INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

Stock Code: 1398
USD Preference Shares Stock Code: 4603
EUR Preference Shares Stock Code: 4604
RMB Preference Shares Stock Code: 84602

2015 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.

Introduction

Company Profile

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. Through its continuous endeavor and stable development, the Bank has developed into the top large listed bank in the world, possessing an excellent customer base, a diversified business structure, strong innovation capabilities and market competitiveness and providing comprehensive financial products and services to 5,320 thousand corporate customers and 496 million personal customers. The Bank continued to promote reform, innovation and operation transformation. The Bank's assets and liabilities business kept stable profitability during the structural adjustment. Retail banking, asset management and investment banking became important engines driving the profit growth, and the development of internet-based finance with leading edge gave impetus to the fundamental reform on operation and management models and service methods. The pattern of internationalized and diversified operation was further improved, covering 42 countries and regions, and overseas operations and comprehensive subsidiaries of fund, insurance and leasing contributed more to the Bank's profit-making.

Disclosure Basis

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

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. Hence, investors and persons concerned shall be fully aware of the risks and understand the difference between plans, estimates and commitments.

Scope of Calculation of Capital Adequacy Ratio

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 2015, 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.

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)	40,754	100.00	Hong Kong, China	Commercial banking
2	ICBC Leasing	11,000	100.00	Tianjin, China	Leasing
3	ICBC (Macau)	10,316	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 Standard Bank	4,251	60.00	London, UK	Commercial banking
7	ICBC International	4,066	100.00	Hong Kong, China	Investment banking
8	ICBC (Europe)	3,294	100.00	Luxembourg	Commercial banking
9	ICBC (Turkey)	1,925	92.82	Istanbul, Turkey	Commercial banking
10	ICBC (Indonesia)	1,883	98.61	Jakarta, Indonesia	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

Capital Deficiencies and Restrictions on Capital Transfer

As at the end of 2015, 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.

Capital and Capital Adequacy Ratio

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 meeting regulatory requirements.

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 2015		At 31 December 2014	
	Group	Parent Company	Group	Parent Company
Calculated in accordance with the Capital Regulation:				
Net core tier 1 capital	1,701,495	1,571,403	1,486,733	1,393,120
Net tier 1 capital	1,781,062	1,650,778	1,521,233	1,427,548
Net capital base	2,012,103	1,869,237	1,812,137	1,699,357
Core tier 1 capital adequacy ratio	12.87%	12.88%	11.92%	12.05%
Tier 1 capital adequacy ratio	13.48%	13.53%	12.19%	12.35%
Capital adequacy ratio	15.22%	15.32%	14.53%	14.70%
Calculated in accordance with the Regulation Governing Capital Adequacy of Commercial Banks and related regulations:				
Core capital adequacy ratio	11.83%	12.09%	11.49%	11.82%
Capital adequacy ratio	14.75%	14.67%	14.29%	14.35%

Capital Composition

As at the end of 2015, 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 12.87%, 13.48% and 15.22%, respectively, complying with regulatory requirements. In 2015, the Bank's profits maintained continuous growth and effectively replenished the core tier 1 capital. The Bank proactively carried out external capital replenishments 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.

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

In RMB millions, except for percentages

Item	At 31 December 2015	At 31 December 2014
Core tier 1 capital	**1,713,160**	**1,498,403**
Paid-in capital	356,407	353,495
Valid portion of capital reserve	151,963	144,874
Surplus reserve	178,040	150,752
General reserve	246,356	221,622
Retained profits	781,853	650,308
Valid portion of minority interests	4,340	2,191
Others	(5,799)	(24,839)
Core tier 1 capital deductions	**11,665**	**11,670**
Goodwill	8,478	8,487
Other intangible assets other than land use rights	1,356	1,279
Cash flow hedge reserves that relate to the hedging of items that are not fair valued on the balance sheet	(3,869)	(3,796)
Investment in core tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	5,700	5,700
Net core tier 1 capital	**1,701,495**	**1,486,733**
Additional tier 1 capital	**79,567**	**34,500**
Additional tier 1 capital instruments and related premium	79,375	34,428
Valid portion of minority interests	192	72
Net tier 1 capital	**1,781,062**	**1,521,233**
Tier 2 capital	**244,641**	**306,704**
Valid portion of tier 2 capital instruments and related premium	180,242	187,829
Surplus provision for loan impairment	63,398	118,633
Valid portion of minority interests	1,001	242
Tier 2 capital deductions	**13,600**	**15,800**
Significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	13,600	15,800
Net capital base	**2,012,103**	**1,812,137**
Risk-weighted assets(1)	**13,216,687**	**12,475,939**
Core tier 1 capital adequacy ratio	**12.87%**	**11.92%**
Tier 1 capital adequacy ratio	**13.48%**	**12.19%**
Capital adequacy ratio	**15.22%**	**14.53%**

Note: (1) Refers to risk-weighted assets after capital floor and adjustments.

For information disclosed in accordance with the Notice on Enhancing Disclosure Requirements for Composition of Capital, Appendix 2 to CBRC's Notice on Issuing Regulatory Documents on Capital Regulation for Commercial Banks, 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 2015	At 31 December 2014
I. Valid caps of surplus provision for loan impairment in tier 2 capital		
Parts covered by internal ratings-based approach		
Provision for loan impairment	262,825	242,040
Expected loss	204,808	125,418
Surplus provision for loan impairment	58,017	116,622
Valid cap of surplus provision for loan impairment in tier 2 capital irrespective of adjustment during the parallel period	51,702	44,868
Valid portion of surplus provision for loan impairment in tier 2 capital during the parallel period	58,017	108,949
Parts uncovered by internal ratings-based approach		
Provision for loan impairment	17,829	15,541
Minimum requirement on provision for loan impairment	12,448	5,857
Surplus provision for loan impairment	5,381	9,684
Valid cap of surplus provision for loan impairment in tier 2 capital	40,532	45,050
Valid portion of surplus provision for loan impairment in tier 2 capital	5,381	9,684
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	48,007	33,067
Relevant cap	170,150	148,673
Deductible portion	–	–
Significant minority investments in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	21,669	26,658
Relevant cap	170,150	148,673
Deductible portion	–	–
Deferred tax assets arising from temporary differences	20,313	24,569
Relevant cap	170,150	148,673
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	41,982	51,227
Relevant cap	255,224	223,010
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 2015 Annual Report. For material capital investment activities of the Bank during the reporting period, please refer to "Significant Events" in the 2015 Annual Report.

