational risk management system, strengthened the statistical analysis of regulatory penalties and other losses caused by violations, strengthened the application of results, and strived to reduce the losses caused by violations; carried out new product operational risk assessment, and strengthened operational risk management in advance; selected key areas to carry out operational risk self-assessment, timely improved related policies and processes, optimized the systems, to reduce potential risks; regularly carried out key risk indicators monitoring to enhance operational risk early warning ability; rechecked the manual on incompatible positions to enhance the counterbalance of different positions; establish the catalogue of important positions and regularly checked the implementation status to strengthen the internal control ability; implemented a new round of business impact analysis and clarified the priorities such as the construction of the main businesses, key resources, and emergency plan; issued and distributed relevant rules on business continuity management related systems, improved the framework and template of emergency plan system; built a new business continuity management platform, and improved the automation and informatization level.

The Group has consistently pushed forward the implementation of the standardised approach for operational risk to meet external regulatory compliance requirements.

The Group is actively engaged in research on the management methods and tools of the behavioural risk. By benchmarking against regulatory requirements and best practices of industry leaders, the Group explores and studies solutions, potential applications of various tools and how to best manage its people's behavioural risks and continue to promote the intensive video monitoring to prevent behavioural risk and operational risk, to better manage over-the-counter violations and employee behavioural risks.

The Group adopts the standardised approach to measure the capital requirements of operational risk as approved by the CBRC. As at 31 December 2019, the Group's capital requirements of operational risk were 91,268million.

# 8 OTHER RISKS

## 8.1 Equity Risk in the Banking Book

The Group's equity risk in the banking book mainly arises from long-term equity investments in associates and joint ventures, equity participation investments designated as at fair value through other comprehensive income, etc. The equity investments in associates and joint ventures refer to equity investments the Group makes, together with other associates and joint ventures, for exercising significant influence on or joint control over the invested entities. Equity participation investments designated as at fair value through other comprehensive income mainly refer to equity investments made by the Group not for trading purposes and designated at initial recognition as "at fair value through other comprehensive income".

The equity exposures in the banking book of the Bank also include passively held policy debt equity swap ("DES") and passively accepted debt-offsetting equities, convertible bonds and bond to share during assets preservation. Passively held policy DES is divided into public equity and private equity, which is designated and recorded at fair value, and its subsequent changes are included into the profit and loss for the period. Debt-offsetting equity, convertible bonds and bond to share are designated and recorded at fair value after the collection and the subsequent quarterly valuation will be included into the profit and loss for the period. The Bank aims to accelerate the realisation of the above financial equities.

The Group valuates those traded in an active market by quoted market price and valuates those not traded in an active market by valuation technique, which is generally accepted by market participants or the reliability of which has been proved by historical actual transaction prices. The assumption used by the Group in valuation is that used by market participants to price relevant assets and liabilities, including the assumptions that transactions are orderly under current market conditions and market participants pursue maximum economic benefits etc.

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

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

*Table 22: Equity exposures in the banking book*

| (In millions of RMB) | | | As at 31 December 2019 |
|---|---|---|---|
| **Invested institution categories** | **Publicly traded equity exposure[1]** | **Non-publicly traded equity exposure[1]** | **Unrealised potential risk gains and losses[2]** |
| Financial institutions | 2,659 | 4,234 | 1,330 |
| Non-financial institutions | 3,563 | 84,095 | (65) |
| **Total** | **6,222** | **88,329** | **1,265** |

| (In millions of RMB) | | | As at 31 December 2018 |
|---|---|---|---|
| **Invested institution categories** | **Publicly traded equity exposure[1]** | **Non-publicly traded equity exposure[1]** | **Unrealised potential risk gains and losses[2]** |
| Financial institutions | 2,002 | 2,278 | 604 |
| Non-financial institutions | 6,336 | 17,992 | (75) |
| **Total** | **8,338** | **20,270** | **529** |

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 in the Banking Book

Interest rate risk in the banking book ("IRRBB") refers to the risk of loss in the economic value and overall earnings of a banking book as a result of adverse movements in interest rates, term structure and other interest-related factors, mainly including gap risk, basis risk, option risk and credit spread risk. Specifically, the inconsistency in repricing period and benchmark interest between the asset and liability is the primary sources of IRRBB for the Group, while the option risk and credit spread risk carry relatively less impact.

The Group established customized interest rate risk management framework and management system and implemented a robust and prudent interest rate risk management strategy. The interest rate risk policy is in line with the Group's development strategy, risk appetite and risk management capability to seek a balance between interest rate risk and profitability, minimize the net interest income and economic value changes arising from interest rate changes, and ensure profit growth and capital structure more stable. The Group employed a range of methods to measure and analyze the IRRBB, including repricing gap analysis, sensitivity analysis of net interest income and economic value, duration analysis, stress testing, and economic capital analysis. The Group performed a combination of interest rate risk management and evaluation by utilizing balance sheet quantitative tool, internal and external price tool, plan and performance appraisal and internal capital evaluation to effectively control the interest rate risk level of business lines, overseas entities and subsidiaries, and ensure that the IRRBB level is within an reasonable level.

In 2019, the Group paid close attention to changes in interest rates, and reinforced dynamic risk monitoring and prediction. It continued to optimize the product portfolio and term structure of assets and liabilities and keep reasonable growth of assets and liabilities. It flexibly adjusted fund transfer pricing and product pricing strategies, kept monitoring of the duration of assets and liabilities, effectively managed the interest rate risks of new products to stabilize net interest margin ("NIM") and steady growth of net interest income. In addition, the Group actively implemented the requirements on the reform of interest rate liberalization issued by the People's Bank of China, effectively promoted market-oriented reform of loans pricing, further strengthened management of interest rate risks of overseas entities and subsidiaries, and optimized the interest risk limit of its overseas branches and subsidiaries. In accordance with the regulatory requirements of the Basel Committee and the CBIRC on IRRBB, the Group improved interest rate risk management rules, optimized risk system, refined the relative model and risk measurement tool to lay a solid foundation for interest rate risk management of the Group. During the reporting period, the results of the stress testing indicated that the IRRBB of the Group is under control, with various indicators kept within the limits.

Stress testing shows that, at the end of 2019, under the scenario of the interest rates of demand deposits fluctuating by 50bps and other assets and liabilities fluctuating by 200bps, the change in net interest income accounted for around 13.42% of the net interest income expected in the next year, and under the six basic scenarios (i.e., parallel up and parallel down shifts in the yield curve, steepening, flattening, as well as short-term interest rates up and down) set by regulators, the maximum change in economic value accounted for 10.30% of net Tier 1 capital.

