INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED

2014 Capital Adequacy Ratio Report

CONTENTS

This report is prepared in both Chinese and English. In case of discrepancy between the two versions, the Chinese version shall prevail.

1. Introduction

1.1 Company Profile

Industrial and Commercial Bank of China Limited, formerly known as Industrial and Commercial Bank of China, was established on 1 January 1984. On 28 October 2005, the Bank was wholly restructured to a joint-stock limited company. On 27 October 2006, the Bank was successfully listed on both SSE and SEHK. The Bank has its presence in six continents, and its overseas network has expanded to 41 countries and regions. The Bank provides comprehensive financial products and services to 5,090 thousand corporate customers and 465 million personal customers by virtue of the distribution channels consisting of 17,122 domestic institutions, 338 overseas institutions and 2,007 correspondent banks worldwide, as well as through its E-banking network comprising a range of Internet and telephone banking services and self-service banking centers, forming a diversified and internationalized operating structure focusing on commercial banking business and maintaining a leading position in the domestic market in the commercial banking sector.

1.2 Disclosure Basis

This report is prepared and disclosed in accordance with the Capital Regulation promulgated by CBRC in June 2012 and related regulations.

1.3 Disclosure Statement

The report contains forward-looking statements on the Bank's financial positions, business performance and development. The statements are made based on existing plans, estimates and forecast, and bear upon future external events or the Group's future finance, business or performance in other aspects, and may involve future plans which do not constitute substantive commitment to investors, and hence shall not be unduly relied upon.

2. Scope of Calculation of Capital Adequacy Ratio

2.1 Investees' Consolidation Treatment under Capital Adequacy Ratio Calculation

The Bank calculated capital adequacy ratios at all tiers in accordance with the Capital Regulation. The scope of calculation of consolidated capital adequacy ratio includes the Bank and financial institutions in which the Bank directly or indirectly invested in accordance with the Capital Regulation.

TREATMENT OF DIFFERENT TYPES OF INVESTMENTS FOR THE CALCULATION OF CONSOLIDATED CAPITAL ADEQUACY RATIO

S/N	Type of investee	Treatment for the calculation of capital adequacy ratio
1	Financial institutions with majority voting rights or controlling interest (excluding insurance companies)	Included in the calculation of capital adequacy ratio
2	Insurance companies with majority voting rights or controlling interest	Excluded from the calculation of capital adequacy ratio, deducted corresponding capital investment from capital at all tiers; deducted the corresponding capital shortfall, if any
3	Significant minority investments in capital instruments issued by financial institutions	Excluded from the calculation of capital adequacy ratio, deducted the part of core tier 1 capital investments exceeding 10% of the Bank's core tier 1 capital and deducted all of additional tier 1 and tier 2 capital investments from corresponding tiers of capital. The part failing to reach the deduction threshold shall be calculated as risk-weighted assets
4	Non-significant minority investments in capital instruments issued by financial institutions	Excluded from the calculation of capital adequacy ratio and deducted the part of total investments exceeding 10% of the Bank's core tier 1 capital from corresponding tiers of regulatory capital. The part failing to reach the deduction threshold shall be calculated as risk-weighted assets
5	Minority investments in the equity of commercial entities	Excluded from the calculation of capital adequacy ratio and calculated as risk-weighted assets

At the end of 2014, the difference between the scope of the calculation of consolidated capital adequacy ratio and the scope of financial reporting consolidation is ICBC-AXA. Pursuant to the Capital Regulation, ICBC-AXA was excluded from the calculation of consolidated capital adequacy ratio.

2.2 Major Investees Included in and Deducted from the Calculation of Capital Adequacy Ratio

TOP 10 INVESTEES INCLUDED IN THE CALCULATION OF CAPITAL ADEQUACY RATIO

In RMB millions, except for percentages

S/N	Name of investee	Balance of investment	Shareholding percentage (%)	Place of incorporation	Principal activities
1	ICBC (Asia)	30,265	100.00	Hong Kong, China	Commercial banking
2	ICBC Leasing	11,000	100.00	Tianjin, China	Leasing
3	ICBC (Macau)	8,033	89.33	Macau, China	Commercial banking
4	ICBC (Thai)	4,898	97.86	Bangkok, Thailand	Commercial banking
5	ICBC (Argentina)	4,521	80.00	Buenos Aires, Argentina	Commercial banking
6	ICBC International	4,066	100.00	Hong Kong, China	Investment banking
7	ICBC (Indonesia)	1,883	98.61	Jakarta, Indonesia	Commercial banking
8	ICBC (Europe)	1,794	100.00	Luxembourg	Commercial banking
9	ICBC (USA)	1,609	80.00	New York, USA	Commercial banking
10	ICBC (London)	1,579	100.00	London, UK	Commercial banking

INVESTEES DEDUCTED FROM REGULATORY CAPITAL

In RMB millions, except for percentages

S/N	Name of investee	Balance of investment	Shareholding percentage (%)	Place of incorporation	Principal activities
1	ICBC-AXA	5,700	60.00	Shanghai, China	Insurance

2.3 Capital Deficiencies and Restrictions on Capital Transfer

As at the end of 2014, there is no capital deficiency in the financial institutions in which the majority or controlling interests is held by the Bank as measured in accordance with local regulatory requirements. During the reporting period, there is no material restriction on the fund transfer within the Group.

3. Capital and Capital Adequacy Ratio

3.1 Implementation of Advanced Capital Management Approaches

In April 2014, CBRC officially approved the Bank’s implementation of advanced capital management approaches. In accordance with the implementation terms of the approval, the foundation internal ratings-based (IRB) approach has been adopted for corporate credit risk, the IRB approach for retail credit risk, the internal model approach (IMA) for market risk and the standardized approach for operational risk.

CHANGES IN VARIOUS RISK MEASUREMENT APPROACHES

<table>
<tr><th>Risk type</th><th colspan="2">At 31 December 2014</th><th>At 31 December 2013</th></tr>
<tr><td rowspan="4">Credit risk</td><td>Parts covered by internal ratings-based approach</td><td></td><td rowspan="4">Weighted approach</td></tr>
<tr><td>Corporate risk exposure</td><td>Foundation internal ratings-based approach</td></tr>
<tr><td>Retail risk exposure</td><td>Internal ratings-based approach</td></tr>
<tr><td>Parts uncovered by internal ratings-based approach</td><td>Weighted approach</td></tr>
<tr><td rowspan="2">Market risk</td><td>Parts covered by internal model approach</td><td>Internal model approach</td><td rowspan="2">Standardized approach</td></tr>
<tr><td>Parts uncovered by internal model approach</td><td>Standardized approach</td></tr>
<tr><td>Operational risk</td><td colspan="2">Standardized approach</td><td>Basic indicator approach</td></tr>
</table>

3.2 Capital Adequacy Ratio

RESULTS OF CAPITAL ADEQUACY RATIO CALCULATION OF THE GROUP AND PARENT COMPANY

In RMB millions, except for percentages

Item	At 31 December 2014		At 31 December 2013	
	Group	Parent Company	Group	Parent Company
Calculated in accordance with the Capital Regulation:				
Net core tier 1 capital	1,486,733	1,393,120	1,266,841	1,190,490
Net tier 1 capital	1,521,233	1,427,548	1,266,859	1,190,490
Net capital base	1,812,137	1,699,357	1,572,265	1,478,863
Core tier 1 capital adequacy ratio	11.92%	12.05%	10.57%	10.58%
Tier 1 capital adequacy ratio	12.19%	12.35%	10.57%	10.58%
Capital adequacy ratio	14.53%	14.70%	13.12%	13.14%
Calculated in accordance with the Regulation Governing Capital Adequacy Ratio of Commercial Banks and related regulations:				
Core capital adequacy ratio	11.49%	11.82%	10.62%	10.86%
Capital adequacy ratio	14.29%	14.35%	13.31%	13.25%

3.3 Capital Composition

As at the end of 2014, the core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio calculated by the Bank in accordance with the Capital Regulation stood at 11.92%, 12.19% and 14.53%, respectively, complying with regulatory requirements. In 2014, the Bank's profits maintained continuous growth and effectively replenished the core tier 1 capital. The Bank proactively carried out external capital replenishment and effectively replenished the additional tier 1 capital and tier 2 capital. Meanwhile, the Bank further reinforced its capital constraint mechanism so that the growth rate of risk-weighted assets was controlled effectively and that the capital adequacy ratio remained at a moderate level. In addition, the adoption of advanced capital measurement approaches had a positive impact on the Bank's capital adequacy ratio.

CAPITAL ADEQUACY RATIO OF THE GROUP CALCULATED IN ACCORDANCE WITH THE CAPITAL REGULATION

In RMB millions, except for percentages

Item	At 31 December 2014	At 31 December 2013
Core tier 1 capital	**1,498,403**	**1,276,344**
Paid-in capital	353,495	351,390
Valid portion of capital reserve	144,874	108,202
Surplus reserve	150,752	123,870
General reserve	221,622	202,940
Retained profits	650,308	512,024
Valid portion of minority interests	2,191	1,956

Others	(24,839)	(24,038)
Core tier 1 capital deductions	**11,670**	**9,503**
Goodwill	8,487	8,049
Other intangible assets other than land use rights	1,279	1,474
Cash flow hedge reserves that relate to the hedging of items that are not fair valued on the balance sheet	(3,796)	(3,920)
Investment in core tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	5,700	3,900
Net core tier 1 capital	**1,486,733**	**1,266,841**
Additional tier 1 capital	**34,500**	**18**
Additional tier 1 capital instruments and related premium	34,428	-
Valid portion of minority interests	72	18
Net tier 1 capital	**1,521,233**	**1,266,859**
Tier 2 capital	**306,704**	**324,806**
Valid portion of tier 2 capital instruments and related premium	187,829	189,877
Surplus provision for loan impairment	118,633	134,857
Valid portion of minority interests	242	72
Tier 2 capital deductions	**15,800**	**19,400**
Significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	15,800	19,400
Net capital base	**1,812,137**	**1,572,265**
Risk-weighted assets(1)	**12,475,939**	**11,982,187**
Core tier 1 capital adequacy ratio	**11.92%**	**10.57%**
Tier 1 capital adequacy ratio	**12.19%**	**10.57%**
Capital adequacy ratio	**14.53%**	**13.12%**

Note: (1) As at the end of 2014, this refers to risk-weighted assets after capital floor and adjustments.

For information disclosed in accordance with the CBRC's Notice on Issuing Regulatory Documents on Capital Regulation for Commercial Banks Appendix 2 Notice on Enhancing Disclosure Requirements for Composition of Capital, please refer to the Appendixes of this report, including Capital Composition, Balance Sheet at the Group's level (financial consolidation and regulatory consolidation), Illustrated Balance Sheet, Mapped Components of Balance Sheet to Capital Items as well as Main Features of Eligible Capital Instruments.

CAPS IN THE CAPITAL CALCULATION

In RMB millions

Item	**At 31 December 2014**	**At 31 December 2013**
I. Valid caps of surplus provision for loan impairment in tier 2 capital		
Parts covered by internal ratings-based approach		

Provision for loan impairment under the internal ratings-based approach	242,040	—
Expected loss under the internal ratings-based approach	125,418	—
Surplus provision for loan impairment under the internal ratings-based approach	116,622	—
Valid cap of provision for loan impairment to tier 2 capital under the internal ratings-based approach irrespective of adjustment during the parallel period	44,868	—
Valid portion of surplus provision for loan impairment in tier 2 capital during the parallel period	108,949	—
Parts uncovered by internal ratings-based approach		
Provision for loan impairment under the weighted approach	15,541	240,959
Minimum requirement on provision for loan impairment under the weighted approach	5,857	93,689
Surplus provision for loan impairment under the weighted approach	9,684	147,270
Valid cap of provision for loan impairment in tier 2 capital under the weighted approach	45,050	134,857
Valid portion of surplus provision for loan impairment in tier 2 capital	9,684	134,857

II. Deduction cap for items applicable to thresholds deduction		
Non-significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	33,067	26,898
Relevant cap	148,673	126,684
Deductible portion	-	-

Significant minority investments in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	26,658	27,893
Relevant cap	148,673	126,684
Deductible portion	-	-

Deferred tax assets arising from temporary differences	24,569	28,724
Relevant cap	148,673	126,684
Deductible portion	-	-

Significant minority investments in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation and deferred tax assets arising from temporary differences	51,227	56,617

	Relevant cap	223,010	190,026
	Deductible portion	-	-

For changes in share capital of the Bank during the reporting period, please refer to "Details of Changes in Share Capital and Shareholding of Substantial Shareholders" in the 2014 Annual Report. For material capital investment activities of the Bank during the reporting period, please refer to "Significant Events" in the 2014 Annual Report.