Risk-Weighted Assets

In RMB millions

Item	At 31 December 2015	At 31 December 2014
Credit risk-weighted assets	11,864,984	11,091,736
Parts covered by internal ratings-based approach	8,617,028	7,478,053
Parts uncovered by internal ratings-based approach	3,247,956	3,613,683
Market risk-weighted assets	199,557	79,189
Parts covered by internal model approach	139,840	68,888
Parts uncovered by internal model approach	59,717	10,301
Operational risk-weighted assets	1,152,146	1,068,357
Risk-weighted assets increased due to applying capital floor	–	236,657
Total	**13,216,687**	**12,475,939**

Internal Capital Adequacy Assessment

The Bank's internal capital adequacy assessment comprises the substantive risk assessment, capital adequacy forecast and comprehensive stress test. 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 to compute the target capital adequacy ratio of the Bank. 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 comprehensive stress test 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.

Capital Planning and Management Plan for Capital Adequacy Ratios

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 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 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. In 2015, the Bank met the objectives set in the medium and long-term capital planning and the annual management plan for capital adequacy ratios.

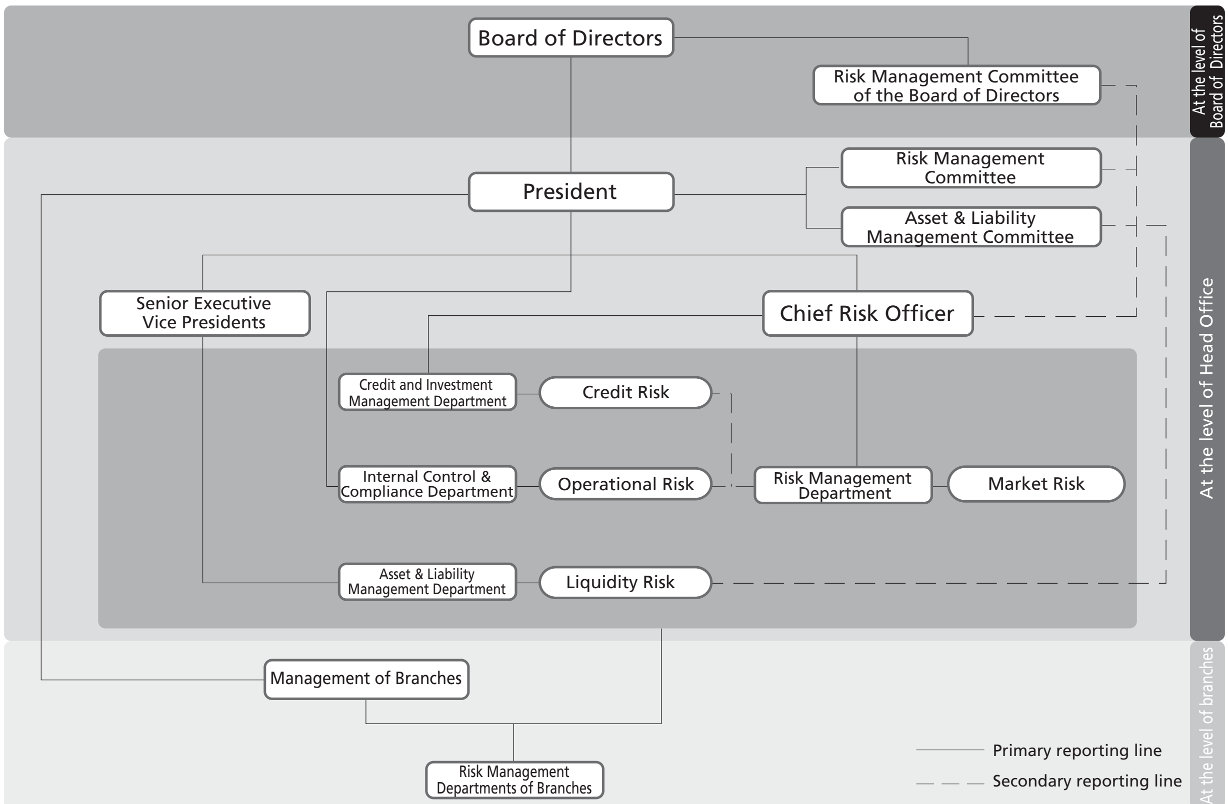
The Capital Regulation specifies that Chinese commercial banks shall ensure that their capital adequacy ratio will comply with new regulatory requirements by the end of 2018 and encourages qualified commercial banks to achieve the compliance ahead of the schedule. In accordance with relevant regulatory 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 USD2 billion at a fixed price in the overseas markets in September 2015 to replenish its tier 2 capital. In November 2015, the Bank privately offered 450 million domestic preference shares, raising a total of RMB45 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 domestic preference shares, please refer to the announcements published by the Bank on the websites of SSE and SEHK.

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 2015, the Bank further improved the enterprise risk management system, pushed ahead with the implementation of regulatory requirements on systemically important banks, and continuously improved risk management technologies and methods. The level of its enterprise risk management was further enhanced. It reinforced consolidated risk management at the Group level, with the focus on risk management of non-banking subsidiaries, reinforced country risk management and strengthened country risk monitoring and limit management of key countries and regions. It also enhanced the market risk management through proactively classifying the market risk management of overseas institutions, carrying out standard product control and bolstering market risk management of asset management business. Additionally, it propelled the implementation of advanced capital management approaches, improved the measurement system concerning credit risk, market risk and operational risk and continued to promote monitoring, validation and management application of the risk measurement system.

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).

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, and implements an independent, centralized and vertical credit risk management mode. The Board of Directors assumes the ultimate responsibility for 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 Credit Risk Management Committee of the Senior Management is the reviewing 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 implemented 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 twelve-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 2015, based on the macroeconomic changes and industrial development trend, the Bank concentrated its efforts in credit risk prevention and control while providing financial support to enhance quality and effectiveness of the real economy. The credit management procedures, business qualifications and responsibility mechanism were optimized in an all-round manner, with the objective of adapting to the new normal. The big data credit risk monitoring system was improved and more efforts were devoted to screening, consultation, reinforcement and mitigation of potential risks. The credit management philosophy and mode were innovated to accelerate the building of a sound internet-based credit business management system centering on the e-ICBC development strategy. Management of credit asset quality was strengthened, and special disposal team was established, leading to effective NPL collection and disposal. As a result, credit asset quality on the whole remained stable.

Credit Risk Management of Corporate Loans

The Bank continued to strengthen the formation of the credit rule framework and improve credit system. The Bank established a globally uniform credit management system at the Group's level by integrating domestic and overseas rating and credit systems. It revised the measures regarding the collateral management for corporate credit business and improved the collateral management mechanism. It formulated the measures for evaluating project loans and established norms for the management of medium and long-term project loan evaluation at the Group's level.