# 9 REMUNERATION

## 9.1 Nomination and Remuneration Committee of the Board of Directors

By the end of 2019, the Nomination and Remuneration Committee of the Board of Directors of the Bank consists of five directors, with Sir Malcolm Christopher McCarthy, independent non-executive director of the Bank, as the chairperson and Ms. Feng Bing, Ms. Anita Fung Yuen Mei, Mr. Zhang Qi, and Mr. Graeme Wheeler as the members. Among them, two are non-executive directors, and three are independent non-executive directors.

Since January 2020, Mr. Michel Madelain has served as a member of the Nomination and Remuneration Committee of the Board of Directors of the Bank.

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;
- reviewing the structure, number of members and composition of the Board of Directors (including aspects on expertise, knowledge and experience), and proposing suggestions on the adjustment of the Board of Directors to implement the corporate strategies;
- evaluating the performance of members of the Board of Directors;
- examining 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;
- organising performance evaluation of directors and senior management, proposing advice on the remuneration distribution 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 on the remuneration distribution 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 2019, the Nomination and Remuneration Committee convened seven meetings in total.

*The remuneration of members of the Nomination and Remuneration Committee is disclosed in "Remuneration of Directors, Supervisors and Senior Management" in the 'Annual Report 2019 of China Construction Bank Corporation'.*

## 9.2 Remuneration Policies

The Bank upholds its philosophy of standardising distribution order and building a harmonious distribution relationship and constantly improves intensive management in performance and remuneration, 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**

In accordance with relevant policies concerning remuneration reform of state-owned enterprise principles, since 2015, the remuneration for directors of state-owned enterprises has included basic annual salary, performance salary and tenure incentive income. The Bank may retroactively deduct partial or full of the paid performance-based salary and tenure incentive income for those who make serious mistakes and cause great losses for the enterprise during the tenure.

The Bank brings performance-based remuneration's function of intensive and restraint into full play. It establishes the principle of assessment and allocation that encourages value creation, continues to implement frontline-oriented remuneration policy, persists to favour frontline posts, sub-branch level and the posts which directly create value when determining remuneration distribution, and provides post allowance for grass-roots employees, thus providing incentives to employees to create extra values. The Bank strengthens remuneration management over overseas institutions and controlling subsidiaries and adheres to strategy of comprehensive operation of the Bank and overseas development. The Bank also improved rules and requirements for delayed payment and clawback of performance-based remuneration for personnel in key positions to match the duration of business risk; the Bank further consolidated performance assessment orientation, making remuneration match the performance. The Bank further standardised the management of welfare programs across the Bank to properly safeguard the employees' benefits. 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**

Staff remuneration of the Bank includes fixed salary and performance-based salary. Fixed salary is divided into basic salary and post salary. Basic salary mainly relates to staff's years of working and job level, representing the fundamental guarantee and overall balance, while post salary mainly represents post difference and post value. Performance-based salary reflects the completion status of current year's objective and performance assessment result and relates to economic value added ("EVA") realised in current year, last year's KPI result and the completion status of current year's strategic business indicators, which are distributed according to linkage coefficients set at the beginning of the year or calculated in accordance with the assessment result. Performance-based salary is determined on the basis of their performance assessment against the rules and criteria established at the beginning of the year.

The Bank consistently pays high attention to maintaining the balance between long-term and short-term development where remuneration distribution is concerned, and through performance-based remuneration, seeks to identify the optimal synergies between the cultivation of future business advantages and the balanced development of existing businesses. In this regard, the policies and methods currently adopted mainly include: allocating strategic performance-based remunerations specifically for bank-wide strategic business initiatives, such as housing lease, fintech, inclusive finance, international business, and customer channels, maximize the effect of strategic efforts on promoting long-term performance; establishing a pool of performance-based bonuses to reduce significant volatilities between different years, and support the continued and steady development. A reasonable credit cost range is set for credit impairment expenses so that performance-based bonuses that correspond to current-year credit costs above the upper limit and below the lower limit are included in the bonus pool, which serves not only to reduce the impact of asset quality on the current-year performance, but also encourage people to focus on asset quality in the long term.

**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 financial 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 policies, the Bank's payment tools of flexible remuneration include cash and equity; however, Bank's Employee Stock Incentive Plan implemented in 2007 has been frozen in accordance with relevant government policies.

## 9.3 Remuneration of Senior Management

The remuneration standards of the Bank's directors, supervisors and senior management are implemented after the procedures of the corporate governance. The remuneration standards of chairman of the Board of Directors, the chairman of the Board of Supervisors, the president and the vice president follow the state relevant policies.

*The remuneration of directors, supervisors and senior management is disclosed in "Remuneration* for *Directors, Supervisors and Senior Management" in the 'Annual Report 2019 of China Construction Bank Corporation'.*

# APPENDIX 1: EXTERNAL CREDIT RATING AGENCIES FOR SECURITISATION PRODUCTS

The table below presents all the securitisation products with outstanding principal and interests (including fixed income) issued by the Bank as originator and the corresponding external credit rating agencies.

| Securitisation project | Credit rating agencies |
|---|---|
| Jianyuan 2005-1 residential mortgage backed securitisation | Moody's Investors Service (Beijing) Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |
| Jianyuan 2007-1 residential mortgage backed securitisation | China Lianhe Credit Rating Co., Ltd. |
| Jianyuan 2015-1 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianyuan 2015-2 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianyuan 2016-1 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianyuan 2016-2 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianyuan 2016-3 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |
| Jianyuan 2016-4 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianyuan 2017-1 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianyuan 2017-2 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianyuan 2017-3 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianyuan 2017-4 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianyuan 2017-5 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianyuan 2017-6 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianyuan 2017-7 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |
| Jianyuan 2017-8 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |
| Jianyuan 2017-9 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianyuan 2018-1 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |
| Jianyuan 2018-2 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianyuan 2018-3 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |
| Jianyuan 2018-4 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianyuan 2018-5 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |
| Jianyuan 2018-6 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianyuan 2018-7 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |
| Jianyuan 2018-8 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianyuan 2018-9 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |

| | |
|---|---|
| Jianyuan 2018-10 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianyuan 2018-11 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd.<br>Standard & Poor's Financial Services LLC. |
| Jianyuan 2018-12 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |
| Jianyuan 2018-13 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianyuan 2018-14 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianyuan 2018-15 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |
| Jianyuan 2018-16 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |
| Jianyuan 2018-17 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianyuan 2018-18 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |
| Jianyuan 2018-19 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |
| Jianyuan 2018-20 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianyuan 2018-21 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd.<br>Standard & Poor's Financial Services LLC. |
| Jianyuan 2018-22 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |
| Jianyuan 2019-1 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |
| Jianyuan 2019-2 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd.<br>Standard & Poor's Financial Services LLC. |
| Jianyuan 2019-3 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianyuan 2019-4 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |
| Jianyuan 2019-5 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianyuan 2019-6 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianyuan 2019-7 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd.<br>Standard & Poor's Financial Services LLC. |
| Jianyuan 2019-8 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |
| Jianyuan 2019-9 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianyuan 2019-10 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>S & P Credit Rating (China) Co., Ltd<br>Standard & Poor's Financial Services LLC. |
| Jianyuan 2019-11 residential mortgage backed securitisation | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |
| Jianxin 2016-2 non-performing asset-backed securities | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianxin 2016-3 non-performing asset-backed securities | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianxin 2017-1 non-performing asset-backed securities | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianxin 2017-2 non-performing asset-backed securities | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianxin 2018-1 non-performing asset-backed securities | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianxin 2018-2 non-performing asset-backed securities | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |

| | |
|---|---|
| Jianxin 2018-3 non-performing asset-backed securities | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |
| Jianxin 2018-5 non-performing asset-backed securities | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianxin 2018-6 non-performing asset-backed securities | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |
| Jianxin 2019-1 non-performing asset-backed securities | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |
| Jianxin 2019-2 non-performing asset-backed securities | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianxin 2019-3 non-performing asset-backed securities | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |
| Jianxin 2019-4 non-performing asset-backed securities | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |
| Jianxin 2019-5 non-performing asset-backed securities | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianxin 2019-6 non-performing asset-backed securities | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianxin 2019-7 non-performing asset-backed securities | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |
| Jianxin 2019-8 non-performing asset-backed securities | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianyou 2018-1 automobile instalment loan backed securitization | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Jianyuan-Feichi 2018-1 credit asset-backed securities | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Feichi-Jianrong 2018-1 credit asset-backed securities | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Feichi-Jianrong 2018-2 credit asset-backed securities | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |
| Feichi-Jianrong 2018-3 credit asset-backed securities | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Feichi-Jianrong 2018-4 credit asset-backed securities | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |
| Feichi-Jianrong 2018-5 credit asset-backed securities | China Bond Rating Co., Ltd.<br>China Lianhe Credit Rating Co., Ltd. |
| Feichi-Jianrong 2019-1 credit asset-backed securities | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |
| Feichi-Jianrong 2019-2 credit asset-backed securities | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |
| Feichi-Jianrong 2019-3 credit asset-backed securities | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |
| Feichi-Jianrong 2019-1 green credit asset-backed securities | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |
| Feichi-Jianpu 2019-2 credit asset-backed securities [1] | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |
| Zhuyuan 2019-1 residential mortgage backed securitisation[2] | China Bond Rating Co., Ltd.<br>China Cheng Xin International Credit Rating Co., Ltd. |

1. On 29 November 2019, the Bank issued Feichi-Jianpu 2019-2 inclusive finance asset-backed securities. At the end of 2019, the balance of senior and subordinate tranches held by the Bank was RMB110 million. As the Bank have retained substantially all risks and rewards of ownership of such credit assets, according to the product accounting treatment manual issued by PricewaterhouseCoopers, the underlying assets have not been derecognised,. Meanwhile, according to the *Capital Rules for Commercial Banks (Provisional)*, the capital occupation for securitisation business should not exceed the capital occupation of underlying assets. Therefore, the Bank's risk exposure and capital occupation of this business were measured and disclosed based on its underlying assets.

2. This securitisation was issued by Sino-German Bausparkasse Co., Ltd..

# APPENDIX 2: 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 the CBRC, the following table shows the Group's composition of capital, minimum regulatory capital requirements, as well as their connections with the balance sheets within the regulatory scope of consolidation.

| (In millions of RMB, except percentages) | | Code | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|---|---|
| **Common Equity Tier 1 capital:** | | | | |
| 1 | Qualifying common share capital | o | 250,011 | 250,011 |
| 2 | Retained earnings | | 1,679,603 | 1,491,971 |
| 2a | Surplus reserve | t | 249,178 | 223,231 |
| 2b | General reserve | u | 314,152 | 279,627 |
| 2c | Undistributed profits | v | 1,116,273 | 989,113 |
| 3 | Accumulated other comprehensive income and disclosed reserves | | 167,084 | 154,347 |
| 3a | Capital reserve | q | 134,511 | 134,511 |
| 3b | Others | r | 32,573 | 19,836 |
| 4 | Amount recognised in Common Equity Tier 1 capital during transitional period (Only applicable to unlisted companies, while banks of joint-stock companies to be completed with "0") | | - | - |
| 5 | Non-controlling interest given recognition in Common Equity Tier 1 capital | w | 3,535 | 2,744 |
| 6 | **Common Equity Tier 1 capital before regulatory adjustments** | | **2,100,233** | **1,899,073** |
| **Common Equity Tier 1 capital: Regulatory adjustments** | | | | |
| 7 | Prudent valuation adjustment | | - | - |
| 8 | Goodwill (excluding deferred tax liabilities) | l | 2,615 | 2,572 |
| 9 | Other intangible assets (excluding land use rights) (excluding deferred tax liabilities) | k | 3,971 | 3,156 |
| 10 | Net deferred tax assets relying on future profits and arising from operating losses | | - | - |
| 11 | Cash-flow hedge reserves | s | (239) | 53 |
| 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 the capitals of financial institutions outside the regulatory scope of consolidation (amount above 10% threshold) | | - | - |
| 19 | Significant investments in the capitals of financial institutions outside the regulatory scope of 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 capitals of financial institutions outside the regulatory scope of consolidation and other deferred tax assets that rely on the Bank's future profitability after all regulatory adjustments (amount exceeding the 15% threshold) | | - | - |
| 23 | of which: Significant investments in the capitals 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 regulatory scope of consolidation | h | 3,910 | 3,902 |
| 26b | Gaps of common equity of financial institutions being controlled but outside the regulatory scope of 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 adjustments in Common Equity Tier 1 capital** | | **10,257** | **9,683** |
| 29 | **Common Equity Tier 1 capital after regulatory adjustments** | | **2,089,976** | **1,889,390** |
| **Additional Tier 1 capital:** | | | | |
| 30 | Other directly issued qualifying additional Tier 1 instruments including related premium | p+z | 119,627 | 79,636 |
| 31 | of which: Classified as equity | p+z | 119,627 | 79,636 |
| 32 | of which: Classified as liabilities | | - | - |
| 33 | of which: Instruments not recognised in Additional Tier 1 capital after the transition period | | - | - |
| 34 | Non-controlling interest given recognition in Additional Tier 1 capital | x | 89 | 84 |
| 35 | of which: Portions not recognised in Additional Tier 1 capital after the transition period | | - | - |
| 36 | **Additional Tier 1 capital before regulatory adjustments** | | **119,716** | **79,720** |
| **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 capitals of financial institutions outside the regulatory scope of consolidation (amount above 10% threshold) | | - | - |
| 40 | Significant investments in the Additional Tier 1 capital of financial institutions outside the regulatory scope of consolidation | | - | - |
| 41a | Investments in Additional Tier 1 capital of financial institutions being controlled but outside the regulatory scope of consolidation | | - | - |
| 41b | Gaps of Additional Tier 1 capital of financial institutions being controlled but outside the regulatory scope of 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 adjustments** | | **119,716** | **79,720** |
| 45 | **Tier 1 capital after regulatory adjustments (Common Equity Tier 1 capital after regulatory adjustments + Additional Tier 1 capital after regulatory adjustments)** | | **2,209,692** | **1,969,110** |
| **Tier 2 capital:** | | | | |
| 46 | Directly issued qualifying Tier 2 instruments including related premium | n | 201,653 | 206,615 |
| 47 | of which: Portions not recognised in Tier 2 capital after the transition period | | 47,950 | 63,934 |