3.4 Measurement of Risk-Weighted Assets

RISK-WEIGHTED ASSETS

In RMB millions

Item	At 31 December 2014	At 31 December 2013
Credit risk-weighted assets	11,091,736	10,923,428
Parts covered by internal ratings-based approach	7,478,053	—
Parts uncovered by internal ratings-based approach	3,613,683	—
Market risk-weighted assets	79,189	78,283
Parts covered by internal model approach	68,888	—
Parts uncovered by internal model approach	10,301	—
Operational risk-weighted assets	1,068,357	980,476
Risk-weighted assets increased due to applying capital floor	236,657	—
Total	**12,475,939**	**11,982,187**

3.5 Internal Capital Adequacy Assessment

The Bank's internal capital adequacy assessment comprises the substantive risk assessment, capital adequacy forecast and integrated stress testing. The substantive risk assessment system provides an assessment on all substantive risks of the Bank and conducts a comprehensive analysis on the risk profile and management status of various substantive risks. The capital adequacy forecast is to forecast changes in risk-weighted assets and capital, taking into account the Bank's business planning and financial planning so as to further predict the capital adequacy levels in the following years. The integrated stress testing is to set stress scenarios reflecting business operation, asset-liability portfolio and risk features of the Bank under the premise of analysis on future macroeconomic trends to work out changes in indicators such as capital adequacy ratios of the Bank under the stress scenarios.

3.6 Capital Planning and Management Plan for Capital Adequacy Ratios

In 2012, the Board of Directors and the Shareholders' General Meeting of the Bank reviewed and approved the 2012-2014 Capital Planning of ICBC in accordance with the Capital Regulation. During the planning period, by reinforcing external capital replenishment, undertaking external market financing and intensifying economic capital management, the Bank successfully achieved the planned target for capital adequacy ratio and maintained the same at a high level within the industry. The Bank has further strengthened its capital strength and vigorously supported the development and internationalization of various businesses and the implementation of the integration strategy.

In 2014, the Board of Directors and the Shareholders' General Meeting of the Bank reviewed and approved the 2015-2017 Capital Planning of ICBC in response to the new economic and financial trends and regulatory requirements. Comprehensively taking into account domestic and overseas regulatory requirements and the needs for sustainable development and shareholder return, the Planning defined the capital management objectives and specific measures to be undertaken. During the new planning period, the Bank will endeavor to ensure that capital adequacy ratios at all tiers comply with regulatory rules of China and regulatory requirements on capital surcharges of Global Systemically Important Banks. The Bank will also endeavor to maintain a safety margin and buffer, so as to support its strategic development and prevent capital adequacy ratio from falling below the regulatory requirement due to unforeseen circumstances. On the basis of keeping capital adequacy ratio at a reasonable level, the Bank will attach great importance to the balance between capital adequacy and return on capital, and maintain stable performance of capital adequacy ratio. Moreover, the Bank will continue to strengthen capital replenishment and coordinated management on capital use, further improve capital management mechanism and deepen the reform on economic capital management to increase capital use efficiency and return on capital.

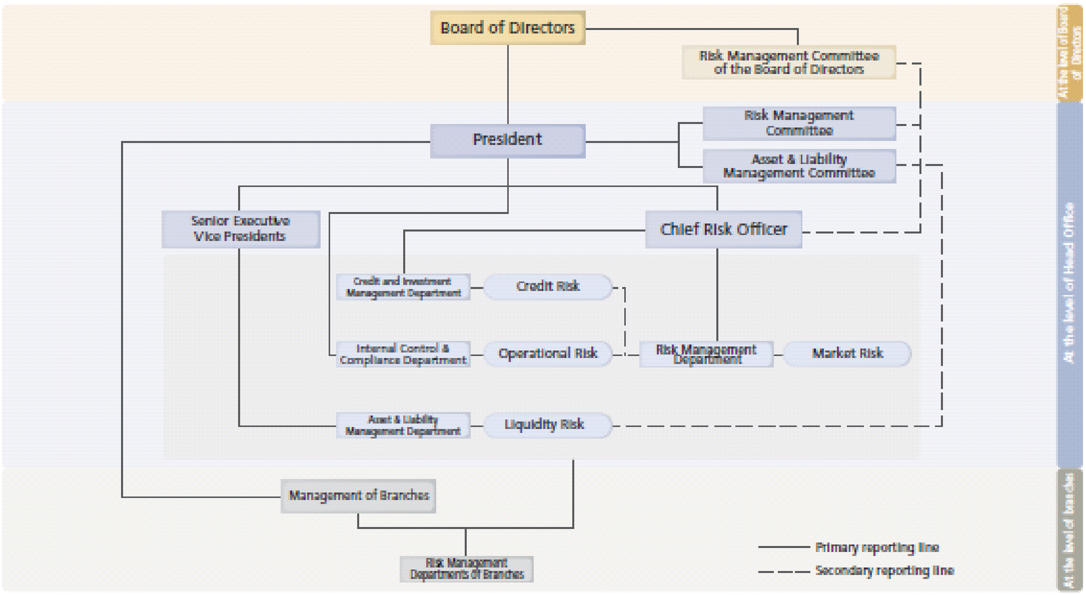
The Capital Regulation specifies that Chinese commercial banks shall ensure that their capital adequacy ratio will comply with new regulatory requirements by the end of 2018 and encourages qualified commercial banks to achieve the compliance ahead of the schedule. In accordance with relevant regulatory policies and the Compliance Planning for Capital Adequacy Ratio of Industrial and Commercial Bank of China, the Bank's capital adequacy ratios at all tiers had reached the regulatory standard during the reporting period and will continue to fulfill the regulatory requirements.

The Bank proactively carried out external capital replenishment and constantly promoted the issuance of new capital instruments on the basis of achieving capital replenishment by retained profits. Pursuant to the issuance plans on eligible tier 2 capital instruments and preference shares as reviewed and approved by the Board of Directors of the Bank, the Bank issued tier 2 capital bonds worth of RMB20.0 billion in the national interbank bond market in August 2014 to replenish its tier 2 capital. In December 2014, the Bank privately offered non-cumulative, non-participating and perpetual offshore preference shares in U.S. dollar, Euro and Renminbi, raising total funds of around RMB34.55 billion. All of these funds (net of costs of issuance) were used to replenish additional tier 1 capital. As a result of the issuance of preference shares and tier 2 capital instruments, the Bank further strengthened its capital strength and ability to support the real economy, optimized its capital structure and raised its risk resistance capability. For details on the issuance of tier 2 capital bonds and offshore preference shares, please refer to the announcements published by the Bank at the websites of SEHK and SSE.

4. Enterprise Risk Management System

Enterprise risk management is a process where the Board of Directors, the Senior Management and other employees of the Bank perform their respective duties and responsibilities to take effective control of all the risks at various business levels in order to provide reasonable guarantee to the achievement of objectives of the Bank. The principles of risk management include matching return with risk, internal check and balance with consideration as to efficiency, risk diversification, combination of quantitative and qualitative analysis, dynamic adaptability adjustments and gradual improvement, etc.

The Bank's organizational structure of risk management comprises the Board of Directors and its special committees, the Senior Management and its special committees, the Risk Management Department, the Internal Audit Department, etc. The risk management organizational structure is illustrated below:



Note: Substantial risks including country risk and reputational risk have been incorporated into the enterprise risk management framework.

In 2014, the Bank further improved the enterprise risk management system, proactively implemented domestic and overseas regulatory requirements on systemically important banks, strengthened the development of enterprise risk management regulations, and further strengthened the risk appetite and risk limit management system. It reinforced consolidated risk management at the Group level, with the focus on risk management of non-banking subsidiaries. It also reinforced country risk management and strengthened country risk monitoring and reporting and limit management. The Bank also propelled the implementation of advanced capital management approaches and improved the measurement system, system development and management application concerning credit risk, market risk and operational risk. Accordingly, the Bank further improved the level of its enterprise risk management.

5. Credit Risk

The Bank is primarily exposed to credit risk. Credit risk is the risk that loss is caused to banking business when the borrower or counterparty fails to meet its contractual obligations. The Bank's credit risks mainly originate from loans, treasury operations (including due from banks, placements with banks, reverse repurchase agreements, corporate bonds and financial bonds investment), receivables and off-balance sheet credit business (including guarantees, commitments and financial derivatives trading).

5.1 Credit Risk Management

The Bank strictly adheres to the guidance from CBRC regarding credit risk management and other regulatory requirements, diligently fulfills established strategies and objectives under the leadership of the Board of Directors and the Senior Management, implements an independent, centralized and vertical credit risk management mode. The Board of Directors assumes the finial responsibility to the effectiveness of the implementation and monitoring of credit risk management. The Senior Management is responsible for executing the strategies, overall policy and system regarding credit risk management approved by the Board of Directors. The Risk Management Committee of the Senior Management is the review and decision-making organ of the Bank in respect of credit risk management, is responsible for reviewing material and important affairs of credit risk management, and performs its duty in accordance with the Working Regulations for the Credit Risk Management Committee. The credit risk management departments at different levels undertake the responsibility of coordinating credit risk management at respective levels, and the business departments play their roles in implementing credit risk management policies and standards in respective business areas.

The Bank's credit risk management has the following characteristics: (1) standardized credit management processes are followed throughout the Bank; (2) the principles and processes of risk management focus on the entire process of credit business, covering customer investigation, credit rating, loan evaluation, loan review and approval, loan payment and post-lending monitoring; (3) special organization is set up to supervise the entire process of credit business; (4) the qualification of the employees who are responsible for credit review and approval is strictly reviewed; and (5) a series of information management systems are designed to reinforce monitoring on the risks.

According to the regulatory requirement on loan risk classification, the Bank implemented five-category classification management in relation to loan quality and classified loans into five categories: pass, special mention, substandard, doubtful and loss, based on the possibility of collecting the principal and interest of loans. In order to implement sophisticated management of credit asset quality and improve risk management, the Bank implemented the 12-category internal classification system for corporate loans. The Bank applied five-category classification management to personal credit assets and ascertained the category of the loans based on the number of months for which the lender is in default, anticipated loss rate, credit rating, collaterals and other quantitative and qualitative factors.

In 2014, in response to the changes in the macroeconomic environment and financial regulatory requirements, the Bank proactively innovated the credit risk management mechanism and means, enhanced the foresight and effectiveness of risk prevention and control, and continuously improved credit risk management. The Bank set up a credit risk monitoring center, and strengthened the dynamic monitoring and real time forewarning of credit risk using big data technology. The Bank continued to reinforce credit asset quality management, enhance NPL management, recovery and disposal, and maintain stable credit asset quality on the whole.

- **Credit Risk Management of Corporate Loans**

The Bank continued to strengthen the formation of the credit rule framework and improve credit system. The Bank improved loan guarantee management and revised the administrative measures for loan guarantee. The Bank designed the new version of basic operating procedures for credit business of corporate customers and enhanced the control over risks throughout the whole process of credit business while optimizing and integrating business processes. The Bank expedited the improvement of rules for Internet-based financing business, and formulated the rules and measures relative to the supporting credit products of e-mall platform.

The Bank continuously adjusted and improved industrial credit policy in accordance with the macroeconomic policy, the prevailing trends of industry policy and the characteristics of the operation of the industry. The Bank vigorously supported the development of advanced manufacturing industry, modern services, cultural industry and strategic emerging industries, highlighted key indicators such as resource consumption, benefit and environmental protection in industrial credit policy, strictly controlled the loans to local government financing vehicles (LGFVs) and real estate industry, and focusing on preventing industry-specific systemic risks.

The Bank strengthened risk management of loans to LGFVs. The Bank strictly implemented various loan policies and regulatory requirements of CBRC on loans to LGFVs. The Bank also strengthened the control over total financing amount and adjusted credit direction dynamically and further optimized the loan structure.

The Bank strengthened risk management of the real estate industry. The Bank closely monitored the risk changes in the real estate market of each place and reinforced the control over total amount of financing for real estate development. It also formulated strict customer and project eligibility criteria, enhanced the monitoring of risks from outstanding real estate loans and promptly took measures to prevent and mitigate project risk.

The Bank strengthened risk management in relation to trade finance. The Bank revised domestic trade finance and supply chain finance policy, in order to strengthen the prevention and control of trade finance business risk. The Bank modified and improved trade finance product rules to fortify the foundation for product management. The Bank enhanced the inspection on the truthfulness of trade background, and specially reinforced the refined management of trade finance with the focus on preventing and combating fraudulent transactions. The Bank perfected supply chain finance management, tightened the core enterprise eligibility criteria and reinforced the supply chain financing limit management. The Bank also strengthened the quality management of trade finance assets.

The Bank strengthened risk management of small enterprise loans. The Bank reinforced the small enterprise credit market plan, and promptly adjusted credit policies of small enterprises. The Bank reinforced credit orientation management on small enterprises and improved post-lending management. The Bank inspected and evaluated risks of small enterprises involved in industries with excessive capacity, strictly controlled total financing amount, and promptly took effective risk management measures to avoid systematic risks. Furthermore, the Bank optimized credit business system for small enterprises, applied big data to create the risk monitoring model, and increased accuracy and timeliness of risk pre-warning.

- **Credit Risk Management of Personal Loans**

The Bank improved the credit risk management system for personal loans, proactively adjusted personal credit product structure, optimized credit resource allocation and further perfected the management of credit risk on personal loans. The Bank continued to push forward the personal customer financing limit management, improved limit management process and realized the differentiated approval of customer limits. The Bank bettered the classified approval process for residential mortgages, and continued to implement the differentiated housing credit policy. The Bank proactively furthered the innovation in personal consumer loan products. The Bank enhanced the personal loan compliance management to ensure the business legality and compliance.