The Bank continuously adjusted and improved industrial credit policy to provide financing support to the real economy in accordance with the macroeconomic policy, the prevailing trends of industry policy and the characteristics of the operation of the industry as well as the important strategic initiatives of the country. The Bank realized full coverage of industries of loan customers in its industry policy system of "18 industry segment policies + 60 key sub-industries". It also proactively supported the national "four regions" and "three supporting belts" strategies, provided support to key large projects and other infrastructure construction projects, and proactively supported the transformation and upgrading of manufacturing enterprises of quality product and leading enterprises of traditional industries. The Bank supported energy saving and environmental protection enterprises and "Going Global" of prominent product facilities. With a view to promoting the adjustment of its credit structure, the Bank also divided quality markets in more detailed manner, explored and cultivated the credit market for industries with growth prospect including strategic emerging industries, modern service industry, advanced manufacturing industry, cultural industry and industries closely related to the people's livelihood and consumption.

The Bank strengthened risk management of loans to LGFVs. The Bank earnestly implemented the relevant policies and regulatory requirements of the State Council and CBRC on loans to LGFVs. It strengthened the control over total financing amount and monitoring and analysis of loans to LGFVs, boosted differentiated management and further optimized the loan structure. The Bank also coordinated with local governments during liquidation and screening of debts as well as the replacement of loans to LGFVs with bonds.

The Bank strengthened risk management of the real estate industry. The Bank closely monitored the risk changes in the real estate market and exercised differentiated customer and project eligibility criteria. Preference was given to ordinary commercial housing projects with high quality developed by large real estate enterprises. It also improved the regional structure of real estate loans, enhanced the monitoring and analysis of outstanding real estate loans and vigorously strengthened risk prevention and control of real estate loans.

The Bank strengthened risk management in relation to trade finance. The Bank improved domestic trade finance key product rules to fortify risk management policy base for trade finance business and revised domestic and overseas trade finance credit policies to further standardize access and guarantee requirements regarding trade finance products. It also screened risks with the help of big data models and enhanced refined management of trade finance business with the focus on anti-counterfeit product efforts.

The Bank strengthened credit risk management of small enterprise loans. The Bank improved its term management policy for small enterprise loans and innovated in credit business modes to small and micro enterprises. It strengthened full-flow risk management, conducted regular and special risk monitoring, and stepped up efforts in risk prevention and control of key regions, industries and groups. It built off-site monitoring platform, optimized the system cross default control function, and uplifted the level of information-based risk management of small enterprises loans.

Credit Risk Management of Personal Loans

The Bank improved its credit risk management system for personal loans. It revised the administrative measures regarding the collateral management for personal credit business, and standardized collateral evaluation process to achieve strict collateral management and enhance collateral management quality and efficiency. The Bank adjusted the business procedures of personal loans by stressing the importance of credit approval responsibility for risk prevention and streamlining the approval procedure. The Bank has perfected its personal credit risk monitoring models and improved the effectiveness of its risk warning system. In terms of residential mortgages, loans based on forged evidentiary materials and loans from several financial institutions were strictly administered, and stringent customer entry conditions and limits were set for better risk monitoring of the automatic approval business; differentiated pricing mechanism for regions, projects and customers of personal residential mortgages was implemented and risk pricing capability of personal residential mortgage business was enhanced. Internet-based personal financing services were upgraded. Risk control and business management of personal financial assets-pledged loans was strengthened.

Credit Risk Management of Credit Card Business

The Bank improved credit-granting system to promote accurate credit-granting for card members and built a standardized personal loan credit-granting system. It formed the system for dynamic credit line management of credit cards and established rules regarding the follow-up of credit use and repayment behaviors of large-amount credit customers to strictly prevent credit risk of large-amount credit customers. To enhance disposal efforts of risk assets of credit cards, it boosted post-lending management of credit cards, initiated special recovery inspections over key products and customers, and adjusted recovery strategies for overdue loans. It accelerated the application of the visible monitoring platform of big data of credit cards and the building of the real-time risk monitoring system featuring around-the-clock automatic monitoring and intervention and covering all businesses, processes and risks. It strengthened trainings for credit risk monitoring personnel in risk events handling and continued to enhance risk prevention and control of the Bank.

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 bonds 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. The Bank set financing limits for each interbank offering and adopted the principle of management for both credit and authorization.

In 2015, the Bank continued to strengthen credit risk management of treasury operations. It further improved the risk monitoring and analysis mechanism for treasury operations, proactively optimized the structure of bonds investment portfolios based on international and domestic financial market trends, and maintained investments in high-quality credit bonds, 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 2015, the Bank upgraded and improved its financial asset service policies and rules and kept enhancing the risk management level of financial asset service business. In particular, it formulated the measures for the management of the agency investment business with the focus on operation monitoring, duration management and other links of the non-standardized agency investment business, and strengthened process management of innovative businesses including industry funds and mergers and acquisitions investments. It also continued to manage partner institutions of the agency investment business and exercised strict access conditions and limit requirements for the partner institutions. In addition, the system construction for the financial asset service business was progressed in an orderly manner and the system-based full-flow management of the agency investment business was reinforced.

Credit Risk Exposure

EXPOSURE AT DEFAULT COVERED BY INTERNAL RATINGS-BASED APPROACH

In RMB millions

Item	At 31 December 2015	At 31 December 2014
Corporate risk exposure	8,074,651	7,027,466
Retail risk exposure	3,499,277	3,041,593
Total	**11,573,928**	**10,069,059**

RISK EXPOSURE UNCOVERED BY INTERNAL RATINGS-BASED APPROACH

In RMB millions

Item	At 31 December 2015	At 31 December 2014
On-balance sheet credit risk	11,594,300	11,415,730
Including: Cash assets	3,035,242	3,562,770
Claims on the central governments and central banks	1,405,285	1,304,337
Claims on Chinese financial institutions	3,955,725	3,357,016
Asset Securitization	6,725	4,853
Off-balance sheet credit risk	506,009	771,816
Counterparty Credit Risk	1,393,646	92,946
Total	**13,493,955**	**12,280,492**

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 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 based scheme management. The Senior Management is responsible for implementation of internal rating based 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 based management. The Credit Approval Department of the Head Office is responsible for 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 monitoring, application, analysis and reporting of the internal rating system. Credit assets business management departments of the branches are responsible for investigation, implementation and rating application regarding the internal rating system.

Non-retail Business

The Bank adopts the foundation IRB approach to measure non-retail credit risk according to regulatory requirements with rating models established based on quantitative technologies as well as judgemental experience. The models assess debt-paying ability and willingness of customers based on financial indicators, competitiveness, management quality and operation status of the customers from quantitative and qualitative aspects. Customer rating is determined by rating scores and probability of default (PD) is mapped via the master 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, obligor 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, maintained according to the rules regarding management of internal rating parameters of the Bank, are monitored and validated on a regular basis.