| | | | | |
|---|---|---|---|---|
| 48 | Minority interest recognised in Tier 2 capital | y | 141 | 133 |
| 49 | of which: Portions not recognised after the transition period | | - | - |
| 50 | Provisions in Tier 2 | -(b+d) | 226,102 | 172,788 |
| 51 | **Tier 2 capital before regulatory adjustments** | | **427,896** | **379,536** |
| **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 regulatory scope of consolidation (amount above 10% threshold) | | - | - |
| 55 | Significant investments in the Tier 2 capital of financial institutions outside the regulatory scope of consolidation | | - | - |
| 56a | Investments in Tier 2 capital of financial institutions being controlled but outside the regulatory scope of consolidation | | - | - |
| 56b | Gaps of Tier 2 capital of financial institutions being controlled but outside the regulatory scope of consolidation | | - | - |
| 56c | Other deductions from Tier 2 capital | | - | - |
| 57 | **Total regulatory adjustments in Tier 2 capital** | | - | - |
| 58 | **Tier 2 capital after regulatory adjustments** | | **427,896** | **379,536** |
| 59 | **Total capital after regulatory adjustments (Tier 1 capital after regulatory adjustments +Tier 2 capital after regulatory adjustments)** | | **2,637,588** | **2,348,646** |
| 60 | **Total risk-weighted assets** | | **15,053,291** | **13,659,497** |
| **Capital adequacy ratio and reserve capital requirements** | | | | |
| 61 | **Common Equity Tier 1 ratio** | | **13.88%** | **13.83%** |
| 62 | **Tier 1 ratio** | | **14.68%** | **14.42%** |
| 63 | **Total Capital ratio** | | **17.52%** | **17.19%** |
| 64 | Specific buffer requirements of regulators | | 3.50% | 3.50% |
| 65 | of which: Capital conservation buffer requirements | | 2.50% | 2.50% |
| 66 | of which: Countercyclical buffer requirements | | 0.00% | 0.00% |
| 67 | of which: Additional buffer requirements of Global Systemically Important Banks | | 1.00% | 1.00% |
| 68 | Common Equity Tier 1 capital available to meet buffers as a percentage of risk-weighted assets | | 8.88% | 8.83% |
| **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 capitals of other financial institutions outside of the regulatory scope of consolidation | e+f+g+i | 75,316 | 37,101 |
| 73 | Significant investments in the capitals of other financial institutions outside of the regulatory scope of consolidation | j | - | 111 |
| 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) | m | 70,945 | 57,464 |
| **Caps on the inclusion of provisions in Tier 2 capital** | | | | |
| 76 | Provisions eligible for inclusion in Tier 2 in respect of exposures subject to regulatory weighting approach (prior to the application of cap) | -a | 26,613 | 24,082 |
| 77 | Provisions eligible for inclusion in Tier 2 capital under regulatory weighting approach | -b | 26,613 | 24,082 |
| 78 | Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to the application of cap) | -c | 242,334 | 189,957 |

| | | | | |
|---|---|---|---|---|
| 79 | Provisions eligible for inclusion in Tier 2 capital under internal ratings-based approach | -d | 199,489 | 148,706 |
| **Capital instruments subject to phase-out arrangements** | | | | |
| 80 | Amount recognised in current-period Common Equity Tier 1 capital due to transitional arrangements | | - | - |
| 81 | Amount not recognised in current-period Common Equity Tier 1 capital due to transitional arrangements | | - | - |
| 82 | Amount recognised in current-period Additional Tier 1 capital due to transitional arrangements | | - | - |
| 83 | Amount not recognised in current-period Additional Tier 1 capital due to transitional arrangements | | - | - |
| 84 | Amount recognised in current-period Tier 2 capital due to transitional arrangements | | 47,950 | 63,934 |
| 85 | Amount not recognised in current-period Tier 2 capital due to transitional arrangements | | 32,024 | 74,026 |