- **Credit Risk Management of Credit Card Business**

In accordance with risk characteristics and trends of credit card business, the Bank improved credit card credit policies and reinforced dynamic and differentiated credit management of credit cards. The Bank strictly controlled the lending to the same customer by several branches, and adjusted personal credit card limit based on financing limit so as to effectively control the credit exposure. The Bank integrated the credit card approval system, and enhanced the precise credit of credit cards and credit risk prevention and control capability. The Bank extended the functions of dynamic management of credit cards and reinforced post-lending risk control. The Bank put into service the real-time intervention system for credit card authorization and the visible monitoring platform of big data of credit cards, improved business monitoring system and enhanced business monitoring and analysis capability. The Bank reinforced overdue loan collection management of credit cards, optimized and adjusted collection strategies and further strengthened the NPL collection and disposal of credit cards.

- **Credit Risk Management of Treasury Operations**

The Bank's treasury operations are exposed to credit risk mainly as a result of bonds investment and trading, interbank offering, bills with reverse repurchase agreements and RMB bonds borrowing. The RMB bond investment portfolio mainly included bonds issued by the Chinese government and other domestic issuers. The foreign currency debt securities investment portfolio mainly included investment-rated bonds. Most of the counterparties of RMB bonds borrowing business were financial peers with good asset quality. Credit risk management measures adopted by the Bank in relation to treasury operations mainly comprised defining customers' entry criteria, controlling credit limit, controlling investment limit (scale), strict margin management, rating management and controlling authorization limit for single transactions. Except for sovereign bonds, central bank bills and other government bonds, the Bank has purchased bonds of an entity within the credit line limit of that entity as approved by the Bank. The Bank set financing limits for each interbank offering and adopted the principle of management for both credit and authorization.

In 2014, the Bank continued to strengthen credit risk management of treasury operations. It further developed the credit risk management system for institutional customers, improved the risk monitoring and analysis mechanism and proactively optimized the structure of bonds investment portfolios based on international and domestic financial market trends, thus effectively reducing credit risk of bonds investment portfolios.

- **Risk Management of Financial Asset Service Business**

The Bank's financial asset service business is exposed to risks mainly as a result of credit risk of financing customers, management risk of partner institutions and market risk of price fluctuation of underlying assets. The Bank took various risk management measures in the financial asset service business. The Bank implemented measures to manage access of capital according to different business nature of financial asset business and risk management requirements, performed access approval process in terms of investment customers, financing customers, partner institutions, new business types, new products and domestic and overseas affiliates of financial asset service business according to applicable access standards, included business authorization into unified authorization management of the Bank, and established risk limit management system.

In 2014, in view of the Bank's core objective in building sound financial asset service policies and rules, the Bank kept enhancing the risk management level of financial asset service business. It formulated 10 policies, including basic rules on management of financial asset service business and administrative measures for direct investment under the wealth management plan. As a result, policies on agency investment business under financial asset service covered all products, all processes and all links, and policy and systems for financial asset service business were fully established. The Bank also further regulated the authorization of its agency investment business and accelerated the system development for its financial asset service business.

5.2 Credit Risk Exposure

EXPOSURE AT DEFAULT COVERED BY INTERNAL RATINGS-BASED APPROACH

In RMB millions

Item	At 31 December 2014
Corporate risk exposure	7,027,466
Retail risk exposure	3,041,593
Total	**10,069,059**

RISK EXPOSURE UNCOVERED BY INTERNAL RATINGS-BASED APPROACH

In RMB millions

Item	At 31 December 2014
On-balance sheet credit risk	11,415,730
Including: Cash assets	3,562,770
Claims on the central governments and central banks	1,304,337
Claims on Chinese financial institutions	3,357,016
Asset Securitization	4,853
Off-balance sheet credit risk	771,816
Counterparty credit risk	92,946
Total	**12,280,492**

5.3 Internal Ratings-based Approach

Governance Structure of Internal Rating System

The Board of Directors assumes the ultimate responsibility for the internal rating system of the Bank, supervises over and ensures formulation and implementation by the Senior Management of necessary internal rating policies and procedures, and approves major policies, rules and implementation plans regarding the internal rating system. The Senior Management is responsible for implementation of internal rating system management across the Bank. The Risk Management Department of the Head Office is responsible for design, development, implementation, monitoring and promotion of the internal rating system. The Credit Approval Department of the Head Office is responsible for organization and management of corporate customer rating of the Bank. Relevant departments of the Head Office including the Credit and Investment Management Department, the Personal Banking Department, the Bank Card Department, the Asset & Liability Management Department and the Finance & Accounting Department are responsible for application of the internal rating results. The Internal Audit Bureau of the Head Office is responsible for internal audit of the internal rating system. Risk management departments of the branches are responsible for operation monitoring, promotion, application, analysis and reporting of the internal rating system. Credit assets business management departments of the branches are responsible for investigation, implementation and rating results application regarding the internal rating system.

Non-retail Business

The Bank adopts the foundation IRB approach to measure non-retail credit risk with rating models established according to statistical measurement technologies as well as expert experience. The models assess debt-paying ability and willingness of customers based on financial indicators, competitiveness, management level and operation status of the customers from quantitative and qualitative aspects. Customer rating is determined by rating results and probability of default (PD) is mapped via the main scale uniformly set.

The Bank measures risk parameters of the internal rating models in strict accordance with relevant regulatory requirements. Under the non-retail credit risk foundation IRB, PD is determined by referring to past 10 years or more defaults of corporate customers of the Bank as well as the long-term default tendency of different asset portfolios. The internal rating parameters are maintained according to the provisions regarding management of internal rating parameters of the Bank and monitored and verified on a regular basis.

MEASUREMENT RESULTS OF NON-RETAIL CREDIT RISK UNDER FOUNDATION IRB APPROACH

In RMB millions, except for percentages

PD level	At 31 December 2014				
	Exposure at default	**Weighted average PD**	**Weighted average LGD**	**Risk-weighted assets**	**Average risk weight**
Level 1	758,094	0.32%	44.69%	441,657	58.26%
Level 2	831,252	0.50%	44.25%	583,329	70.17%
Level 3	1,399,419	0.74%	43.64%	1,119,323	79.98%
Level 4	1,960,177	1.17%	42.78%	1,744,549	89.00%
Level 5	1,183,950	2.09%	41.25%	1,149,614	97.10%
Level 6	598,129	3.29%	41.76%	660,682	110.46%
Level 7	158,268	4.46%	40.31%	184,321	116.46%
Level 8	24,935	6.06%	41.98%	33,969	136.23%
Level 9	11,892	8.22%	41.58%	17,595	147.96%
Level 10	7,464	13.97%	41.29%	13,551	181.55%
Level 11	10,516	20.00%	39.91%	20,452	194.48%
Level 12	83,370	100.00%	44.07%	214,824	257.68%
Total	**7,027,466**	**—**	**—**	**6,183,866**	**88.00%**

Retail Business

The Bank adopts IRB to measure retail credit risk, establishes the internal grading models covering entire life cycle of all types of retail products and asset pool classification and risk parameter measurement models covering all risk exposures of retail credit assets with the help of modeling methods and expert management experience, and realizes quantitative management of retail credit risk models.

The Bank conducts comprehensive analysis of loan repayment ability and willingness of customers by using modern mathematical statistics technologies to mine, analyze and extract data of customers, assets, debts and transactions, and develops the credit grading model system including application grading, behavior grading and collection grading models and realizing the coverage of entire life cycle of retail business.

According to relevant IRB requirements, the Bank has put in place asset pool classification procedures and technologies, developed the asset pool classification system applied to measurement of all risks and accordingly realized measurement of risk parameters for retail credit assets like probability of default (PD), loss given default (LGD) and exposure at default, etc.

MEASUREMENT RESULTS OF RETAIL CREDIT RISK UNDER IRB

In RMB millions, except for percentages

Type of risk exposure	At 31 December 2014				
	Exposure at default	**Weighted average PD**	**Weighted average LGD**	**Risk-weighted assets**	**Average risk weight**
Personal residential mortgages	2,045,644	1.61%	23.32%	540,492	26.42%
Eligible revolving retail loans	394,118	3.39%	53.05%	95,029	24.11%
Other retail loans	601,831	5.65%	35.01%	235,380	39.11%
Total	**3,041,593**	**—**	**—**	**870,901**	**28.63%**

Application of Internal Rating Results

The internal rating results of the Bank are widely used in all processes of credit risk management including customer access, credit approval, loan pricing, post-lending management, capital measurement, allowance management and performance assessment. While complying with the regulatory requirements, the Bank considers the internal rating results as an important base during decision-making over credit risk management and credit structural adjustment.

5.4 Weighted Approach

The Bank adopts weighted approach to measure credit risk exposures uncovered by the internal ratings-based approach (IRB).

RISK EXPOSURE UNCOVERED BY IRB BY WEIGHT

In RMB millions

Risk weight	Risk exposure at 31 December 2014
0%	6,713,965
20%	672,397
25%	1,236,931
50%	57,510
75%	282,865
100%	3,246,027
150%	11,140
250%	53,459
400%	2,171
1250%	4,027
Total	**12,280,492**

Note: The weights adopted in the weighted approach-based measurement of credit risk by the Bank are subject to relevant provisions of the Capital Regulation.

RISK EXPOSURE OF CAPITAL INSTRUMENTS ISSUED BY OTHER COMMERCIAL BANKS HELD BY THE BANK, EQUITY INVESTMENT IN COMMERCIAL ENTITIES AND REAL ESTATE FOR NON-SELF USE

In RMB millions

Item	At 31 December 2014
Ordinary shares issued by other commercial banks	27,454
Long-term subordinated bonds issued by other commercial banks	8,222
Equity investment in commercial entities	3,745
Total	**39,421**

5.5 Credit Risk Mitigation

The Bank generally transfers or lowers credit risk through collaterals and guarantees. The credit risk mitigation instruments effectively cover credit risk exposure of borrowers. The Bank reviews its risk mitigation instruments in the credit business to ensure their credit risk mitigation capability.

The Bank monitors the market value of collaterals and pledges and the solvency of a guarantor regularly or irregularly if special circumstances warrant. Collaterals mainly include land, houses and buildings, and pledges mainly include certificates of deposit, bank's promissory notes and bank's acceptance bills, etc. Collaterals and pledges valuation procedures are divided into general procedures and direct identification procedures. General procedures include investigation (measurement), review and approval; direct identification procedures means the valuer directly identifies the value of collaterals and pledges without going through the review and approval procedures. Low-risk guarantees and collaterals and pledges subject to special requirements of the Bank can be evaluated through direct identification procedures. Revaluation cycle of collaterals and pledges is determined according to regulatory requirements, changes of market and other risk factors, and revaluation shall be completed before the revaluation cycle expires. If market price or price index of assets under the same category experiences sharp decline, the Bank will initiate a non-cyclical revaluation of collaterals and pledges.

The Bank analyzes concentration risk of risk mitigation regularly or according to changes in internal and external environment, and takes appropriate countermeasures. Through the Bank's efforts in adjusting credit structure, the Bank continues to improve the structure of collaterals and pledges and reduces concentration risk by credit structure adjustment.

COVERAGE OF ELIGIBLE RISK MITIGATION INSTRUMENTS COVERED BY INTERNAL RATINGS-BASED APPROACH

In RMB millions

Type of risk exposure	At 31 December 2014			
	Eligible financial pledge	Other eligible collaterals	Guarantee	Total
Non-retail business				
Corporate loans	66,177	1,154,505	344,262	1,564,944

Subtotal	**66,177**	**1,154,505**	**344,262**	**1,564,944**
Retail business				
Personal residential mortgages	-	2,045,644	-	2,045,644
Other retail loans	-	571,876	19,636	591,512
Subtotal	**-**	**2,617,520**	**19,636**	**2,637,156**
Total	**66,177**	**3,772,025**	**363,898**	**4,202,100**

5.6 Loan Quality and Allowance for Impairment Losses on Loans

DISTRIBUTION OF LOANS BY FIVE-CATEGORY CLASSIFICATION

In RMB millions, except for percentages

Item	At 31 December 2014		At 31 December 2013	
	Amount	Percentage (%)	Amount	Percentage (%)
Pass	10,582,050	95.97	9,632,523	97.08
Special mention	319,784	2.90	196,162	1.98
NPLs	124,497	1.13	93,689	0.94
Substandard	66,809	0.60	36,532	0.37
Doubtful	49,359	0.45	43,020	0.43
Loss	8,329	0.08	14,137	0.14
Total	**11,026,331**	**100.00**	**9,922,374**	**100.00**

OVERDUE LOANS

In RMB millions, except for percentages

Overdue periods	At 31 December 2014		At 31 December 2013	
	Amount	**% of total**	**Amount**	**% of total**
1 to 90 days	95,410	0.87	53,868	0.54
91 days to 1 year	65,134	0.59	36,230	0.37
1 to 3 years	35,152	0.32	20,848	0.21
Over 3 years	14,882	0.13	22,685	0.23
Total	**210,578**	**1.91**	**133,631**	**1.35**

Note: Loans and advances to customers are deemed overdue when either the principal or interest is overdue. For loans and advances to customers repayable by installments, the total amount of loans is deemed overdue if part of the installments is overdue.