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

In RMB millions, except for percentages

	At 31 December 2015				
PD level	Exposure at default	Weighted average PD	Weighted average LGD	Risk-weighted assets	Average risk weight
Level 1	996,557	0.10%	44.83%	311,555	31.26%
Level 2	996,964	0.22%	43.64%	467,325	46.87%
Level 3	1,471,063	0.67%	43.27%	1,107,657	75.30%
Level 4	2,162,706	1.63%	42.70%	2,099,956	97.10%
Level 5	1,206,955	2.62%	41.20%	1,234,017	102.24%
Level 6	743,222	3.72%	41.41%	856,067	115.18%
Level 7	168,677	5.28%	40.01%	204,194	121.06%
Level 8	34,759	7.20%	40.69%	49,568	142.60%
Level 9	54,405	9.60%	42.12%	92,499	170.02%
Level 10	13,497	18.00%	42.83%	28,556	211.56%
Level 11	35,421	56.00%	41.90%	63,441	179.11%
Level 12	190,425	100.00%	43.38%	647,834	340.20%
Total	**8,074,651**	**—**	**—**	**7,162,669**	**88.71%**

	At 31 December 2014				
PD level	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 pursuant to regulatory requirements, 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

	At 31 December 2015				
Type of risk exposure	Exposure at default	Weighted average PD	Weighted average LGD	Risk-weighted assets	Average risk weight
Personal residential mortgages	2,484,108	1.93%	23.68%	621,278	25.01%
Eligible revolving retail loans	442,892	4.26%	61.03%	122,896	27.75%
Other retail loans	572,277	7.97%	37.50%	222,429	38.87%
Total	**3,499,277**	—	—	**966,603**	**27.62%**

	At 31 December 2014				
Type of risk exposure	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 throughout the whole credit risk management process 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 also takes into account the internal rating results as an important base during decision-making over credit risk management and credit structural adjustment.

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	At 31 December 2015	At 31 December 2014
0%	6,182,575	6,713,965
20%	1,622,626	672,397
25%	2,173,959	1,236,931
50%	50,455	57,510
75%	254,234	282,865
100%	3,147,473	3,246,027
150%	12,947	11,140
250%	42,827	53,459
400%	1,892	2,171
1250%	4,967	4,027
Total	**13,493,955**	**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 2015	At 31 December 2014
Ordinary shares issued by other commercial banks	21,567	27,454
Long-term subordinated bonds issued by other commercial banks	8,522	8,222
Equity investment in commercial entities	4,076	3,745
Total	**34,165**	**39,421**

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 the right of construction land use, buildings and other attached objects, 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 basic procedures and direct identification procedures. Basic procedures include investigation and measurement, examination (checking), review and approval; direct identification procedures include investigation and measurement, review and approval. 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. The Bank shall reassess the collateral value irregularly upon discovering conditions which may possibly result in an impairment of the collateral or obvious adverse changes happening to the customer.

The bank analyzes concentration 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 2015 Eligible financial pledge	Other eligible collaterals	Guarantee	Total
Non-retail business				
Corporate loans	126,774	1,222,791	462,239	1,811,804
Subtotal	126,774	1,222,791	462,239	1,811,804
Retail business				
Personal residential mortgages	–	2,484,108	–	2,484,108
Other retail loans	63,467	489,214	13,029	565,710
Subtotal	63,467	2,973,322	13,029	3,049,818
Total	**190,241**	**4,196,113**	**475,268**	**4,861,622**

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**

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 2015 Amount	Percentage (%)	At 31 December 2014 Amount	Percentage (%)
Pass	11,233,456	94.14	10,582,050	95.97
Special mention	520,492	4.36	319,784	2.90
NPLs	179,518	1.50	124,497	1.13
Substandard	104,805	0.87	66,809	0.60
Doubtful	60,512	0.51	49,359	0.45
Loss	14,201	0.12	8,329	0.08
Total	**11,933,466**	**100.00**	**11,026,331**	**100.00**

OVERDUE LOANS

In RMB millions, except for percentages

Overdue periods	At 31 December 2015 Amount	At 31 December 2015 % of total loans	At 31 December 2014 Amount	At 31 December 2014 % of total loans
1 to 90 days	169,902	1.42	95,410	0.87
91 days to 1 year	84,808	0.71	65,134	0.59
1 to 3 years	62,783	0.53	35,152	0.32
Over 3 years	15,205	0.13	14,882	0.13
Total	**332,698**	**2.79**	**210,578**	**1.91**

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
Balance at the beginning of the year	**41,245**	**216,336**	**257,581**
Charge for the year	63,728	22,294	86,022
Including: Impairment allowances charged	91,878	134,262	226,140
Impairment allowances transferred	902	(902)	–
Reversal of impairment allowances	(29,052)	(111,066)	(140,118)
Accrued interest on impaired loans	(4,156)	–	(4,156)
Acquisition of subsidiaries	326	88	414
Write-offs	(50,365)	(9,931)	(60,296)
Recoveries of loans and advances previously written off	721	368	1,089
Balance at the end of the year	**51,499**	**229,155**	**280,654**

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 2015 Annual Report.

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 status, risk management level 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 limit 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 2015	At 31 December 2014
Risk exposure of non-netting settlement		
Interest rate contracts	5,579	3,432
Currency contracts	40,599	39,648
Equity contracts	29	1
Commodity contracts	8,214	1,560
Credit derivatives	86	–
Total risk exposure of non-netting settlement	54,507	44,641
Including: Gross positive fair value of derivative contracts	26,090	24,048
Risk exposure of netting settlement	34,225	30
Total of credit risk exposure measured under the current exposure method	**88,732**	**44,671**
Risk mitigation impact of collaterals and risk hedging credit derivatives	**–**	**–**
Net credit risk exposure of derivatives	**88,732**	**44,671**

NOMINAL PRINCIPAL OF CREDIT DERIVATIVES

In RMB millions

	At 31 December 2015		At 31 December 2014	
Item	Credit derivatives bought	Credit derivatives sold	Credit derivatives bought	Credit derivatives sold
Nominal principal of credit derivatives as credit portfolios of the Bank	**331**	**1,974**	**–**	**–**
Credit default swap	331	1,851	–	–
Total return swap	–	123	–	–
Nominal principal of credit derivatives where the Bank acts as intermediary	**11,948**	**11,948**	**–**	**–**
Credit default swap	11,948	11,948	–	–

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 six securitization projects since 2007, where underlying assets were all corporate loans. As originator and lending services provider, the Bank issued RMB39,515 million asset-backed securities on a cumulative basis, including RMB18,319 million issued in two securitization projects in 2015. As at the end of 2015, 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. 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 2015, assets continued to be recognized by the Bank amounted to RMB1,291 million.

ICBC Leasing and ICBC (Argentina), subsidiaries of the Bank, and Chinese Mercantile Bank, a subsidiary of ICBC (Asia) conducted asset securitization businesses as originators. In 2015, ICBC Leasing, ICBC (Argentina) and Chinese Mercantile Bank originated one, two and one asset securitization products respectively,. ICBC Leasing held part of subordinated asset-backed securities in the asset securitization business. At the end of 2015, assets continued to be recognized by ICBC Leasing amounted to RMB19 million. ICBC (Argentina) did not derecognize the underlying assets of these assets securitization. During the reporting period, ICBC (Argentina) set aside RMB1.13 million provisions for impairment loss on retained underlying assets. The asset securitization business originated by Chinese Mercantile Bank in 2015 was settled in full amount in the year.