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

| (In millions of RMB) | As at 31 December 2019 | |
|---|---|---|
| | **Balance sheet of the accounting scope of consolidation** | **Balance sheet of the regulatory scope of consolidation** |
| **Assets** | | |
| Cash and deposits with central banks | 2,621,010 | 2,620,905 |
| Deposits with banks and non-bank financial institutions | 419,661 | 401,216 |
| Precious metals | 46,169 | 46,169 |
| Placements with banks and non-bank financial institutions | 531,146 | 532,107 |
| Positive fair value of derivatives | 34,641 | 34,403 |
| Financial assets held under resale agreements | 557,809 | 554,223 |
| Loans and advances to customers | 14,540,667 | 14,574,196 |
| Financial assets measured at fair value through profit or loss | 675,361 | 599,514 |
| Financial assets measured at amortised cost | 3,740,296 | 3,646,631 |
| Financial assets measured at fair value through other comprehensive income | 1,797,584 | 1,784,030 |
| Long-term equity investments | 11,353 | 10,795 |
| Fixed assets | 170,740 | 169,245 |
| Land use rights | 14,738 | 13,850 |
| Intangible assets | 4,502 | 3,971 |
| Goodwill | 2,809 | 2,615 |
| Deferred tax assets | 72,314 | 70,945 |
| Other assets | 195,461 | 199,711 |
| **Total assets** | **25,436,261** | **25,264,526** |
| **Liabilities** | | |
| Borrowings from central banks | 549,433 | 549,433 |
| Deposits from banks and non-bank financial institutions | 1,672,698 | 1,761,215 |
| Placements from banks and non-bank financial institutions | 521,553 | 526,052 |
| Financial liabilities measured at fair value through profit or loss | 281,597 | 281,586 |
| Negative fair value of derivatives | 33,782 | 33,674 |
| Financial assets sold under repurchase agreements | 114,658 | 105,104 |
| Deposits from customers | 18,366,293 | 18,367,166 |
| Accrued staff costs | 39,075 | 36,999 |
| Taxes payable | 86,635 | 86,277 |
| Provisions | 42,943 | 42,924 |
| Debt securities issued | 1,076,575 | 1,054,062 |
| Deferred tax liabilities | 457 | 168 |
| Other liabilities | 415,435 | 193,144 |
| **Total liabilities** | **23,201,134** | **23,037,804** |
| **Equity** | | |
| Share capital | 250,011 | 250,011 |
| Other equity instruments - preference shares | 79,636 | 79,636 |
| Other equity instruments - perpetual bonds | 39,991 | 39,991 |
| Capital reserve | 134,537 | 134,511 |
| Other comprehensive income | 31,986 | 32,573 |
| Surplus reserve | 249,178 | 249,178 |

| | | |
|---|---|---|
| General reserve | 314,389 | 314,152 |
| Retained earnings | 1,116,529 | 1,116,273 |
| Total equity attributable to equity shareholders of the Bank | 2,216,257 | 2,216,325 |
| Non-controlling interests | 18,870 | 10,397 |
| **Total equity** | **2,235,127** | **2,226,722** |

The following table shows the information related to the expanded balance sheet within the regulatory scope of consolidation, as well as its connections with the Composition of capital.

| (In millions of RMB) | As at 31 December 2019 | |
|---|---|---|
| | **Balance sheet of the regulatory scope of consolidation** | **Code** |
| **Assets** | | |
| Cash and deposits with central banks | 2,620,905 | |
| Deposits with banks and non-bank financial institutions | 401,216 | |
| Precious metals | 46,169 | |
| Placements with banks and non-bank financial institutions | 532,107 | |
| Positive fair value of derivatives | 34,403 | |
| Financial assets held under resale agreements | 554,223 | |
| Loans and advances to customers | 14,574,196 | |
| of which: Provisions eligible actually accrued under regulatory weighting approach | (26,613) | a |
| of which: Provisions eligible for inclusion in Tier 2 in respect of exposures under regulatory weighting approach | (26,613) | b |
| of which: Provisions eligible actually accrued under internal ratings-based approach | (242,334) | c |
| of which: Provisions eligible for inclusion in Tier 2 in respect of exposures under internal ratings-based approach | (199,489) | d |
| Financial assets at fair value through profit or loss | 599,514 | |
| of which: Non-significant investments in the capitals of other financial institutions outside of the regulatory scope of consolidation | 69,524 | e |
| Financial assets measured at amortised cost | 3,646,631 | |
| of which: Non-significant investments in the capitals of other financial institutions outside of the regulatory scope of consolidation | 784 | f |
| Financial assets at fair value through other comprehensive income | 1,784,030 | |
| of which: Non-significant investments in the capitals of other financial institutions outside of the regulatory scope of consolidation | 4,638 | g |
| Long-term equity investments | 10,795 | |
| of which: Investments in Common Equity Tier-1 of controlled financial institutions outside of the regulatory scope of consolidation | 3,910 | h |
| of which: Small investments in the capitals of other financial institutions outside of the regulatory scope of consolidation | 370 | i |
| of which: Significant investments in the capitals of other financial institutions outside of the regulatory scope of consolidation | - | j |
| Fixed assets | 169,245 | |
| Land use rights | 13,850 | |
| Intangible assets | 3,971 | k |
| Goodwill | 2,615 | l |
| Deferred tax assets | 70,945 | m |
| Other assets | 199,711 | |
| **Total assets** | **25,264,526** | |
| **Liabilities** | | |
| Borrowings from central banks | 549,433 | |
| Deposits from banks and non-bank financial institutions | 1,761,215 | |
| Placements from banks and non-bank financial institutions | 526,052 | |
| Financial liabilities at fair value through profit or loss | 281,586 | |
| Negative fair value of derivatives | 33,674 | |
| Financial assets sold under repurchase agreements | 105,104 | |
| Deposits from customers | 18,367,166 | |
| Accrued staff costs | 36,999 | |

| | | |
|---|---|---|
| Taxes payable | 86,277 | |
| Provisions | 42,924 | |
| Debt securities issued | 1,054,062 | |
| of which: Tier 2 capital instruments and related premium[1] | 201,653 | n |
| Deferred tax liabilities | 168 | |
| Other liabilities | 193,144 | |
| **Total liabilities** | **23,037,804** | |
| **Equity** | | |
| Share capital | 250,011 | o |
| Other equity instruments - preference shares | 79,636 | p |
| Other equity instruments - perpetual bonds | 39,991 | z |
| Capital reserve | 134,511 | q |
| Other comprehensive income | 32,573 | r |
| of which: Cash flow hedge | (239) | s |
| Surplus reserve | 249,178 | t |
| General reserve | 314,152 | u |
| Retained earnings | 1,116,273 | v |
| Total equity attributable to equity shareholders of the Bank | 2,216,325 | |
| Non-controlling interests | 10,397 | |
| of which: Non-controlling interests recognised in Common Equity Tier 1 capital | 3,535 | w |
| of which: Non-controlling interests recognised in Additional Tier 1 capital | 89 | x |
| of which: Non-controlling interests recognised in Tier 2 capital[1] | 141 | y |
| **Total equity** | **2,226,722** | |

1. Pursuant to regulatory requirements, Tier 2 capital instruments issued by the Group’s wholly-owned subsidiaries that don’t comply with the regulations in China are not recognised in the Group’s Tier 2 capital instruments and premium, which is different from the accounting treatment of such instruments.