CHANGES IN ALLOWANCE FOR IMPAIRMENT LOSSES ON LOANS

In RMB millions

	Individually assessed	**Collectively assessed**	**Total**
At the beginning of the year	**39,065**	**201,894**	**240,959**
Charge for the year	37,610	18,657	56,267
Including: Impairment allowances charged	59,516	134,411	193,927
Impairment allowances transferred	861	(861)	-
Reversal of impairment allowances	(22,767)	(114,893)	(137,660)
Accrued interest on impaired loans	(2,779)	-	(2,779)
Write-offs	(33,875)	(4,489)	(38,364)
Recoveries of loans and advances previously written off	1,224	274	1,498
At the end of the year	**41,245**	**216,336**	**257,581**

For provisioning method of allowance for impairment losses on loans, please refer to the Significant Accounting Policies and Estimates in the Notes to the Financial Statements of the 2014 Annual Report.

5.7 Counterparty Credit Risk

Counterparty credit risk is the risk that economic loss is caused when the counterparty fails to perform its contractual obligations. The Bank is exposed to counterparty credit risk mainly as a result of over-the-counter (OTC) derivatives trading and securities financing trading.

The counterparty shall meet relevant requirements on customer access standards before conducting derivatives trading with the Bank. The Bank assesses credit standing, risk management and capital strength of the counterparty, approved and regularly reviewed special credit extension for derivatives trading. Before trading, the Bank will first enquire whether the credit extension of the counterparty is adequate.

For certain OTC derivatives financial trading, the Bank concludes the Credit Support Appendix (CSA) under the ISDA master agreement with the counterparty, where collateral exchange rules are set out to reduce credit risk. The valuer as stipulated in the agreement regularly revaluates the trading and relevant collateral position, and the results after confirmation by both sides set the basis for delivery price of collaterals. The CSA sets out provisions on threshold amounts according to different credit ratings of the same counterparty and binds both sides to provide full-amount collaterals for the total risk exposure of existing transactions under the ISDA master agreement in excess of threshold amounts. Downgrading the credit rating of the counterparty will trigger the threshold amount provisions, requiring additional collaterals.

COUNTERPARTY RISK EXPOSURE OF OTC DERIVATIVES TRADING

In RMB millions

Item	At 31 December 2014	At 31 December 2013
Risk exposure of non-netting settlement		
Interest rate contracts	3,432	2,626
Currency contracts	39,648	47,770
Equity contracts	1	3
Commodity contracts	1,560	2,600
Credit derivatives	-	-
Total risk exposure of non-netting settlement	44,641	52,999
Including: Gross positive fair value of derivative contracts	24,048	24,815
Risk exposure of netting settlement	30	-
Total of credit risk exposure measured under the current exposure method	**44,671**	**52,999**
Risk mitigation impact of collaterals and risk hedging credit derivatives	**-**	**-**
Net credit risk exposure of derivatives	**44,671**	**52,999**

5.8 Asset Securitization

Asset securitization refers to structured financing activities where the originator, trusts credit assets to the trustee, and the trustee issues beneficiary securities in the form of asset-backed securities to institutional investors, the cash flow from the credit assets is used to pay income of asset-backed securities. All securitization originated by the Bank is traditional securitization.

Asset Securitization Business

The Bank participates in the asset securitization business mainly by acting as originator of asset securitization business, lending services provider and institutional investor.

- **As originator and lending services provider**

To further adjust the credit structure, diversify asset and capital management means and proactively promote business transformation, the Bank has originated four securitization projects since 2007, where underlying assets were all corporate loans. As originator and lending services provider, the Bank issued RMB21,196 million asset-backed securities on a cumulative basis, including RMB5,572 million issued in 2014. As at the end of 2014, some underlying assets of the asset securitization projects originated by the Bank were still retained. The projects ran smoothly, and the cash flow generated by the underlying assets pool was promptly paid to investors in full.

To raise long-term funds, reduce long and medium-term liquidity risk and support the development of various asset businesses, ICBC (Argentina), a subsidiary of the Bank, conducted several asset securitization businesses. In 2014, ICBC (Argentina) originated two asset securitization products.

ASSET SECURITIZATION BUSINESS ORIGINATED BY THE BANK AND NOT SETTLED AT THE END OF THE REPORTING PERIOD

In RMB millions

Asset securitization product	**Originating year**	**Exposure of underlying assets at origination**	**Exposure of underlying assets at the end of 2014**	**External credit rating institution**	**Originator**
2013 Gongyuan Phase I credit asset securitization trust project	2013	3,592	306	China Credit Rating Co., Ltd.	The Bank
2014 Gongyuan Phase I credit asset securitization trust project	2014	5,572	1,569	China Credit Rating Co., Ltd.	The Bank
ICBC (Argentina) asset securitization project — Phase VIII	2013	146	45	Fitch	ICBC (Argentina)
ICBC (Argentina) asset securitization project — Phase IX	2013	145	40	Fitch	ICBC (Argentina)
ICBC (Argentina) asset securitization project — Phase X	2013	154	60	Fitch	ICBC (Argentina)
ICBC (Argentina) asset securitization project — Phase XI	2014	141	54	Fitch	ICBC (Argentina)
ICBC (Argentina) asset personal commercial loans securitization project — Phase I	2014	138	71	Fitch	ICBC (Argentina)

As originator, the Bank held part of subordinated asset-backed securities in the asset securitization business, thereby continuing involvement of transferred credit assets. At the end of 2014, assets continued to be recognized by the Bank amounted to RMB268 million.

ICBC (Argentina) did not derecognize the underlying assets of these assets securitization. During the reporting period, provisions for impairment loss on retained underlying assets were RMB5 million.

- **As institutional investor**

The Bank invests in asset securitization products to diversify portfolios, improve liquidity and increase investment income, while undertaking credit risk and market risk of the asset securitization products invested.

For accounting policies regarding asset securitization, please refer to the Significant Accounting Policies and Estimates in the Notes to the Financial Statements of the 2014 Annual Report.

Asset Securitization Risk Exposure and Capital Requirement

The Bank measures asset securitization risk exposure and capital requirement according to the Capital Regulation. At the end of 2014, risk-weighted assets for asset securitization stood at RMB1,687 million and capital requirement RMB135 million.

ASSET SECURITIZATION RISK EXPOSURE

In RMB millions

Type of risk exposure	At 31 December 2014	At 31 December 2013
As originator		
Asset-backed securities	361	182
Subtotal	361	182
As investor		
Asset-backed securities	4,492	343
Mortgage-backed securities	-	54
Subtotal	4,492	397
Total	**4,853**	**579**

Asset Securitization Business as Originator

UNDERLYING ASSETS OF ASSET SECURITIZATION BUSINESS ORIGINATED BY THE BANK AND NOT SETTLED AT THE END OF THE REPORTING PERIOD

In RMB millions

Type of underlying assets	At 31 December 2014			At 31 December 2013		
	Exposure of underlying assets	Exposure of non-performing underlying assets	Exposure of overdue underlying assets	Exposure of underlying assets	Exposure of non-performing underlying assets	Exposure of overdue underlying assets
Corporate loans	1,875	-	-	1,250	-	-
Personal loans	270	16	16	522	14	46
Total	**2,145**	**16**	**16**	**1,772**	**14**	**46**

Note: Some underlying assets were overdue or became non-performing in the securitization businesses originated by ICBC (Argentina).

NEW ASSET SECURITIZATION BUSINESS ORIGINATED BY THE BANK DURING THE REPORTING PERIOD

In RMB millions

Type of underlying assets	**Exposure of underlying assets at origination**	**Exposure of underlying assets at the end of 2013**
Corporate loans	5,572	1,569
Personal loans	279	125
Total	**5,851**	**1,694**

Note: New asset securitization businesses originated by the Bank during the reporting period were all issued at par.

At the end of 2014, the Bank did not originate any asset securitization products with revolving underlying assets and early amortization feature.

6. Market Risk

Market risk is defined as the risk of loss to the Bank's on- and off-balance sheet activities caused by adverse movements in market rates (including interest rates, exchange rates, and stock price and commodity prices). The Bank is primarily exposed to interest rate risk and currency risk (including gold).

6.1 Market Risk Management

The Bank's market risk management is the process of identifying, measuring, monitoring, controlling and reporting market risk for the purposes of setting up and enhancing the market risk management system, specifying responsibilities and process, determining and standardizing the measurement approaches, limit management indicators and market risk reports, controlling and mitigating market risk and improving the level of market risk management. The objective of market risk management is to control market risk exposures within a tolerable level and maximize risk-adjusted return according to the Bank's risk appetite.

The Bank strictly complies with the Guidelines on Market Risk Management of Commercial Banks issued by CBRC and other related regulatory requirements, implemented an independent, centralized and coordinated market risk management model under the leadership of the Board of Directors and the Senior Management, and formed a management organizational structure featuring the segregation of the front office, the middle office and the back office in the financial market business. The Board of Directors assumes the ultimate responsibility to the implementation and monitoring of market risk management. The Senior Management is responsible for executing the strategies, overall policy and system regarding market risk management approved by the Board of Directors. The Market Risk Management Committee of the Senior Management is the review and decision-making organ of the Bank in respect of market risk management, and is responsible for reviewing important matters of market risk management, and performs its duty in accordance with the Working Regulations for the Market Risk Management Committee. The market risk management departments at different levels are responsible for coordinating the market risk management at respective levels, and the business departments play their roles in implementing market risk management policies and standards in respective business areas.

In 2014, the Bank continued to strengthen consolidated management of market risk and comprehensively enhanced the management and measurement of market risk at the Group's level. Besides, the Bank reinforced market risk limit management of the Group and accelerated overseas expansion of the global market risk management (GMRM) system. It also improved the automatic level of market risk control measures and enhanced data quality management. In addition, the Bank optimized market risk measurement models and promoted the application of risk measurement results in management practices.

6.2 Market Risk Measurement

CAPITAL REQUIREMENT FOR MARKET RISK

In RMB millions

Risk type	At 31 December 2014
Parts covered by internal model approach	**5,511**
Parts uncovered by internal model approach	**824**
Interest rate risk	824
Commodity risk	0
Total	**6,335**

Note: According to the implementation scope of the advanced capital management approaches approved by CBRC, parts covered by the market risk internal model approach of the Bank include currency risk of the Group, general interest rate risk of the parent company and ICBC (Canada) and commodity risk of the parent company. Parts uncovered by the internal model approach are measured by the standardized approach.

The Bank applied the Historical Simulation Method (adopting a confidence interval of 99%, holding period of ten days and historical data of 250 days) to measure the VaR, which is then used for capital measurement under the internal model approach.

VALUE AT RISK (VAR)

In RMB millions

Item	2014			
	Period end	Average	Maximum	Minimum
General VaR	**750**	**554**	**773**	**426**
Interest rate risk	171	107	205	25
Currency risk	811	558	830	402
Commodity risk	53	31	184	11
VaR under pressure	**1,375**	**1,050**	**1,428**	**754**
Interest rate risk	109	91	152	43
Currency risk	1,394	1,041	1,464	789
Commodity risk	73	44	133	22

The Bank carries out daily back-testing to verify the accuracy of VaR models. During the reporting period, the market risk measurement models of the Bank captured the financial market fluctuations and produced objective pictures of market risk faced by the Bank.

By virtue of the global market risk management (GMRM) system, the Bank conducted stress testing against different market stress scenarios, constantly enriched the content of stress testing and deepened the application of market risk stress testing results. The automation level of market risk stress testing of the Group was constantly improved due to the overseas extension of the GMRM system.

7. Operational Risk

Operational risk is defined as the risk of loss resulting from insufficient or problematic internal processes, employees and IT systems or from external events, including legal risk, but excluding strategic and reputational risk. There are seven major types of operational risks faced by the Bank, including internal fraud, external fraud, employment system and workplace safety, customers, products and business activities, damage to physical assets, IT system, execution and delivery and process management. Among these, customers, products and business activities, and external fraud constitute major sources of operational risk losses of the Bank.

7.1 Operational Risk Management

The Bank strictly followed the requirements of the Guidance to the Operational Risk Management of Commercial Banks issued by CBRC. Under the leadership of the Board of Directors and the Senior Management, the Bank adopted the operational risk control mode of "integrated management, classified control". The Board of Directors assumes relevant responsibility for the effectiveness of the operational risk management according to the Articles of Association, and the Senior Management is responsible for implementing the strategy, overall policy and system for operational risk management approved by the Board of the Directors. The Operational Risk Management Committee under the Senior Management, as the organizer and coordinator of operational risk management of the Bank, is responsible for reviewing and approving significant matters related to operational risk management according to the Working Regulations for the Operational Risk Management Committee. Marketing and product departments at all levels form the first line of defense of operational risk management, which assume direct responsibility for operational risk management in each business line. Internal control and compliance departments at various levels are comprehensive management departments for operational risk in institutions at various levels and assume the duty of operating the second line of defense of operational risk management, which are responsible for the overall management of operational risks of institutions at various levels and for the arrangement and organization for the establishment and implementation of operational risk management system at each level; discipline enforcement, security, human resources, IT, finance and accounting, legal affairs, operation management, credit management and risk management departments at all levels are classification control departments for operational risk in institutions at various levels, which are responsible for management and control on specific types of operational risk. These departments, together with comprehensive management departments, form the second line of defense of operational risk management. The internal audit departments at all levels are responsible for auditing and evaluating the operation of the operational risk management system, and form the third defense line.