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

In RMB millions

				Underlying assets				
Asset securitization product	Originating year	Originator	External credit rating institution	Type of underlying assets	Exposure at origination	Exposure at the end of 2015	Non-performing at the end of 2015	Overdue at the end of 2015
2013 Gongyuan Phase I credit asset securitization trust project	2013	The Bank	China Ratings, CCXI	Corporate loans	3,592	28	–	–
2014 Gongyuan Phase I credit asset securitization trust project	2014	The Bank	China Ratings, CCXI	Corporate loans	5,572	836	–	–
2015 Gongyuan Phase I credit asset securitization trust project	2015	The Bank	CCXI, China Ratings	Corporate loans	11,353	10,358	–	–
2015 Gongyuan Phase II credit asset securitization trust project	2015	The Bank	LH Ratings, China Ratings	Corporate loans	6,966	4,655	–	–
2015 Gongyinhaitian Phase I leasing asset securitization trust project	2015	ICBC Leasing	CCXI, China Ratings	Usufruct of rent receivable from financial leasing	1,032	329	–	–
2015 CMB Phase I credit asset securitization trust project	2015	Chinese Mercantile Bank	CCXI, China Ratings	Corporate loans	1,011	–	–	–
ICBC (Argentina) asset securitization project — Phase XII	2015	ICBC (Argentina)	Moody's	Personal loans	119	36	0.47	1.52
ICBC (Argentina) asset personal commercial loans securitization project — Phase II	2015	ICBC (Argentina)	Moody's	Personal loans	145	78	0.08	3.40
Total					**29,790**	**16,320**	**0.55**	**4.92**

Notes: (1) New asset securitization businesses originated by the Bank during the reporting period were all issued at par.

(2) At the end of 2015, the Bank did not originate any asset securitization products with revolving underlying assets and early amortization feature.

◆ *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 2015 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 2015, risk-weighted assets for asset securitization stood at RMB10,756 million and capital requirement RMB860 million.

ASSET SECURITIZATION RISK EXPOSURE

In RMB millions

Type of risk exposure	At 31 December 2015	At 31 December 2014
As originator		
Asset-backed securities	1,459	361
Subtotal	1,459	361
As investor		
Asset-backed securities	5,266	4,492
Subtotal	5,266	4,492
Total	**6,725**	**4,853**

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).

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 for 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 reviewing 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 2015, the Bank continued to strengthen consolidated management of market risk and persistently enhanced the management and measurement of market risk at the Group's level. It improved market risk management rules and regulations including the measures for market risk consolidated management, implemented institution classified management and delicacy management of overseas institutions. It accelerated overseas expansion of the Global Market Risk Management (GMRM) system, covering more institutions. It also actively optimized the measurement models and IMA verification, enhanced independent research and development capacity of market risk internal models, and deepened the core application of the IMA in limit management, risk reporting, stress test and capital measurement.

Market Risk Measurement

CAPITAL REQUIREMENT FOR MARKET RISK

In RMB millions

Risk type	At 31 December 2015	At 31 December 2014
Parts covered by internal model approach	**11,187**	**5,511**
Parts uncovered by internal model approach	**4,778**	**824**
Interest rate risk	2,691	824
Commodity risk	2,016	0
Stock risk	0	–
Option risk	71	–
Total	**15,965**	**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

	2015			
Item	**Period end**	**Average**	**Maximum**	**Minimum**
VaR	**1,580**	**1,269**	**1,747**	**757**
Interest rate risk	203	244	389	98
Currency risk	1,564	1,273	1,715	817
Commodity risk	28	69	216	8
Stressed VaR	**1,821**	**1,835**	**2,216**	**1,367**
Interest rate risk	265	200	345	103
Currency risk	1,776	1,795	2,261	1,354
Commodity risk	80	100	262	11

	2014			
Item	**Period end**	**Average**	**Maximum**	**Minimum**
VaR	**750**	**554**	**773**	**426**
Interest rate risk	171	107	205	25
Currency risk	811	558	830	402
Commodity risk	53	31	184	11
Stressed VaR	**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 test against different market stress scenarios, constantly enriched the content of stress test and deepened the application of market risk stress test results. The automation level of market risk stress test of the Group was constantly improved due to the overseas extension of the GMRM system.

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, external fraud, execution and delivery and process management constitute major sources of operational risk losses of the Bank.

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 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 line of defense.

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 taking 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 capita l 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 2015, 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, further promoted operational risk management in overseas institutions, and improved the operational risk management of the Group. It continuously improved the operational risk control system of each business line, strenuously effected the risk management functions of internal and external frauds control departments, established better case prevention mechanisms and systems, and promoted the application of the external fraud risk information system in all business areas and overseas institutions. It bolstered in-process operational risk control and pre-trading risk control and persistently enhanced credit business compliance supervision. It proactively implemented the establishment of the information security integrated mechanism and terminal security management, in order to increase the resilience of the information technology system against external attacks. It reinforced operational risk limit management and compliance management, raised the flexibility of limit indicators, standardized compliance review processing flow, and focused on compliance management of overseas institutions. It intensified operational risk data quality control of the Group, 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.

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 2015, 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. Besides, the Bank strengthened the risk control and management of lawsuits where the Bank was the defendant, to continuously enhance litigation management. Additionally, it assisted the online enforcement investigation and control system and increased the efficiency of assistance to enforcement. Last but not least, the Bank further standardized contract management and reinforced authorization management, related parties management, trademark management and intellectual property protection.

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 2015, the Bank continued to deepen centralized processing and comprehensive pilot reform in anti-money laundering, with its suspicious report quality and centralized judgment mode highly recognized by PBC. Money laundering risk assessment policies for institutions, customers and products were formulated and improved, money laundering self assessment was carried out steadfastly, customer risk levels were reassessed, and regular analysis report on money laundering types was improved. Special inspection and selective quality inspection of sensitive transactions were conducted, and special campaign against customer information was implemented in an in-depth manner, and money laundering risk and counter-terrorist financing risk control in major business areas was reinforced. The overseas anti-money laundering monitoring system was improved, and the reform of sensitive information compliance review mechanism was promoted in an orderly manner. Audit of overseas institutions with respect to anti-money laundering was reinforced, and anti-money laundering personnel allocation and performance appraisal and supervision of overseas institutions were strengthened. The Bank proactively prevented and controlled anti-money laundering compliance risk facing the Group in process of internationalization. Publicity activities and trainings on anti-money laundering were launched, anti-money laundering qualification authentication was promoted, and the building of anti-money laundering expert team was intensified, so as to improve the compliance awareness, professionalism and duty performance ability of anti-money laundering professionals.