## APPENDIX 3: 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.

| No. | Main features of eligible regulatory capital instruments | H Share | A Share | Rights issues | Tier 2 capital instrument | Tier 2 capital instrument | Preference shares |
|---|---|---|---|---|---|---|---|
| 1 | Issuer | CCB | CCB | CCB | CCB | CCB | CCB |
| 2 | Identifier code | 0939.HK | 601939.SH | 0939.HK, 601939.SH | ISIN: CND100007Z10 | ISIN: XS1227820187 | 4606.HK |
| 3 | Governing law(s) | Hong Kong SAR law | Chinese law | Chinese / Hong Kong SAR law | Chinese law | English law | Offshore preference shares and their attached rights and obligations are under the Chinese law and are interpreted according to the Chinese 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 | Additional Tier 1 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 | Additional Tier 1 capital |
| 6 | of which: Eligible at the Bank / Group level | The Bank and Group level | The Bank and Group level | The Bank and Group level | The Bank and Group level | The Bank and Group level | The Bank and Group level |
| 7 | Instrument type | Equity instrument | Equity instrument | Equity instrument | Tier 2 capital instrument | Tier 2 capital instrument | Additional Tier 1 capital instrument |
| 8 | Amount recognised in regulatory capital (In millions of RMB, as at the latest reporting date) | 72,550 | 57,119 | 61,159 | 19,988 | 13,917 | 19,659 |
| 9 | Par value of instrument | RMB30,459 million | RMB9,000 million | RMB16,322 million | RMB20,000 million | USD2,000 million | USD3,050 million |
| 10 | Accounting classification | Share capital and capital reserve | Share capital and capital reserve | Share capital and capital reserve | Debt securities issued | Debt securities issued | Other equity instruments |
| 11 | Original date of issuance | 27 October 2005 | 25 September 2007 | 19 November 2010, | 18 August 2014 | 13 May 2015 | 16 December 2015 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | 16 December 2010 | | | |
| 12 | Perpetual or dated | Perpetual | Perpetual | Perpetual | Dated | Dated | Perpetual |
| 13 | of which: Original maturity date | No maturity | No maturity | No maturity | 18 August 2029 | 13 May 2025 | No maturity |
| 14 | Issuer call subject to regulatory approval | No | No | No | Yes | Yes | Yes |
| 15 | of which: Optional call date, contingent call dates and redemption amount | N/A | N/A | N/A | 18 August 2024, redemption in full | 13 May 2020, redemption in full | The first call date is 16 December 2020, redemption in full or in part |
| 16 | of which: Subsequent call dates, if applicable | N/A | N/A | N/A | N/A | N/A | Every16 December after the first call date |
| | Coupons / dividends | | | | | | |
| 17 | of which: Fixed or floating dividend / coupon | Floating | Floating | Floating | Fixed | The interest rate is fixed for the first five years and is adjusted based on interest rate at the coupon rate reset date for the consecutive five years. | Adjustable dividend rate (benchmark rate plus the fixed interest spread) by stages is adopted, benchmark rate is adjustable every five years, and the dividend rate during each adjusting period remains unchanged. |
| 18 | of which: Coupon rate and any related index | N/A | N/A | N/A | 5.98% | The fixed interest rate is fixed at 3.875% for the first five years and is reset based on the five-year US government bond rate plus the initial interest spread (2.425%) at the dividend reset date for the consecutive five years. | The dividend yield for the first five years is 4.65% and is reset based on the five-year US government bond rate plus the fixed interest spread (2.974%) at the dividend reset date for the consecutive five years. The dividend rate during each adjusting period remains unchanged. (The first dividend reset date is 16 December 2020, and the subsequent reset date is 16 December every five years thereafter). |
| 19 | of which: Existence of dividend brake mechanism | N/A | N/A | N/A | No | No | Yes |
| 20 | of which: Fully discretionary, partially discretionary or | Fully discretionary | Fully discretionary | Fully discretionary | Non-discretionary | Non-discretionary | Fully discretionary |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | non-discretionary | | | | | | |
| 21 | of which: Existence of redemption incentive mechanism | No | No | No | No | No | No |
| 22 | of which: Noncumulative or cumulative | Noncumulative | Noncumulative | Noncumulative | Noncumulative | Noncumulative | Noncumulative |
| 23 | Convertible or non-convertible | N/A | N/A | N/A | No | No | Yes |
| 24 | of which: If convertible, specify conversion trigger(s) | N/A | N/A | N/A | N/A | N/A | Additional Tier 1 capital instruments triggers or Tier 2 capital instruments triggers |
| 25 | of which: If convertible, specify if it is fully or partially | N/A | N/A | N/A | N/A | N/A | Fully or partially convertible for additional Tier 1 capital instruments triggers, and fully convertible for Tier 2 capital instruments triggers |
| 26 | of which: If convertible, specify conversion rate | N/A | N/A | N/A | N/A | N/A | The initial conversion price is the average trading price of H shares of the Bank for the 20 trading days preceding the date of publication of the announcement on the Board resolution in respect of the issuance plan of the preference shares (namely HKD 5.98 per share). Since the date when the Board of Directors passed the resolution to issue the preference shares, where the Bank distributes bonus shares or stock dividends for H ordinary shareholders, issues new shares at a price lower than the market price (excluding the shares converted from financing instruments that are issued by the Bank and subject to the clauses of conversion into ordinary shares) and |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | | makes rights issue after the plan on the preference share issuance is approved by the Board of Directors, the Bank will accumulatively adjust the conversion price in sequence for the matters above. In case of cancellation of repurchased shares, merger, split-up or other circumstances that may lead to changes in the Bank's share class, number and / or shareholders' equity and thereby affect the rights and interests of the preference shareholders, the Bank shall have the right to adjust the forced conversion price in a fair and impartial manner, so as to fully protect and balance the rights and interests of the preference shareholders and the ordinary shareholders. |
| 27 | of which: If convertible, specify if it is non-discretionary or optional conversion | N/A | N/A | N/A | N/A | N/A | Yes |
| 28 | of which: If convertible, specify instrument type convertible into | N/A | N/A | N/A | N/A | N/A | Common Equity Tier 1 capital |
| 29 | of which: If convertible, specify issuer of instrument it converts into | N/A | N/A | N/A | N/A | N/A | CCB |
| 30 | Write-down feature | N/A | N/A | N/A | Yes | Yes | No |
| 31 | of which: If write-down, specify write-down trigger(s) | N/A | N/A | N/A | Write-down is triggered at the earlier of following situations: (1) CBIRC determines issuer cannot survive if no write-down is | Write-down is triggered at the earlier of following situations: (1) CBIRC determines issuer cannot survive if no write-down is | N/A |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | conducted; (2) related authorities confirm that issuer cannot survive if public capital injection or equivalent support will not be offered. | 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, specify if it is full or partial | N/A | N/A | N/A | Full/Partial | Full/Partial | N/A |
| 33 | of which: If write-down, specify if it is permanent or temporary | N/A | N/A | N/A | Permanent | Permanent | N/A |
| 34 | of which: If temporary write-down, specify the description of write-up mechanism | N/A | N/A | N/A | N/A | N/A | N/A |
| 35 | Hierarchy of claims in liquidation (specify instrument types with higher priority rankings) | The most junior of all claims | The most junior of all claims | The most junior of all claims | Junior to depositors and general creditor, the same priority with other Tier 2 capital instruments with the same priority. | Junior to depositors and general creditor, the same priority with other Tier 2 capital instruments with the same priority. | Junior to all depositors, general creditors, and Tier 2 capital instrument issued or guaranteed by the Bank, and other capital instruments senior to preference shares, the same priority with additional Tier 1 capital instruments with the same priority. |
| 36 | Non-eligible transitioned features | No | No | No | No | No | No |
| 37 | of which: If yes, specify non-eligible features | N/A | N/A | N/A | N/A | N/A | N/A |