Operational risk management objectives of the Bank are: to enhance the confidence of shareholders and the public by establishing a sound operational risk governance structure and improving operational risk management and control; to enhance customer satisfaction and employees' sense of belonging as well as overall services by identifying high-risk areas and resolving potential operational risks; to enhance operational efficiency of the Bank by improving process control and operational risk management resources allocation while weighing benefits against costs; to reduce operational risk losses of the Bank and improve the control ability and level by taking effective risk control and mitigation measures; to minimize the legal risk by conducting review and supervision and satisfying the external regulatory requirements.

The Bank adopts a differential operational risk management strategy: avoiding operational risks characterized with high severity and high frequency, transferring those characterized with high severity and low frequency, mitigating those characterized with low severity and high frequency, and affording those characterized with low severity and low frequency.

The Bank's operational risk management procedures include operational risk identification, assessment, control / mitigation, monitoring, measurement and reporting.

● Risk identification: The Bank identifies operational risk of new products and new businesses, operational risk event and operational risk loss event, etc.

● Risk assessment: The Bank formulates and implements management measures for operational risk and control self-assessment and scenario analysis, and makes comprehensive, timely, objective and forward-looking estimation of inherent risk, control effectiveness and residual risk of all business lines and all branches on a regular basis.

● Risk control / mitigation: The Bank formulates and implements operational risk control basic standards and measures, establishes and implements operational risk mitigation related management measures, builds operational risk control system of the Bank, and promptly prevents and mitigates potential operational risk. The Bank's operational risk mitigation measures include but are not limited to outsourcing, insurance, business continuity plan and capital allocation.

● Risk monitoring: The Bank formulates and implements management measures for operational risk monitoring, establishes an overall, professional and regional operational risk indicators monitoring system, and monitors, analyzes and warns key risk exposures of respective business line and institution on a regular basis.

● Risk measurement: The Bank formulates and implements management measures for operational risk capital measurement; relevant departments research and improve calculation methods and models for economic capital and regulatory capital, make capital allocation and adjustment, monitor operational risk capital management according to their responsibilities.

● Risk reporting: The Bank formulates and implements operational risk management measures for risk reporting, truly and fully reflects the operational risk profile of all business lines and institutions, reveals potential critical risks and proposes effective measures and suggestions for improvement.

In 2014, in accordance with latest regulatory requirements concerning operational risk and the trends of operational risk, the Bank continuously strengthened the refined management of operational risks in key fields and core links, gradually promoted operational risk management in overseas institutions, and further improved the operational risk management of the Group. The Bank further developed the operational risk management policies, improved the three-tier operational risk management policy system consisting of regulations, measures and implementing rules and manuals concerning operational risk management. It strengthened the risk management functions and system development of the controlling departments of various operational risks, continuously enhanced compliance supervision over credit business and improved the operational risk control system of each business line. Besides, the Bank promoted the application of operational risk limit management tools, reinforced the compliance management of operational risk and reinforced quality control over the loss data and assessment data concerning operational risk. Moreover, the Bank fully upgraded the operational risk measurement system, proactively promoted the optimization of system functions in domestic institutions and extension of system functions in overseas institutions, laying a solid foundation for the implementation of the advanced measurement approach (AMA) for operational risk. During the reporting period, the operational risk management system of the Bank operated smoothly and the operational risk was controllable on the whole.

7.2 Legal Risk

Legal risk is the risk of incurring legal sanctions, regulatory penalties, financial losses, reputational losses or other negative consequences that arise out of or in connection with the failure of the Bank to comply with relevant laws, regulations, administrative rules, regulatory provisions and requirements of other relevant rules in the operational management of the Bank; the unfavorable legal defects that exist in products, services or information provided, transactions engaged in, and contracts, agreements or other documents executed by the Bank; legal disputes (legal or arbitration proceedings) between the Bank and its customers, counterparties and stakeholders; important changes in relevant laws and regulations, administrative rules, regulatory provisions and other relevant rules; and other relevant legal events that occur internally and externally.

Based on the objective to ensure legal and compliant operation, the Bank always attaches importance to establishing a sound legal risk management system and forming a full-process legal risk prevention and control mechanism to support and secure business innovation and market competition, and prevent and eliminate various potential or practical legal risks. The Board of Directors is responsible for reviewing and determining the strategy and policy relating to legal risk management, and assumes the ultimate responsibility of legal risk management. The Senior Management is responsible for executing the legal risk management strategy and policy, formulating relevant systems and measures, and examining and approving relevant important affairs. The Legal Affairs Department of the Head Office is the functional department in charge of legal risk management across the Bank, with relevant business departments providing related support and assistance on the work regarding legal risk prevention and control, and the affiliates and domestic and overseas branches undertaking the responsibility of legal risk management of their respective institutions.

In 2014, the Bank continued to strengthen legal risk management and control and provided stronger legal support to business transformation and innovative development with a view to ensuring the legal and compliant operation and healthy business development of the Group. The Bank advanced IT-based legal risk prevention and control and upgraded the working mechanism and process for consolidated legal risk management. The Bank collected NPLs by legal means and improved the effectiveness of legal collection. In addition, the Bank strengthened the management of lawsuits, in particular where the Bank was the defendant, to continuously enhance litigation management. The Bank also further standardized contract management and reinforced authorization management, trademark management and intellectual property protection.

7.3 Anti-Money Laundering

In strict compliance with applicable laws and regulations concerning anti-money laundering, the Bank actively implemented the "risk-based" regulatory requirements in respect of anti-money laundering, earnestly fulfilled the social duties and legal obligations concerning anti-money laundering, and kept enhancing the Group's risk management level regarding anti-money laundering and anti-terrorist financing.

In 2014, the Bank completed the reform on centralized identification mechanism for the global special control list, thus realizing "centralized, specialized and systematic management" of sensitivity-related risks in key business areas. It revised the risk classification system for anti-money laundering customers, regularly conducted analysis on money laundering types and completed the money-laundering risk assessment on existing products. The Bank also formulated the working guideline for anti-money laundering of overseas institutions and intensified supervision over and inspection on their anti-money laundering actions, which effectively prevented the anti-money laundering compliance risk and reputational risk arising amidst the international development of the Group. The Bank also developed the model for monitoring terrorism financing, which reinforced system monitoring, manual identification and accurate combating of terrorism financing activities. Besides, it optimized the anti-money laundering monitoring model and system functions, strengthened the reporting, analysis, judgment and random quality examination on suspicious transactions and improved the value of information in the suspicious transaction reports. The Bank upgraded customer information maintenance to further enhance the integrity, authenticity and validity of customer information. In addition, it stepped up anti-money laundering team building and organized anti-money laundering trainings and qualification authentication, so as to improve the compliance awareness, professionalism and duty performance ability of anti-money laundering professionals.

During the reporting period, no domestic or overseas institutions or any employees were found to be or were suspected of being involved in money laundering or terrorist financing activities.

7.4 Operational Risk Measurement

The Bank adopts the standardized approach to measure capital requirement for operational risk. As at the end of 2014, the capital requirement for operational risk was RMB85,469 million.

8. Liquidity Risk

Liquidity risk is the risk that the Bank is unable to raise funds on a timely basis or at a reasonable cost to settle liabilities as they fall due, perform other payment obligations and satisfy other funding demands of normal business development. Liquidity risk may arise from the following events or factors: withdrawal of customers' deposits, drawing of loans by customers, overdue payment of debtors, mismatch between assets and liabilities, difficulties in assets realization, operating losses, derivatives trading risk and risk associated with its affiliates.

8.1 Liquidity Risk Management

In 2014, in accordance with relevant regulatory requirements specified by CBRC in the Regulation Concerning Liquidity Risk of Commercial Banks (Provisional) and based on business management needs, the Bank promptly revised the liquidity risk management measures, liquidity risk emergency plan, RMB fund management measures and other relevant policies and rules and further improved the liquidity risk management mechanism. The Bank also actively promoted system development regarding liquidity risk management and realized more sophisticated and automatic management and the Bank successfully gained access to the PBC second-generation payment system, further improved the liquidity management efficiency. Besides, the Bank kept enhancing its consolidated liquidity risk management through strengthening coordinated management of on- and off-balance sheet liquidity and unified management of domestic and overseas liquidity.

- **Liquidity Risk Management System and Governance Structure**

The Bank's liquidity risk management system conforms to the overall development strategy and the entire risk management system of the Bank, and is commensurate with the business scale, business nature, complexity and other aspects of the Bank. The system includes the following fundamental elements: effective governance structure for liquidity risk management; sound strategy, policy and procedures for liquidity risk management; effective identification, measurement, monitoring and control procedures for liquidity risk and a complete management information system.

In respect of liquidity risk management, the Bank's governance structure embodies the decision-making system comprising the Board of Directors and its special committees as well as the Asset & Liability Management Committee and the Risk Management Committee of the Head Office; the supervision system comprising the Board of Supervisors, the Internal Audit Bureau and the Internal Control & Compliance Department; and the execution system comprising the Asset & Liability Management Department, leading management departments of on and off-balance sheet businesses, the Information Technology Department, operation management departments of the Head Office and relevant departments of branches. Each of these systems performs corresponding decision making, supervision and execution functions according to division of responsibilities.

- **Objective, Strategy and Important Policy of Liquidity Risk Management**

Objective of liquidity risk management: By establishing and improving the liquidity risk management system, the Bank aims at realizing complete identification, accurate measurement, continuous monitoring and effective control of the liquidity risk at the Group level, the Bank, the branches and the business lines, and ensuring the liquidity demand is satisfied at a reasonable cost in time under the normal business scenario and the stress scenario.

Formulated taking into account the liquidity risk appetite, the liquidity risk management strategy, policy and procedure cover all businesses on and off the balance sheet, all domestic and overseas business departments and branches that are likely to deliver a material impact on the liquidity risk, and contain the liquidity risk management under normal and stress scenarios. The liquidity risk management strategy specifies the overall objective and management mode of liquidity risk management and lists major policies and procedures for liquidity risk management. Important policies for liquidity risk management are formulated in accordance with external and macro operating environments and business development of the Bank, with a view to striking an effective balance among security, liquidity and profitability.

- **Liquidity Risk Management Mode**

The mode of liquidity risk management of the Bank is consolidated liquidity risk management based on management of liquidity risk at the bank level. The Head Office manages the liquidity risk of the Bank in a unified and centralized manner and ensures liquidity security of the Bank through dynamic adjustment of the aggregate and structure of assets and liabilities, whereas the affiliates assume primary responsibilities concerning liquidity risk management of respective institution, and undertake corresponding responsibilities as required by the leading liquidity risk management departments of the Head Office.

- **Stress Test**

Following the prudence principle, the Bank employs the scenario analysis and the sensitivity analysis to perform stress test on liquidity risk. The Bank has taken full consideration of various macroscopic and microscopic factors that may influence the Bank's liquidity status to set stress scenarios against those products, businesses and institutions with concentrated liquidity risk in line with the characteristics and complexity of the Bank's businesses. The Bank performs stress tests on a quarterly basis. Where necessary, the Bank may carry out temporary and special stress tests at a particular time in light of changes in the external operating environment and regulatory requirements.

8.2 Liquidity Risk Analysis

The Bank paid close attention to the macro-control policy and the trend of market funds, and dynamically adjusted its liquidity management strategy and fund operation tempo, consolidated the foundation for deposit growth and strived to stabilize liability growth, in accordance with the Bank's assets and liabilities business development and liquidity status. It flexibly adjusted internal and external pricing strategies, further strengthened the management over matching degree of assets and liabilities, optimized term structure, focused on preventing long and medium-term liquidity risk and took various measures to properly perform daily liquidity management.

In respect of foreign currencies, the Bank closely observed the changes in market interest rates and funds, adjusted foreign currency liquidity management strategy and internal and external fund prices in a flexible manner and coordinated the balanced development of foreign currency assets and liabilities business while ensuring a safe liquidity level.

In 2014, the deposit and loan businesses of the Bank maintained coordinated development, and liquidity risk management ability was further strengthened. Relevant indicators reflecting the Bank's liquidity status all met the regulatory requirements. Specifically, the RMB liquidity ratio, foreign currency liquidity ratio, loan-to-deposit ratio and liquidity coverage ratio of the Bank was 33.2%, 91.1%, 68.4% and 142.4%, respectively.