Operational Risk Measurement

The Bank adopts the standardized approach to measure capital requirement for operational risk. As at the end of 2015, the capital requirement for operational risk was RMB92,172 million.

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.

Liquidity Risk Management

In 2015, according to the macroeconomic environment and changes of financial regulatory policies, the Bank strengthened the development of its liquidity risk management mechanism and managed liquidity on and off balance sheet and of domestic and overseas institutions in a coordinated way, which further raised funds operation and liquidity risk prevention and control capability of the Group. Real-time funds monitoring and warning mechanism was improved to ensure smooth and orderly operation of the RMB payment system (CIPS) and promote refined liquidity management across the Bank. City-wide fund clearing management and system building were implemented, effectively enhancing funds operation and liquidity risk centralized management. Overseas funds were managed in a more centralized manner, and the overall planning and coordination mechanism for the Group's liquidity risk was improved. Overseas institutions were guided to further optimize the structure of assets and liabilities and expand sources of liabilities and to continuously boost their liquidity risk prevention capability. Development of systems for identification, monitoring, measurement and control procedures for liquidity risk was steadily progressed, in a bid to further improve the automatic level of liquidity risk management.

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 and 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 and Compliance Department; and the execution system comprising the Asset and 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.

Liquidity Risk Analysis

The Bank paid close attention to the macro-control policy and the trend of market funds, dynamically adjusted its RMB funds operation strategy in accordance with the Bank's assets and liabilities business development and funds management characteristics in different periods, and took various measures to ensure a safe and stable liquidity level. In order to further consolidate the deposit business, it promoted the steady and balanced growth of each type of deposits, and applied comprehensive means including price and scale measures to optimize deposit structure, which effectively enhanced the stability of liabilities. It also intensified the efforts in treasury business term structure management, taking funds security, liquidity and profitability into consideration.

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

The deposit and loan businesses of the Bank maintained coordinated development, and liquidity risk management ability was further strengthened. RMB liquidity ratio, foreign currency liquidity ratio and liquidity coverage ratio of the Bank were 35.5%, 98.1% and 145.1%, respectively, meeting the regulatory requirements. Loan-to-deposit ratio was 71.4%.

The Bank also assessed the liquidity risk status by using liquidity exposure analysis. As at the end of 2015, the liquidity exposure for the less than 1 month category turned positive from negative, which was mainly due to the increase of due from and placements with banks and other financial institutions with corresponding term and the decrease of financial liabilities at fair value through profit or loss; the negative liquidity exposure for the 1 to 3 months category fell following the decrease of financial liabilities at fair value through profit or loss with corresponding term; the liquidity exposure for the 3 months to 1 year category turned positive from negative and the positive liquidity exposure for the over 5 years category edged up, which was mainly due to loans and bond investment with corresponding term increased. 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. Therefore, the overall liquidity of the Bank maintained at a safe level. The liquidity exposure analysis of the Bank as at the end of 2015 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 2015	(9,385,821)	322,595	(540,886)	26,247	3,197,027	5,136,733	3,044,624	1,800,519
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

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 2015, 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

	At 31 December 2015		At 31 December 2014	
Changes of interest rate in basis points	Impact on net interest income	Impact on equity	Impact on net interest income	Impact on equity
Increase by 100 basis points	(5,926)	(38,609)	(1,635)	(30,483)
Decrease by 100 basis points	5,926	41,729	1,635	32,354

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

	At 31 December 2015			At 31 December 2014		
Equity type	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	21,551	964	173	28,049	840	506
Corporate	2,639	3,329	1,309	2,789	3,127	1,267
Total	**24,190**	**4,293**	**1,482**	**30,838**	**3,967**	**1,773**

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 2015 Annual Report.

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 2015, the Bank comprehensively strengthened reputational risk management, proactively prevented reputational risk and enhanced the reputational risk management level and prevention ability across the Bank. According to the latest regulatory requirements and external situation changes, the Bank improved reputational risk management working mechanism, carried out identification, evaluation, monitoring, control, mitigation and assessment of reputational risk in an in-depth manner and strengthened consolidated management of reputational risk. 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. It organized emergency response drill on reputational risk and reinforced prevention control and mitigation of reputational risk. It made active response to concerns from the society and effectively communicated with the stakeholders and the public.

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 a 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 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 2015, in response to the complicated international political and economic situation, the Bank continued to strengthen country risk management according to regulatory requirements and business development. It closely monitored country risk exposure, kept tracking, monitoring and reporting country risk and promptly updated and adjusted the rating and limits of country risk. It also further improved the country risk early warning mechanism, actively conducted stress tests on country risk and effectively controlled country risk while pushing ahead the internationalization strategy.

Remuneration

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 feedback for improvement.

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, Sir Malcolm Christopher McCarthy, Mr. Kenneth Patrick Chung, Mr. Or Ching Fai and Mr. Anthony Francis Neoh; 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 two meetings.

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. For persons 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 2015 Annual Report.

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 2015	At 31 December 2014	Reference[(1)]
Core tier 1 capital:				
1	Paid-in capital	356,407	353,495	X18
2	Retained earnings	1,206,249	1,022,682	
2a	Surplus reserve	178,040	150,752	X21
2b	General reserve	246,356	221,622	X22
2c	Retained profits	781,853	650,308	X23
3	Accumulated other comprehensive income (and other public reserves)	146,164	120,035	
3a	Capital reserve	151,963	144,874	X19
3b	Others	(5,799)	(24,839)	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	4,340	2,191	X25
6	**Core tier 1 capital before regulatory adjustments**	**1,713,160**	**1,498,403**	
Core tier 1 capital: Regulatory adjustments				
7	Prudential valuation adjustments	–	–	
8	Goodwill (net of deferred tax liabilities)	8,478	8,487	X16
9	Other intangible assets other than land use rights (net of deferred tax liabilities)	1,356	1,279	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	(3,869)	(3,796)	X20
12	Shortfall of provision for loan impairment	–	–	
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	–	–	

Note: (1) For mapped components of the balance sheet under regulatory scope of consolidation to capital items, please refer to "Explanations for Detailed Items".