| No. | Main features of eligible regulatory capital instruments | Tier 2 capital instruments | Preference shares | Tier 2 capital instruments | Tier 2 capital instruments | Tier 2 capital instruments | Undated additional tier 1 |
|---|---|---|---|---|---|---|---|
| 1 | Issuer | CCB | CCB | CCB | CCB | CCB | CCB |
| 2 | Identifier code | ISIN：CND1000099M8 | 360030.SH | ISIN：CND10001PYK4 | ISIN：CND10001QQJ0 | ISIN：XS1936784161 | ISIN: CND10002HVY6 |
| 3 | Governing law(s) | Chinese law | Chinese law | Chinese law | Chinese law | English law | Chinese law |
| | Regulatory treatment | | | | | | |
| 4 | of which: Transitional rules under *the Capital Rules for Commercial Banks (Provisional)* | Tier 2 capital | Additional Tier 1 capital | Tier 2 capital | Tier 2 capital | Tier 2 capital | Additional Tier 1 capital |
| 5 | of which: Post-transitional rules under the *Capital Rules for Commercial Banks (Provisional)* | Tier 2 capital | Additional Tier 1 capital | Tier 2 capital | Tier 2 capital | Tier 2 capital | Additional Tier 1 capital |
| 6 | of which: Eligible at the Bank / Group level | The Bank and the Group level | The Bank and the Group level | The Bank and the Group level | The Bank and the Group level | The Bank and the Group level | The Bank and the Group level |
| 7 | Instrument type | Tier 2 capital | Additional Tier 1 capital | Tier 2 capital | Tier 2 capital | Tier 2 capital | Additional Tier 1 capital |
| 8 | Amount recognised in regulatory capital (in millions of RMB, as at the latest reporting date) | 23,995 | 59,977 | 42,995 | 39,996 | 12,812 | 39,991 |
| 9 | Par value of instrument | RMB 24 billion | RMB 60 billion | RMB 43 billion | RMB 40 billion | USD 1.85 billion | RMB 40 billion |
| 10 | Accounting classification | Debt securities issued | Other equity instruments | Debt securities issued | Debt securities issued | Debt securities issued | Other equity instruments |
| 11 | Original date of issuance | 21 December 2015 | 26 December 2017 | 25 September 2018 | 29 October 2018 | 27 February 2019 | 15 November 2019 |
| 12 | Perpetual or dated | Dated | Perpetual | Dated | Dated | Dated | Perpetual |
| 13 | of which: Original maturity date | 21 December 2025 | No maturity | 25 September 2028 | 29 October 2028 | 27 February 2029 | No maturity |
| 14 | Issuer call subject to regulatory approval | Yes | Yes | Yes | Yes | Yes | Yes |
| 15 | of which: Optional call date, contingent call dates | 21 December 2020, redemption | At least five years after the end of the preference share | 25 September 2023, redemption in full | 29 October 2023, redemption in full | 27 February 2029, redemption in full | The first call date is 15 November 2024, |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | and redemption amount | in full | issue (27 December 2017), redemption in full or in part | | | | redemption in full or in part |
| 16 | of which: Subsequent call dates, if applicable | N/A | The redemption term of the preference shares starts from the beginning of such term to the date when all the preference shares have been wholly redeemed or converted. | N/A | N/A | N/A | Every 15 November after the first call date |
| | Coupons / dividends | | | | | | |
| 17 | of which: Fixed or floating dividend / coupon | Fixed | Adjustable dividend rate (benchmark rate plus the fixed interest spread) by stages is adopted, benchmark rate is adjustable every five years, and the dividend rate during each adjusting period remains unchanged. | Fixed | Fixed | The interest rate is fixed for the first five years and is adjusted based on the interest rate at the coupon rate reset date for the consecutive five years. | Adjustable coupon rate (benchmark rate plus the fixed interest spread) by stages is adopted, benchmark rate is adjustable every five years, and the coupon rate during each adjusting period remains unchanged. |
| 18 | of which: Coupon rate and any related index | 4% | The dividend yield fixed at 4.75% for the first five years, is reset based on the five-year Chinese government bond rate plus the fixed interest spread (0.89%) at the dividend reset date for the consecutive five years, and the dividend yield during each reset period remains unchanged (the first dividend yield reset date is 21 December 2022 and the subsequent reset date is 21 December of every 5 years thereafter). | 4.86% | 4.7% | The fixed interest rate fixed at 4.25% for the first five years, is reset based on the five-year US government bond rete plus the initial interest spread (1.88%) at the reset date for the consecutive five years. | The dividend coupon at 4.22% for the first five years, is reset based on the five-year Chinese government bond rate plus the fixed interest spread (1.16%) at the coupon rate reset date for the consecutive five years, and the coupon rate during each reset period remains unchanged (the first coupon rate reset date is 15 November 2024 and the subsequent reset date is 15 November of every 5 years thereafter). |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 19 | of which: Existence of dividend brake mechanism | No | Yes | No | No | No | Yes |
| 20 | of which: Fully discretionary, partially discretionary or non-discretionary | Non-discretionary | Fully discretionary | Non-discretionary | Non-discretionary | Non-discretionary | Fully discretionary |
| 21 | of which: Existence of redemption incentive mechanism | No | No | No | No | No | No |
| 22 | of which: Noncumulative or cumulative | Noncumulative | Noncumulative | Noncumulative | Noncumulative | Noncumulative | Noncumulative |
| 23 | Convertible or non-convertible | No | Yes | No | No | No | No |
| 24 | of which: If convertible, specify conversion trigger(s) | N/A | Additional Tier 1 capital instruments triggers or additional Tier 2 capital instruments triggers | N/A | N/A | N/A | N/A |
| 25 | of which: If convertible, specify if it is fully or partially | N/A | Fully or partially convertible for additional Tier 1 capital instruments triggers, and fully convertible for additional Tier 2 capital instruments triggers | N/A | N/A | N/A | N/A |
| 26 | of which: If convertible, specify conversion rate | N/A | The initial conversion price is the average trading price of A shares of the Bank for the 20 trading days preceding the date of publication of the Board resolution in respect of the issuance plan of the preference shares (namely RMB5.20 per share). Since the date when the Board of Directors passed the resolution to issue the preference shares, Where the Bank distributes bonus shares or stock dividends for A ordinary shareholders, issues new shares at a price lower than the market price | N/A | N/A | N/A | N/A |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | (excluding the shares converted from financing instruments that are issued by the Bank and subject to the clauses of conversion into ordinary shares) and makes rights issue after the plan on the preference share issuance is approved by the Board of Directors, the Bank will accumulatively adjust the conversion price in sequence for the matters above, excluding the situation where the bank declares cash dividend of ordinary shares. In case of cancellation of repurchased shares, merger, split-up or other circumstances that may lead to changes in the Bank's share class, number and / or shareholders' equity and thereby affect the rights and interests of the preference shareholders, the Bank shall have the right to adjust the forced conversion price in a fair and impartial manner, so as to fully protect and balance the rights and interests of the preference shareholders and the ordinary shareholders. | | | | |
| 27 | of which: If convertible, specify if it is non-discretionary or optional conversion | N/A | Yes | N/A | N/A | N/A | N/A |
| 28 | of which: If convertible, specify instrument type convertible into | N/A | Common Equity Tier 1 capital | N/A | N/A | N/A | N/A |
| 29 | of which: If convertible, specify issuer of | N/A | CCB | N/A | N/A | N/A | N/A |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | instrument it converts into | | | | | | |
| 30 | Write-down feature | Yes | No | Yes | Yes | Yes | Yes |
| 31 | of which: If write-down, specify write-down trigger(s) | Write-down is triggered at the earlier of following situations: (1) CBIRC 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. | N/A | Write-down is triggered at the earlier of following situations: (1) CBIRC 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 following situations: (1) CBIRC 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 following situations: (1) CBIRC 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 available. | 1. Triggering event of Additional Tier 1 capital instruments is where the Common Equity Tier 1 capital adequacy ratio drops to 5.125% (or below).<br>2. The triggering event of Tier 2 capital instrument refers to the earlier of following situations: (1) CBIRC 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 available. When the principal of the bond is partially or fully written down, the bond will be written off perpetually and never recovers again. |
| 32 | of which: If write-down, specify if it is full or partial | Partial/Full | N/A | Partial/Full | Partial/Full | Partial/Full | 1. Partial/full when Additional Tier 1 capital instruments trigger events occur.<br>2. Full when Tier 2 capital instruments triggering events occur. |
| 33 | of which: If write-down, | Permanent | N/A | Permanent | Permanent | Permanent | Permanent |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | specify if it is permanent or temporary | | | | | | |
| 34 | of which: If temporary write-down, specify the description of write-up mechanism | N/A | N/A | N/A | N/A | N/A | N/A |
| 35 | Hierarchy of claims in liquidation (specify instrument types with a higher priority ranking) | Junior to depositors and general creditors, the same priority with other Tier 2 capital instruments with the same priority. | Junior to all depositors, general creditors, and Tier 2 capital instrument issued or guaranteed by the Bank, and other capital instruments senior to preference shares, the same priority with Additional Tier 1 capital instruments with the same priority. | Junior to depositors and general creditors, the same priority with other Tier 2 capital instruments with the same priority. | Junior to depositors and general creditors, the same priority with other Tier 2 capital instruments with the same priority. | Junior to depositors and general creditors, the same priority with other Tier 2 capital instruments with the same priority. | Junior to depositors, the general creditors and the subordinated debt above the undated additional tier 1 capital bond, and senior to equity capitals, the same priority with Additional Tier 1 capital instruments with the same priority. |
| 36 | Non-eligible transitioned features | No | No | No | No | No | No |
| 37 | of which: If yes, specify non-eligible features | N/A | N/A | N/A | N/A | N/A | N/A |