The Bank also assessed the liquidity risk status by using liquidity exposure analysis. As at the end of 2014, the increased positive liquidity exposure for the 1 to 5 years category was mainly due to the increase of loans with corresponding term and bond investment; the increased positive liquidity exposure for the over 5 years category was mainly attributed to the increase of loans. Deposits of the Bank maintained steady growth with a high deposition rate, and at the same time the Bank made major investment in central bank bills, treasury bonds and other high-liquidity assets, and possessed sufficient liquidity reserves, which have driven the cumulative positive liquidity exposure to further increase compared to the end of last year. Therefore, the overall liquidity of the Bank maintained at a safe level. The liquidity exposure analysis of the Bank as at the end of 2014 is shown in the table below:

LIQUIDITY EXPOSURE ANALYSIS

In RMB millions

	Overdue/ repayable on demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Undated**	**Total**
At 31 December 2014	(7,958,354)	(325,851)	(782,933)	(479,125)	3,082,273	4,628,344	3,372,950	1,537,304
At 31 December 2013	(7,569,949)	(339,167)	(767,112)	(529,145)	2,978,075	4,387,952	3,117,809	1,278,463

9. Other Risks

9.1 Interest Rate Risk in the Banking Book

The Bank categorized all on- and off-balance sheet assets and liabilities into its trading book and banking book according to the nature and characteristics of different books. The trading book includes tradable financial instruments and commodity positions held by the Bank for the purposes of trading or hedging the risks of other items in the trading book, whereas all other positions are included in the banking book.

Interest rate risk is defined as the risk of loss in the overall gain and economic value of the banking book arising from adverse movements in interest rate and term structure, etc. Interest rate risks mainly include repricing risk, yield curve risk, benchmark rate risk and option risk, of which, repricing risk and benchmark rate risk are the Bank’s primary interest rate risks.

The Bank’s interest rate risk management is aimed at maximizing the risk-adjusted net interest income within the tolerable level of interest rate risk under its risk management and risk appetite. The Bank adheres to the prudence principle in interest rate risk management of the banking book. The department in charge of interest rate risk management of the banking book and business departments jointly monitor and forecast interest rate trends and manage the interest rate risk based on monitoring results, so as to maximize the risk-adjusted income.

In accordance with the relevant provisions of CBRC, the Bank measures the impact of changes in interest rates on net interest income and equity value on a quarterly basis. In the measurement process, the Bank sets demand deposits interest rate re-pricing date as overnight. As personal residential mortgage loans may be prepaid, the Bank analyzes historical prepayment data and access the impact of prepayment on interest rate risk measurement. As at the end of 2014, under the assumption that the overall interest rate in the market moves in parallel without taking into account the risk management actions that the Management may take to mitigate interest rate risk, the Bank’s interest rate sensitivity analysis is set out below:

INTEREST RATE SENSITIVITY ANALYSIS

In RMB millions

Changes of interest rate in basis points	At 31 December 2014		At 31 December 2013	
	Impact on net interest income	**Impact on equity**	**Impact on net interest income**	**Impact on equity**
Increase by 100 basis points	(1,635)	(30,483)	(3,625)	(23,845)
Decrease by 100 basis points	1,635	32,354	3,625	25,219

9.2 Equity Risk in the Banking Book

The Bank's equity investments in banking book include long term equity investments and available-for-sale investment. The Bank strictly follows the Capital Regulation to measure significant and non-significant equity investment.

EQUITY RISK IN THE BANKING BOOK

In RMB millions

Equity type	At 31 December 2014			At 31 December 2013		
	Publicly-traded equity investment risk exposure(1)	**Non-publicly-traded equity investment risk exposure(1)**	**Unrealized potential gains (losses)(2)**	**Publicly-traded equity investment risk exposure(1)**	**Non-publicly-traded equity investment risk exposure(1)**	**Unrealized potential gains (losses)(2)**
Financial institution	28,049	840	506	28,221	874	218
Corporate	2,789	3,127	1,267	1,900	1,573	863
Total	**30,838**	**3,967**	**1,773**	**30,121**	**2,447**	**1,081**

Notes: (1) Publicly- traded equity investment refers to equity investment made in listed companies, and non-publicly- traded equity investment refers to equity investment made in non-listed companies.

(2) Unrealized potential gains (losses) refer to unrealized gains or losses recognized on the balance sheet but not recognized on the income statement.

For accounting policies regarding equity investment, please refer to the Significant Accounting Policies and Estimates in the Notes to the Financial Statements of the 2014 Annual Report.

9.3 Reputational Risk

Reputational risk is defined as the risk of negative assessment or comments on a commercial bank from stakeholders as a result of its operation, management and other behaviors or external events. Reputational risk may arise in any part of the Bank's operation and management, and usually co-exists and correlates with credit risk, market risk, operational risk and liquidity risk.

Reputational risk management of the Bank refers to the process and method for ensuring the achievement of the overall objective of reputational risk management based on the objective and planning for reputational risk management, including the establishment and improvement of the reputational risk management system through the identification, assessment, monitoring and handling of reputational risk factors and reputational events. The Bank adheres to the prevention oriented principle and incorporates reputational risk management into each aspect of operational management of the Bank and every customer service process, with a view to controlling and mitigating reputational risk at its source and minimizing the possibility of occurrence of and influence from reputational events.

As the highest decision-making body of the Bank's reputational risk management, the

Board of Directors is responsible for formulating strategies and policies concerning reputational risk management that are in line with the strategic objective of the Bank. The Senior Management is responsible for implementing such strategies and policies established by the Board of Directors and leading reputational risk management of the Bank. The Bank has established a special reputational risk management team to take charge of the daily management of reputational risk.

In 2014, the Bank continued to strengthen reputational risk management and enhance the reputational risk management level and prevention ability across the Bank. According to the latest regulatory requirements and external situation changes, the Bank further improved reputational risk management system and working mechanism. In response to the influence of the new media development on reputational risk management, the Bank studied and worked out corresponding reputational risk management strategies. It also carried out identification, evaluation, monitoring, control, mitigation and assessment of reputational risk in an in-depth manner and strengthened consolidated management of reputational risk. Besides, it conducted reputational risk assessment on new businesses and products, made comprehensive inspections on reputational risk and created the reputational risk management ledger level by level. In addition, the Bank organized emergency response drill on reputational risk and reinforced prevention control and mitigation of reputational risk.

9.4 Country Risk

Country risk is the risk incurred to a bank arising from the inability or refusal by the borrower or debtor to repay bank debt, losses suffered by the Bank or its commercial presence in such country or region and other losses due to economic, political and social changes and events in a country or a region. Country risk may be triggered by deterioration of economic conditions, political and social turmoil, asset nationalization or expropriation, government’s refusal to pay external debt, foreign exchange control or currency depreciation in a country or region.

The Bank strictly observes the Guidelines on the Management of Country Risk by Banking Financial Institutions and other regulatory requirements of CBRC, implemented a management model where responsibilities of each department or business line are clearly defined under the leadership of the Board of Directors and the Senior Management. The Board of Directors assumes the ultimate responsibility for the effectiveness of country risk management. The Senior Management is responsible for executing the country risk management policies approved by the Board of Directors. The Credit Risk Management Committee of the Head Office is responsible for reviewing matters regarding country risk management. The Bank manages and controls country risk through a series of management tools, including country risk assessment and rating, country risk limits for the entire group and continuous statistics, analysis and monitoring of country risk exposure, as well as country risk assessment using stress tests. The Bank reviews the country risk rating and limits at least once every year.

In 2014, in response to the new changes in international political and economic situation, the Bank continued to strengthen country risk management according to regulatory requirements and business development. It further improved the country risk management policies and procedures, closely monitored country risk exposure, kept tracking, monitoring and reporting country risk and promptly updated and adjusted the rating and limits of country risk. The Bank also further improved the country risk pre-warning mechanism, actively conducted stress test on country risk and effectively controlled country risk while pushing ahead the internationalization strategy.

10. Remuneration

10.1 Remuneration Governance Framework

In line with corporate governance requirements, the Bank is committed to establishing and improving remuneration governance framework, specifying the scope of roles and responsibilities of relevant entities, improving decision-making mechanism of remuneration policies and building remuneration governance system with full participation of all stakeholders.

The Board of Directors assumes the ultimate responsibility of remuneration management. The Board of Directors proactively supervises the design and operation of the remuneration system, periodically reviews its compliance, and ensures the remuneration system achieves the intended goals. The Bank set up the Compensation Committee of the Board of Directors in accordance with the Articles of Association to assist the Board of Directors in remuneration management. The Senior Management is responsible for organizing and implementing remuneration management related resolutions of the Board of Directors as well as organizing and formulating incentive assessment and remuneration distribution measures within the scope of authorization. The Human Resource Department is responsible for implementing specific remuneration management issues. Departments including the Risk Management Department, the Internal Audit Bureau, the Internal Control and Compliance Department and the Finance and Accounting Department participate in and supervise the execution of remuneration management mechanism and provide feedbacks for improvement.

10.2 Compensation Committee of the Board of Directors

The Compensation Committee is mainly responsible for formulating assessment measures on the performance of duties for directors, organizing the assessment on the performance of duties of Directors, putting forth proposal on remuneration distribution for Directors, putting forth proposal on remuneration distribution for Supervisors based on the performance assessment on Supervisors carried out by the Board of Supervisors, formulating and reviewing the assessment measures and compensation plans for Senior Management members of the Bank and evaluating the performance and behaviors of Senior Management members. As at the disclosure date of the report, the Compensation Committee of the Bank consisted of eight directors, including Executive Director Mr. Yi Huiman; Independent Non-executive Directors

Mr. Yi Xiqun, Mr. Wong Kwong Shing, Frank, Sir Malcolm Christopher McCarthy, Mr. Kenneth Patrick Chung and Mr. Or Ching Fai; Non-executive Directors Ms. Wang Xiaoya and Mr. Fu Zhongjun. Independent Non-executive Director Mr. Yi Xiqun was the chairman of the committee. During the reporting period, the Compensation Committee held four meetings.

10.3 Remuneration Management Policies

The Bank adopts the remuneration policy that is in line with corporate governance requirements and sustainable development targets, adapted to risk management systems and talent development strategies, and matched to employees' value contribution so as to promote bank-wide steady business operation and sustainable development. The remuneration policy applies to all institutions and employees of the Bank.

Performance-based Remuneration Mechanism

The remuneration package of the Bank's employees consists of basic remuneration and performance-based remuneration. The remuneration allocation takes job value, capabilities and performance as the basic principles. The basic salary level depends on the employees' value contribution and capabilities of fulfilling duties while the level of the performance-based remuneration depends on performance assessment of the Bank as a whole, the institution or department and the employee. Currently, in accordance with relevant laws and regulations promulgated by the country and regulatory authorities, the Bank has not yet implemented share options or any other form of long or medium-term share incentives; all performance-based remuneration of the employees are paid in cash.

Focused on value creation, risk control and sustainable development, the Bank has established an integrated performance assessment system comprised of three categories of indicators: performance management, risk and internal control, operational transformation and business development, which guides the bank-wide attention to not only the indicators of current period, but also the indicators relating to long-term development, such as customers, markets and structural adjustments. The Bank also reasonably controls the balance of profits, risk and quality so as to improve the steadiness and scientism of business management.

Risk-aligned Remuneration Mechanism

The Bank's remuneration policy is in line with the risk management system and adapted to the institutional scale, and the nature and the sophistication of the business to control the employee's risk-taking and short-term actions. The remuneration structures of each institution or position are different according to the need of risk management. The Bank adjusted the risks that have not yet been reflected in the period by taking risk mitigation measures including risk-adjusted performance and deferred remuneration payment, and implemented performance assessment and incentives to promote a positive and healthy risk management culture.

The Bank allocates total remuneration among branches based on performance under the economic value added (EVA) model. It has taken into consideration all kinds of risk, such as operational risk, market risk and credit risk. The allocation mechanism orients the Bank towards risk-adjusted value creation and exploration of potentials to enhance long-term performance.

A deferred payment schedule is gradually introduced according to business development needs. The Bank deferred part of the performance-related remuneration of employees who assume responsibilities for material risk and risk management and control. Deferred payment proportion gradually increases along with the level of position and liability. Deferred remuneration for the Senior Management members takes up a minimum 50% of their total remuneration and the term of such deferred payment generally is not less than three years. For employees receiving deferred payment, if significant losses of risk exposures are incurred within their responsibility during their employment, the Bank can recall part or all of performance-related remuneration paid in relevant period and stop further payments.

Independence of the Remuneration for Risk and Compliance Employees

Remuneration for risk and compliance employees are based on their value contributed, capability, and performance, not directly related to their responsible businesses. The Bank sets up a vertical internal audit system, which takes on the responsibility for the Board of Directors and reports to the Board of Directors directly. The remuneration of the internal audit employees is independent from that of other lines of business.

For basic information and annual remuneration of Senior Management members and remuneration of the Compensation Committee of the Board of Directors of the Bank, please refer to the 2014 Annual Report.

11. Appendixes

The following information is disclosed in accordance with the CBRC Notice on Issuing Regulatory Documents on Capital Regulation for Commercial Banks Appendix 2 Notice on Enhancing Disclosure Requirements for Composition of Capital.