CAPITAL COMPOSITION (CONTINUED)

In RMB millions, except for percentages

S/N	Item	At 31 December 2015	At 31 December 2014	Reference
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	5,700	X11
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**	**11,665**	**11,670**	
29	**Core tier 1 capital**	**1,701,495**	**1,486,733**	
Additional tier 1 capital:				
30	Additional tier 1 capital instruments and related premium	79,375	34,428	
31	Including: Portion classified as equity	79,375	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	192	72	X26
35	Including: Invalid portion to additional tier 1 capital after the transition period	–	–	
36	**Additional tier 1 capital before regulatory adjustments**	**79,567**	**34,500**	
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	–	–	

CAPITAL COMPOSITION (CONTINUED)

In RMB millions, except for percentages

S/N	Item	At 31 December 2015	At 31 December 2014	Reference
40	Significant minority investments in additiona 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	–	–	
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**	**79,567**	**34,500**	
45	**Tier 1 capital (core tier 1 capital + additional tier 1 capital)**	**1,781,062**	**1,521,233**	
Tier 2 capital:				
46	Tier 2 capital instruments and related premium	180,242	187,829	X17
47	Invalid instruments to tier 2 capital after the transition period	144,158	164,752	
48	Valid portion of minority interests	1,001	242	X27
49	Including: Invalid portion to tier 2 capital after the transition period	–	–	
50	Valid portion of surplus provision for loan impairment	63,398	118,633	X02+X04
51	**Tier 2 capital before regulatory adjustments**	**244,641**	**306,704**	
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	13,600	15,800	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	–	–	
56c	Others that should be deducted from tier 2 capital	–	–	
57	**Total regulatory adjustments to tier 2 capital**	**13,600**	**15,800**	
58	**Tier 2 capital**	**231,041**	**290,904**	
59	**Total capital (tier 1 capital + tier 2 capital)**	**2,012,103**	**1,812,137**	
60	**Total risk-weighted assets**	**13,216,687**	**12,475,939**	
Requirements for capital adequacy ratio and reserve capital				
61	Core tier 1 capital adequacy ratio	12.87%	11.92%	
62	Tier 1 capital adequacy ratio	13.48%	12.19%	
63	Capital adequacy ratio	15.22%	14.53%	

CAPITAL COMPOSITION (CONTINUED)

In RMB millions, except for percentages

S/N	Item	At 31 December 2015	At 31 December 2014	Reference
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	7.87%	6.92%	
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	48,007	33,067	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	21,669	26,658	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)	20,313	24,569	
Valid caps of surplus provision for loan impairment in tier 2 capital				
76	Provision for loan impairment under the weighted approach	17,829	15,541	X01
77	Valid cap of surplus provision for loan impairment in tier 2 capital under the weighted approach	5,381	9,684	X02
78	Surplus provision for loan impairment under the internal ratings-based approach	262,825	242,040	X03
79	Valid cap of surplus provision for loan impairment in tier 2 capital under the internal ratings-based approach	58,017	108,949	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	144,158	164,752	
85	Excluded from tier 2 capital for the current period due to cap	15,311	17,932	

BALANCE SHEET AT THE GROUP'S LEVEL

In RMB millions

Item	At 31 December 2015		At 31 December 2014	
	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	3,059,633	3,059,633	3,523,622	3,523,622
Due from banks and other financial institutions	211,559	204,607	304,273	298,128
Precious metals	114,619	114,619	95,950	95,950
Placements with banks and other financial institutions	472,234	472,234	478,503	478,503
Financial assets at fair value through profit or loss	343,272	343,246	346,828	346,765
Derivative financial assets	78,870	78,870	24,048	24,048
Reverse repurchase agreements	996,333	996,333	468,462	468,452
Loans and advances to customers	11,652,812	11,652,264	10,768,750	10,767,798
Available-for-sale financial assets	1,444,195	1,421,231	1,188,288	1,176,369
Held-to-maturity investments	2,870,353	2,869,642	2,566,390	2,565,606
Receivables	352,143	326,339	331,731	319,108
Long term equity investments	24,185	29,885	28,919	34,619
Fixed assets	195,401	195,357	171,434	171,393
Construction in progress	26,101	26,101	24,804	24,784
Deferred income tax assets	21,066	21,066	24,758	24,758
Other assets	347,004	337,210	263,193	256,829
Total assets	**22,209,780**	**22,148,637**	**20,609,953**	**20,576,732**
Liabilities				
Due to central banks	210	210	631	631
Due to banks and other financial institutions	1,788,267	1,788,267	1,106,776	1,106,776
Placements from banks and other financial institutions	477,593	477,593	432,463	432,463
Financial liabilities at fair value through profit or loss	303,927	303,916	589,385	589,346
Derivative financial liabilities	76,826	76,826	24,191	24,191
Repurchase agreements	337,191	329,896	380,957	377,037
Certificates of deposit	183,352	183,352	176,248	176,248
Due to customers	16,281,939	16,283,105	15,556,601	15,559,727
Employee benefits payable	31,717	31,470	28,148	27,982
Taxes payable	75,234	75,201	72,278	72,207
Debt securities issued	306,622	306,622	279,590	279,590
Deferred income tax liabilities	995	754	451	189
Other liabilities	545,388	496,583	424,930	396,907
Total liabilities	**20,409,261**	**20,353,795**	**19,072,649**	**19,043,294**

BALANCE SHEET AT THE GROUP'S LEVEL (CONTINUED)

In RMB millions

Item	At 31 December 2015 Consolidated balance sheet as in published financial statements	At 31 December 2015 Balance sheet under regulatory scope of consolidation	At 31 December 2014 Consolidated balance sheet as in published financial statements	At 31 December 2014 Balance sheet under regulatory scope of consolidation
Shareholders' equity				
Share capital	356,407	356,407	353,495	353,495
Other equity instruments	79,375	79,375	34,428	34,428
Including: Preference shares	79,375	79,375	34,428	34,428
Capital reserve	151,963	151,963	144,874	144,874
Other comprehensive income	(4,655)	(5,799)	(24,548)	(24,839)
Surplus reserve	178,040	178,040	150,752	150,752
General reserve	246,356	246,356	221,622	221,622
Retained profits	781,988	781,853	650,236	650,308
Equity attributable to equity holders of the parent company	1,789,474	1,788,195	1,530,859	1,530,640
Minority interests	11,045	6,647	6,445	2,798
Total equity	**1,800,519**	**1,794,842**	**1,537,304**	**1,533,438**

Note: Prepared in accordance with PRC GAAP.