# DEFINITIONS

In this report, unless the context otherwise requires, the following terms shall have the meanings set out below.

| | |
|---|---|
| Bank | China Construction Bank Corporation |
| Group, CCB | China Construction Bank Corporation and its subsidiaries |
| Basis Point | 1% of one percentage point |
| CCB Brasil | China Construction Bank (Brasil) Banco Múltiplo S/A |
| CCB Russia | China Construction Bank (Russia) Limited Liability Company |
| CCB London | China Construction Bank (London) Limited |
| CCB Europe | China Construction Bank (Europe) S.A. |
| CCB New Zealand | China Construction Bank (New Zealand) Limited |
| CCB Asia | China Construction Bank (Asia) Corporation Limited |
| CCB Property & Casualty | CCB Property & Casualty Insurance Co., Ltd. |
| CCB Principal Asset Management | CCB Principal Asset Management Co., Ltd. |
| CCB Futures | CCB Futures Co., Ltd. |
| CCB Life | CCB Life Insurance Company Limited |
| CCB Trust | CCB Trust Co., Ltd. |
| CCB Pension | CCB Pension Management Co., Ltd. |
| CCB Capital | CCB Principal Capital Management Co., Ltd |
| CCB Financial Leasing | CCB Financial Leasing Corporation Limited |
| CCB International | CCB International (Holdings) Limited |
| CCB Malaysia | China Construction Bank (Malaysia) Berhad |
| PBOC | People’s Bank of China |
| CBRC | Former China Banking Regulatory Commission |
| CBIRC | China Banking and Insurance Regulatory Commission |
| RMB | Renminbi |
| Sino-German Bausparkasse | Sino-German Bausparkasse Co., Ltd. |
| PRC GAAP | Accounting Standards for Business Enterprises promulgated by the MOF on 15 February 2006 and other relevant requirements |