CAPITAL COMPOSITION

In RMB millions, except for percentages

S/N	Item	At 31 December 2014	At 31 December 2013	Reference
Core tier 1 capital:				
1	Paid-in capital	353,495	351,390	X18
2	Retained earnings	1,022,682	838,834	
2a	Surplus reserve	150,752	123,870	X21
2b	General reserve	221,622	202,940	X22
2c	Retained profits	650,308	512,024	X23
3	Accumulated other comprehensive income (and other public reserves)	120,035	84,164	
3a	Capital reserve	144,874	108,202	X19
3b	Others	(24,839)	(24,038)	X24
4	Valid portion to core tier 1 capital during the transition period (only applicable to non-joint stock companies. Fill in 0 for joint stock banks)	-	-	
5	Valid portion of minority interests	2,191	1,956	X25
6	**Core tier 1 capital before regulatory adjustments**	**1,498,403**	**1,276,344**	
Core tier 1 capital: Regulatory adjustments				
7	Prudential valuation adjustments	-	-	
8	Goodwill (net of deferred tax liabilities)	8,487	8,049	X16
9	Other intangible assets other than land use rights (net of deferred tax liabilities)	1,279	1,474	X14-X15
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences	-	-	
11	Cash flow hedge reserves that relate to the hedging of items that are not fair valued on the balance sheet	(3,796)	(3,920)	X20
12	Shortfall of provision for loan impairment	-	-	

S/N	Item	At 31 December 2014	At 31 December 2013	Reference
13	Gain on sale related to asset securitization	-	-	
14	Unrealized gains and losses due to changes in own credit risk on fair valued liabilities	-	-	
15	Defined-benefit pension fund net assets (net of related deferred tax liabilities)	-	-	
16	Directly or indirectly holding in own ordinary shares	-	-	
17	Reciprocal cross-holdings in core tier 1 capital between banks or between banks and other financial institutions	-	-	
18	Deductible amount of non-significant minority investment in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	-	-	
19	Deductible amount of significant minority investment in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	-	-	
20	Mortgage servicing rights	N/A	N/A	
21	Deductible amount in deferred tax assets arising from temporary differences	-	-	
22	Deductible amount exceeding the 15% threshold for significant minority capital investments in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation and undeducted portion of deferred tax assets arising from temporary differences	-	-	
23	Including: Deductible amount of significant minority investments in core tier 1 capital instruments issued by financial institutions	-	-	
24	Including: Deductible amount of mortgage servicing rights	N/A	N/A	
25	Including: Deductible amount in deferred tax assets arising from temporary differences	-	-	
26a	Investment in core tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	5,700	3,900	X11

S/N	Item	At 31 December 2014	At 31 December 2013	Reference
26b	Shortfall in core tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	-	-	
26c	Others that should be deducted from core tier 1 capital	-	-	
27	Undeducted shortfall that should be deducted from additional tier 1 capital and tier 2 capital	-	-	
28	**Total regulatory adjustments to core tier 1 capital**	**11,670**	**9,503**	
29	**Core tier 1 capital**	**1,486,733**	**1,266,841**	
Additional tier 1 capital:				
30	Additional tier 1 capital instruments and related premium	34,428	-	
31	Including: Portion classified as equity	34,428	-	X28
32	Including: Portion classified as liabilities	-	-	
33	Invalid instruments to additional tier 1 capital after the transition period	-	-	
34	Valid portion of minority interests	72	18	X26
35	Including: Invalid portion to additional tier 1 capital after the transition period	-	-	
36	**Additional tier 1 capital before regulatory adjustments**	**34,500**	**18**	
Additional tier 1 capital: Regulatory adjustments				
37	Directly or indirectly holding additional tier 1 capital of the Bank	-	-	
38	Reciprocal cross-holdings in additional tier 1 capital between banks or between banks and other financial institutions	-	-	
39	Deductible amount of non-significant minority investment in additional tier 1 capital instruments issued by financial institutions that are not subject to consolidation	-	-	
40	Significant minority investments in additional tier 1 capital instruments issued by financial institutions that are not subject to consolidation	-	-	
41a	Investment in additional tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	-	-	

S/N	Item	At 31 December 2014	At 31 December 2013	Reference
41b	Shortfall in additional tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	-	-	
41c	Others that should be deducted from additional tier 1 capital	-	-	
42	Undeducted shortfall that should be deducted from tier 2 capital	-	-	
43	**Total regulatory adjustments to additional tier 1 capital**	**-**	**-**	
44	**Additional tier 1 capital**	**34,500**	**18**	
45	**Tier 1 capital (core tier 1 capital + additional tier 1 capital)**	**1,521,233**	**1,266,859**	
Tier 2 capital:				
46	Tier 2 capital instruments and related premium	187,829	189,877	X17
47	Invalid instruments to tier 2 capital after the transition period	164,752	185,346	
48	Valid portion of minority interests	242	72	X27
49	Including: Invalid portion to tier 2 capital after the transition period	-	-	
50	Valid portion of surplus provision for loan impairment	118,633	134,857	X02+X04
51	**Tier 2 capital before regulatory adjustments**	**306,704**	**324,806**	
Tier 2 capital: Regulatory adjustments				
52	Directly or indirectly holding tier 2 capital of the Bank	-	-	
53	Reciprocal cross-holdings in tier 2 capital between banks or between banks and other financial institutions	-	-	
54	Deductible portion of non-significant minority investment in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	-	-	
55	Significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	15,800	19,400	X10
56a	Investment in tier 2 capital instruments issued by financial institutions that are under control but not subject to consolidation	-	-	
56b	Shortfall in tier 2 capital instruments issued by financial institutions that are under control but not subject to consolidation	-	-	

S/N	Item	At 31 December 2014	At 31 December 2013	Reference
56c	Others that should be deducted from tier 2 capital	-	-	
57	**Total regulatory adjustments to tier 2 capital**	**15,800**	**19,400**	
58	**Tier 2 capital**	**290,904**	**305,406**	
59	**Total capital (tier 1 capital + tier 2 capital)**	**1,812,137**	**1,572,265**	
60	**Total risk-weighted assets**	**12,475,939**	**11,982,187**	
Requirements for capital adequacy ratio and reserve capital				
61	Core tier 1 capital adequacy ratio	11.92%	10.57%	
62	Tier 1 capital adequacy ratio	12.19%	10.57%	
63	Capital adequacy ratio	14.53%	13.12%	
64	Institution specific buffer requirement	3.5%	3.5%	
65	Including: Capital conservation buffer requirement	2.5%	2.5%	
66	Including: Countercyclical buffer requirement	-	-	
67	Including: G-SIB buffer requirement	1%	1%	
68	Percentage of core tier 1 capital meeting buffers to risk-weighted assets	6.92%	5.57%	
Domestic minima for regulatory capital				
69	Core tier 1 capital adequacy ratio	5%	5%	
70	Tier 1 capital adequacy ratio	6%	6%	
71	Capital adequacy ratio	8%	8%	
Amounts below the thresholds for deduction				
72	Undeducted amount of non-significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	33,067	26,898	X05+X06 +X08+X09+X12
73	Undeducted amount of significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	26,658	27,893	X07+X13
74	Mortgage servicing rights (net of deferred tax liabilities)	N/A	N/A	
75	Deferred tax assets arising from temporary differences (net of deferred tax liabilities)	24,569	28,724	
Valid caps of surplus provision for loan impairment to tier 2 capital				
76	Provision for loan impairment under the weighted approach	15,541	240,959	X01
77	Valid cap of provision for loan impairment to tier 2 capital under the weighted approach	9,684	134,857	X02

S/N	Item	At 31 December 2014	At 31 December 2013	Reference
78	Provision for loan impairment under the internal ratings-based approach	242,040	N/A	X03
79	Valid cap of provision for loan impairment to tier 2 capital under the internal ratings-based approach	108,949	N/A	X04
Capital instruments subject to phase-out arrangements				
80	Valid cap to core tier 1 capital instruments for the current period due to phase-out arrangements	-	-	
81	Excluded from core tier 1 capital due to cap	-	-	
82	Valid cap to additional tier 1 capital instruments for the current period due to phase-out arrangements	-	-	
83	Excluded from additional tier 1 capital due to cap	-	-	
84	Valid cap to tier 2 capital instruments for the current period due to phase-out arrangements	164,752	185,346	
85	Excluded from tier 2 capital for the current period due to cap	17,932	17,006	

BALANCE SHEET AT THE GROUP'S LEVEL

In RMB millions

Item	At 31 December 2014		At 31 December 2013	
	Consolidated balance sheet as in published financial statements	Balance sheet under regulatory scope of consolidation	Consolidated balance sheet as in published financial statements	Balance sheet under regulatory scope of consolidation
Assets				
Cash and balances with central banks	3,523,622	3,523,622	3,294,007	3,294,006
Due from banks and other financial institutions	304,273	298,128	306,366	300,543
Precious metals	95,950	95,950	61,821	61,821
Placements with banks and other financial institutions	478,503	478,503	411,618	411,618
Financial assets at fair value through profit or loss	346,828	346,765	372,556	372,477
Derivative financial assets	24,048	24,048	25,020	25,020
Reverse repurchase agreements	468,462	468,452	331,903	331,870

Item	At 31 December 2014		At 31 December 2013	
	Consolidated balance sheet as in published financial statements	Balance sheet under regulatory scope of consolidation	Consolidated balance sheet as in published financial statements	Balance sheet under regulatory scope of consolidation
Loans and advances to customers	10,768,750	10,767,798	9,681,415	9,680,819
Available-for-sale financial assets	1,188,288	1,176,369	1,000,800	996,556
Held-to-maturity investments	2,566,390	2,565,606	2,624,400	2,623,602
Receivables	331,731	319,108	324,488	320,407
Long term equity investments	28,919	34,619	28,515	32,415
Fixed assets	171,434	171,393	135,863	135,828
Construction in progress	24,804	24,784	24,841	24,841
Deferred income tax assets	24,758	24,758	28,860	28,860
Other assets	263,193	256,829	265,279	259,332
Total assets	**20,609,953**	**20,576,732**	**18,917,752**	**18,900,015**
Liabilities				
Due to central banks	631	631	724	724
Due to banks and other financial institutions	1,106,776	1,106,776	867,094	867,094
Placements from banks and other financial institutions	432,463	432,463	402,161	402,161
Financial liabilities at fair value through profit or loss	589,385	589,346	553,607	553,543
Derivative financial liabilities	24,191	24,191	19,168	19,168
Repurchase agreements	380,957	377,037	299,304	297,616
Certificates of deposit	176,248	176,248	130,558	130,558
Due to customers	15,556,601	15,559,727	14,620,825	14,622,319
Employee benefits payable	28,148	27,982	24,529	24,425
Taxes payable	72,278	72,207	67,051	67,002
Debt securities issued	279,590	279,590	253,018	253,018
Deferred income tax liabilities	451	189	420	136
Other liabilities	424,930	396,907	400,830	385,665
Total liabilities	**19,072,649**	**19,043,294**	**17,639,289**	**17,623,429**
Shareholders' equity				
Share capital	353,495	353,495	351,390	351,390
Other equity instruments	34,428	34,428	-	-
Including: Preference shares	34,428	34,428	-	-
Capital reserve	144,874	144,874	140,844	140,844
Other comprehensive income	(24,548)	(24,839)	(56,859)	(56,680)
Surplus reserve	150,752	150,752	123,870	123,870
General reserve	221,622	221,622	202,940	202,940
Retained profits	650,236	650,308	511,949	512,024

Item	At 31 December 2014		At 31 December 2013	
	Consolidated balance sheet as in published financial statements	Balance sheet under regulatory scope of consolidation	Consolidated balance sheet as in published financial statements	Balance sheet under regulatory scope of consolidation
Equity attributable to equity holders of the parent company	1,530,859	1,530,640	1,274,134	1,274,388
Minority interests	6,445	2,798	4,329	2,198
Total equity	**1,537,304**	**1,533,438**	**1,278,463**	**1,276,586**

EXPLANATIONS FOR DETAILED ITEMS

In RMB millions

Item	At 31 December 2014 Balance sheet under regulatory scope of consolidation	Reference
Loans and advances to customers	**10,767,798**	
Total loans and advances to customers	11,025,379	
Less: Provision for loan impairment under the weighted approach	15,541	X01
Including: Valid cap of provision for loan impairment to tier 2 capital under the weighted approach	9,684	X02
Less: Provision for loan impairment under the internal ratings-based approach	242,040	X03
Including: Valid cap of provision for loan impairment to tier 2 capital under the internal ratings-based approach	108,949	X04
Available-for-sale financial assets	**1,176,369**	
Bond investment measured at fair value	1,156,165	
Including: Non-significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	5,781	X05
Other debt instrument investment measured at fair value	11,751	
Equity investment	8,453	
Including: Undeducted portion of non-significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	2,135	X06
Including: Undeducted portion of significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	135	X07

Item	At 31 December 2014 Balance sheet under regulatory scope of consolidation	Reference
Held-to-maturity investments	**2,565,606**	
Including: Non-significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	2,441	X08
Receivables	**319,108**	
Including: Non-significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	22,613	X09
Including: Significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	15,800	X10
Long term equity investments	**34,619**	
Including: Investment in core tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	5,700	X11
Including: Undeducted portion of non-significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	97	X12
Including: Undeducted portion of significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	26,523	X13
Other assets	**256,829**	
Interest receivable	107,846	
Intangible assets	21,879	X14
Including: Land use rights	20,600	X15
Other receivables	108,291	
Goodwill	8,487	X16
Long-term deferred and prepaid expenses	4,748	
Repossessed assets	3,726	
Others	1,852	
Debt securities issued	**279,590**	
Including: Valid portion of tier 2 capital instruments and their premium	187,829	X17
Share capital	**353,495**	X18

Item	At 31 December 2014 Balance sheet under regulatory scope of consolidation	Reference
Other equity instruments	**34,428**	
Including: Preference shares	34,428	X28
Capital reserve	**144,874**	X19
Other comprehensive income	**(24,839)**	X24
Reserve for changes in fair value of available-for-sale financial assets	4,519	
Reserve for cash flow hedging	(3,854)	
Including: Cash flow hedge reserves that relate to the hedging of items that are not fair valued on the balance sheet	(3,796)	X20
Changes in share of other owners’ equity of associates and joint ventures	408	
Foreign currency translation reserve	(25,912)	
Surplus reserve	**150,752**	X21
General reserve	**221,622**	X22
Retained profits	**650,308**	X23
Minority interests	**2,798**	
Including: Valid portion to core tier 1 capital	2,191	X25
Including: Valid portion to additional tier 1 capital	72	X26
Including: Valid portion to tier 2 capital	242	X27

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2014

S/N	Main features of regulatory capital instrument	Ordinary share (A share)	Ordinary share (H share)	Additional tier 1 capital instrument	Additional tier 1 capital instrument	Additional tier 1 capital instrument
1	Issuer	ICBC	ICBC	ICBC	ICBC	ICBC
2	Unique identifier	601398	1398	4603	4604	84602
3	Governing law(s) of the instrument	Securities Law of the People's Republic of China/China	Securities and Futures Ordinance of Hong Kong/ Hong Kong, China	The creation and issue of the Offshore Preference Shares and the rights and obligations (including non-contractual rights and obligations) attached to them are governed by, and shall be construed in accordance with, PRC law	The creation and issue of the Offshore Preference Shares and the rights and obligations (including non-contractual rights and obligations) attached to them are governed by, and shall be construed in accordance with, PRC law	The creation and issue of the Offshore Preference Shares and the rights and obligations (including non-contractual rights and obligations) attached to them are governed by, and shall be construed in accordance with, PRC law
	Regulatory treatment					
4	Including: Transition arrangement of Regulation Governing Capital of Commercial Banks (Provisional)	Core tier 1 capital	Core tier 1 capital	Additional tier 1 capital	Additional tier 1 capital	Additional tier 1 capital
5	Including: Post-transition arrangement of Regulation Governing Capital of Commercial Banks (Provisional)	Core tier 1 capital	Core tier 1 capital	Additional tier 1 capital	Additional tier 1 capital	Additional tier 1 capital

S/N	Main features of regulatory capital instrument	Ordinary share (A share)	Ordinary share (H share)	Additional tier 1 capital instrument	Additional tier 1 capital instrument	Additional tier 1 capital instrument
6	Including: Eligible to the parent company/group level	Parent company/Group	Parent company/Group	Parent company/Group	Parent company/Group	Parent company/Group
7	Instrument type	Ordinary share	Ordinary share	Additional tier 1 capital instrument	Additional tier 1 capital instrument	Additional tier 1 capital instrument
8	Amount recognized in regulatory capital (in millions, as at the latest reporting date)	RMB328,447	RMB169,200	RMB equivalent 17,928	RMB equivalent 4,542	RMB11,958
9	Par value of instrument (in millions)	RMB266,700	RMB86,795	USD2,940	EUR600	RMB12,000
10	Accounting treatment	Share capital, Capital reserve	Share capital, Capital reserve	Other equity	Other equity	Other equity
11	Original date of issuance	19 October 2006	19 October 2006	10 December 2014	10 December 2014	10 December 2014
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual
13	Including: Original maturity date	No maturity date	No maturity date	No maturity date	No maturity date	No maturity date
14	Issuer call (subject to prior supervisory approval)	No	No	Yes	Yes	Yes
15	Including: Optional call date, contingent call dates and redemption amount	N/A	N/A	The First Redemption Date is 10 December 2019, in full or partial amount	The First Redemption Date is 10 December 2021, in full or partial amount	The First Redemption Date is 10 December 2019, in full or partial amount
16	Including: Subsequent call dates, if applicable	N/A	N/A	10 December in each year after the First Redemption Date	10 December in each year after the First Redemption Date	10 December in each year after the First Redemption Date
	Coupons/dividends					
17	Including: Fixed or floating dividend / coupon	Floating	Floating	Fixed to floating	Fixed to floating	Fixed to floating
18	Including: Coupon rate and any related index	N/A	N/A	6% (dividend rate) before 10 December 2019	6% (dividend rate) before 10 December 2021	6% (dividend rate) before 10 December 2019
19	Including: Existence of a dividend stopper	N/A	N/A	Yes	Yes	Yes

S/N	Main features of regulatory capital instrument	Ordinary share (A share)	Ordinary share (H share)	Additional tier 1 capital instrument	Additional tier 1 capital instrument	Additional tier 1 capital instrument
20	Including: Fully discretionary, partially discretionary or mandatory cancellation of coupons / dividends	Fully discretionary	Fully discretionary	Partially discretionary	Partially discretionary	Partially discretionary
21	Including: Redemption incentive mechanism	No	No	No	No	No
22	Including: Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	No	No	Yes	Yes	Yes
24	Including: If convertible, conversion trigger(s)	N/A	N/A	Additional Tier 1 Capital Trigger Event or Tier 2 Capital Trigger Event	Additional Tier 1 Capital Trigger Event or Tier 2 Capital Trigger Event	Additional Tier 1 Capital Trigger Event or Tier 2 Capital Trigger Event
25	Including: If convertible, fully or partially	N/A	N/A	Fully or partially convertible when an Additional Tier 1 Capital Trigger Event occurs; fully convertible when a Tier 2 Capital Trigger Event occurs	Fully or partially convertible when an Additional Tier 1 Capital Trigger Event occurs; fully convertible when a Tier 2 Capital Trigger Event occurs	Fully or partially convertible when an Additional Tier 1 Capital Trigger Event occurs; fully convertible when a Tier 2 Capital Trigger Event occurs

S/N	Main features of regulatory capital instrument	Ordinary share (A share)	Ordinary share (H share)	Additional tier 1 capital instrument	Additional tier 1 capital instrument	Additional tier 1 capital instrument
26	Including: If convertible, conversion rate	N/A	N/A	The initial conversion price is equal to the average trading price of the H shares of the Bank for the 20 trading days preceding 25 July 2014, the date of publication of the Board resolution in respect of the issuance plan	The initial conversion price is equal to the average trading price of the H shares of the Bank for the 20 trading days preceding 25 July 2014, the date of publication of the Board resolution in respect of the issuance plan	The initial conversion price is equal to the average trading price of the H shares of the Bank for the 20 trading days preceding 25 July 2014, the date of publication of the Board resolution in respect of the issuance plan
27	Including: If convertible, mandatory or optional conversion	N/A	N/A	Mandatory	Mandatory	Mandatory
28	Including: If convertible, specify instrument type convertible into	N/A	N/A	Core tier 1 capital	Core tier 1 capital	Core tier 1 capital
29	Including: If convertible, specify issuer of instrument it converts into	N/A	N/A	ICBC	ICBC	ICBC
30	Write-down feature	No	No	No	No	No
31	Including: If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A	N/A
32	Including: If write-down, full or partial	N/A	N/A	N/A	N/A	N/A
33	Including: If write-down, permanent or temporary	N/A	N/A	N/A	N/A	N/A

S/N	Main features of regulatory capital instrument	Ordinary share (A share)	Ordinary share (H share)	Additional tier 1 capital instrument	Additional tier 1 capital instrument	Additional tier 1 capital instrument
34	Including: If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	After depositor, general creditor and the creditor of the subordinated debts	After depositor, general creditor and the creditor of the subordinated debts	After all liabilities of the Bank and instruments issued or guaranteed by the Bank ranking senior to the Offshore Preference Shares, in the same liquidation order with the holders of Parity Obligations	After all liabilities of the Bank and instruments issued or guaranteed by the Bank ranking senior to the Offshore Preference Shares, in the same liquidation order with the holders of Parity Obligations	After all liabilities of the Bank and instruments issued or guaranteed by the Bank ranking senior to the Offshore Preference Shares, in the same liquidation order with the holders of Parity Obligations
36	Non-compliant transitioned features	No	No	No	No	No
	Including: If yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2014 (CONTINUED)

S/N	Main features of regulatory capital instrument	Tier 2 capital instrument	Tier 2 capital instrument
1	Issuer	ICBC (Asia)	ICBC
2	Unique identifier	ISIN: XS0976879279 BBGID:BBG005CMF4N6	1428009
3	Governing law(s) of the instrument	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with English law, except that the provision of the Notes relating to Subordination shall be governed by, and construed in accordance with, the laws of Hong Kong	Securities Law of the People's Republic of China/China
	Regulatory treatment		
4	Including: Transition arrangement of Regulation Governing Capital of Commercial Banks (Provisional)	Tier 2 capital	Tier 2 capital
5	Including: Post-transition arrangement of Regulation Governing Capital of Commercial Banks (Provisional)	Tier 2 capital	Tier 2 capital
6	Including: Eligible to the parent company/group level	Group	Parent company/Group
7	Instrument type	Tier 2 capital instrument	Tier 2 capital instrument
8	Amount recognized in regulatory capital (in millions, as at the latest reporting date)	RMB equivalent 3,102	RMB19,974
9	Par value of instrument (in millions)	USD500	RMB20,000

S/N	Main features of regulatory capital instrument	Tier 2 capital instrument	Tier 2 capital instrument
10	Accounting treatment	Debt securities issued	Debt securities issued
11	Original date of issuance	10 October 2013	4 August 2014
12	Perpetual or dated	Dated	Dated
13	Including: Original maturity date	10 October 2023	5 August 2024
14	Issuer call (subject to prior supervisory approval)	Yes	Yes
15	Including: Optional call date, contingent call dates and redemption amount	10 October 2018, in full amount	5 August 2019, in full amount
16	Including: Subsequent call dates, if applicable	N/A	N/A
	Coupons/dividends		
17	Including: Fixed or floating dividend / coupon	Fixed	Fixed
18	Including: Coupon rate and any related index	4.50%	5.80%
19	Including: Existence of a dividend stopper	No	No
20	Including: Fully discretionary, partially discretionary or mandatory cancellation of coupons / dividends	Mandatory	Fully discretionary
21	Including: Redemption incentive mechanism	No	No
22	Including: Non-cumulative or cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	No	No
24	Including: If convertible, conversion trigger(s)	N/A	N/A
25	Including: If convertible, fully or partially	N/A	N/A
26	Including: If convertible, conversion rate	N/A	N/A
27	Including: If convertible, mandatory or optional conversion	N/A	N/A
28	Including: If convertible, specify instrument type convertible into	N/A	N/A

S/N	Main features of regulatory capital instrument	Tier 2 capital instrument	Tier 2 capital instrument
29	Including: If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down feature	Yes	Yes
31	Including: If write-down, write-down trigger(s)	Non-viability of ICBC (Asia) or the Bank	Non-viability of the Bank
32	Including: If write-down, full or partial	Full write-down	Full write-down
33	Including: If write-down, permanent or temporary	Permanent write-down	Permanent write-down
34	Including: If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	After depositor and general creditor, in the same liquidation order with other subordinated debts	After depositor and general creditor, in the same liquidation order with other subordinated debts
36	Non-compliant transitioned features	No	No
	Including: If yes, specify non-compliant features	N/A	N/A

12. Definitions

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

Articles of Association	The Articles of Association of Industrial and Commercial Bank of China Limited
Capital Regulation	Regulation Governing Capital of Commercial Banks (Provisional) promulgated by CBRC in June 2012
CBRC	China Banking Regulatory Commission
Global Systemically Important Banks	Banks undertaking key functions with global features in the financial markets as released by the Financial Stability Board
ICBC (Argentina)	Industrial and Commercial Bank of China (Argentina) S.A.
ICBC (Asia)	Industrial and Commercial Bank of China (Asia) Limited
ICBC (Europe)	Industrial and Commercial Bank of China (Europe) S.A.
ICBC (Indonesia)	PT. Bank ICBC Indonesia
ICBC (London)	Industrial and Commercial Bank of China, (London) plc
ICBC (Macau)	Industrial and Commercial Bank of China (Macau) Limited
ICBC (Thai)	Industrial and Commercial Bank of China (Thai) Public Company Limited
ICBC (USA)	Industrial and Commercial Bank of China (USA) NA
ICBC International	ICBC International Holdings Limited
ICBC Leasing	ICBC Financial Leasing Co., Ltd.
ICBC-AXA	ICBC-AXA Assurance Co., Ltd.
PBC	People's Bank of China
Securities and Futures Ordinance of Hong Kong	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
SEHK	The Stock Exchange of Hong Kong Limited
SSE	Shanghai Stock Exchange
the Bank/the Group	Industrial and Commercial Bank of China Limited; or Industrial and Commercial Bank of China Limited and its subsidiaries