EXPLANATIONS FOR DETAILED ITEMS

In RMB millions

Item	At 31 December 2015 Balance sheet under regulatory scope of consolidation	Reference
Loans and advances to customers	**11,652,264**	
Total loans and advances to customers	11,932,918	
Less: Provision for loan impairment under the weighted approach	17,829	X01
Including: Valid cap of surplus provision for loan impairment in tier 2 capital under the weighted approach	5,381	X02
Less: Surplus provision for loan impairment under the internal ratings-based approach	262,825	X03
Including: Valid cap of surplus provision for loan impairment in tier 2 capital under the internal ratings-based approach	58,017	X04
Available-for-sale financial assets	**1,421,231**	
Bond investment measured at fair value	1,255,097	
Including: Non-significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	6,102	X05
Other debt instrument investment measured at fair value	160,022	
Equity investment	6,112	
Including: Undeducted portion of non-significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	750	X06
Including: Undeducted portion of significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	50	X07
Held-to-maturity investments	**2,869,642**	
Including: Non-significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	2,420	X08
Receivables	**326,339**	
Including: Non-significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	38,640	X09
Including: Significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	13,600	X10
Long term equity investments	**29,885**	
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	95	X12
Including: Undeducted portion of significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	21,619	X13

EXPLANATIONS FOR DETAILED ITEMS (CONTINUED)

In RMB millions

Item	At 31 December 2015 Balance sheet under regulatory scope of consolidation	Reference
Other assets	**337,210**	
Interest receivable	108,200	
Intangible assets	21,202	X14
Including: Land use rights	19,846	X15
Other receivables	155,565	
Goodwill	8,478	X16
Long-term deferred and prepaid expenses	4,891	
Repossessed assets	6,772	
Others	32,102	
Debt securities issued	**306,622**	
Including: Valid portion of tier 2 capital instruments and their premium	180,242	X17
Share capital	**356,407**	X18
Other equity instruments	**79,375**	
Including: Preference shares	79,375	X28
Capital reserve	**151,963**	X19
Other comprehensive income	**(5,799)**	X24
Reserve for changes in fair value of available-for-sale financial assets	28,811	
Reserve for cash flow hedging	(3,926)	
Including: Cash flow hedge reserves that relate to the hedging of items that are not fair valued on the balance sheet	(3,869)	X20
Changes in share of other owners' equity of associates and joint ventures	421	
Foreign currency translation reserve	(31,105)	
Surplus reserve	**178,040**	X21
General reserve	**246,356**	X22
Retained profits	**781,853**	X23
Minority interests	**6,647**	
Including: Valid portion to core tier 1 capital	4,340	X25
Including: Valid portion to additional tier 1 capital	192	X26
Including: Valid portion to tier 2 capital	1,001	X27

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2015

S/N	Main features of regulatory capital instrument	Ordinary shares (A share)	Ordinary shares (H share)
1	Issuer	ICBC	ICBC
2	Unique identifier	601398	1398
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
	Regulatory treatment		
4	Including: Transition arrangement of Regulation Governing Capital of Commercial Banks (Provisional)	Core tier 1 capital	Core tier 1 capital
5	Including: Post-transition arrangement of Regulation Governing Capital of Commercial Banks (Provisional)	Core tier 1 capital	Core tier 1 capital
6	Including: Eligible to the parent company/group level	Parent company/Group	Parent company/Group
7	Instrument type	Core tier 1 capital instrument	Core tier 1 capital instrument
8	Amount recognized in regulatory capital (in millions, as at the latest reporting date)	RMB339,120	RMB169,200
9	Par value of instrument (in millions)	RMB269,612	RMB86,795
10	Accounting treatment	Share capital, Capital reserve	Share capital, Capital reserve
11	Original date of issuance	19 October 2006	19 October 2006
12	Perpetual or dated	Perpetual	Perpetual
13	Including: Original maturity date	No maturity date	No maturity date
14	Issuer call (subject to prior supervisory approval)	No	No
15	Including: Optional call date, contingent call dates and redemption amount	N/A	N/A
16	Including: Subsequent call dates, if applicable	N/A	N/A
	Coupons/dividends		
17	Including: Fixed or floating dividend/coupon	Floating	Floating
18	Including: Coupon rate and any related index	N/A	N/A
19	Including: Existence of a dividend stopper	N/A	N/A
20	Including: Fully discretionary, partially discretionary or mandatory cancellation of coupons/dividends	Fully discretionary	Fully discretionary
21	Including: Redemption incentive mechanism	No	No
22	Including: Non-cumulative or cumulative	Non-cumulative	Non-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

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2015 (CONTINUED)

S/N	Main features of regulatory capital instrument	Ordinary shares (A share)	Ordinary shares (H share)
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
29	Including: If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down feature	No	No
31	Including: If write-down, write-down trigger(s)	N/A	N/A
32	Including: If write-down, full or partial	N/A	N/A
33	Including: If write-down, permanent or temporary	N/A	N/A
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, general creditor, creditor of the subordinated debts and preference shareholders	After depositor, general creditor, creditor of the subordinated debts and preference shareholders
36	Non-compliant transitioned features	No	No
	Including: If yes, specify non-compliant features	N/A	N/A

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2015 (CONTINUED)

S/N	Main features of regulatory capital instrument	Preference Shares (Offshore)	Preference Shares (Offshore)	Preference Shares (Offshore)	Preference Shares (Domestic)
1	Issuer	ICBC	ICBC	ICBC	ICBC
2	Unique identifier	4603	4604	84602	360011
3	Governing law(s) of the instrument	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	Company Law of PRC, Securities Law of PRC, Guidance of the State Council on Launch of Preference Share Pilot, Trial Administrative Measures on Preference Shares, Guidance on the Issuance of Preference Shares by Commercial Banks to Replenish Tier 1 Capital/China
	Regulatory treatment				
4	Including: Transition arrangement of Regulation Governing Capital of Commercial Banks (Provisional)	Additional 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)	Additional tier 1 capital	Additional tier 1 capital	Additional tier 1 capital	Additional tier 1 capital
6	Including: Eligible to the parent company/group level	Parent company/Group	Parent company/Group	Parent company/Group	Parent company/Group
7	Instrument type	Additional tier 1 capital instrument	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)	RMB equivalent 17,928	RMB equivalent 4,542	RMB11,958	RMB44,947
9	Par value of instrument (in millions)	USD2,940	EUR600	RMB12,000	RMB45,000
10	Accounting treatment	Other equity	Other equity	Other equity	Other equity
11	Original date of issuance	10 December 2014	10 December 2014	10 December 2014	18 November 2015
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual
13	Including: Original maturity date	No maturity date	No maturity date	No maturity date	No maturity date
14	Issuer call (subject to prior supervisory approval)	Yes	Yes	Yes	Yes

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2015 (CONTINUED)

S/N	Main features of regulatory capital instrument	Preference Shares (Offshore)	Preference Shares (Offshore)	Preference Shares (Offshore)	Preference Shares (Domestic)
15	Including: Optional call date, contingent call dates and redemption amount	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	The First Redemption Date is 18 November 2020, in full or partial amount
16	Including: Subsequent call dates, if applicable	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	Commences on the First Redemption Date (18 November 2020) and ends on the completion date of redemption or conversion of all the Domestic Preference Shares
	Coupons/dividends				
17	Including: Fixed or floating dividend/ coupon	Fixed to floating	Fixed to floating	Fixed to floating	Fixed to floating
18	Including: Coupon rate and any related index	6% (dividend rate) before 10 December 2019	6% (dividend rate) before 10 December 2021	6% (dividend rate) before 10 December 2019	4.5% (dividend rate) before 18 November 2020
19	Including: Existence of a dividend stopper	Yes	Yes	Yes	Yes
20	Including: Fully discretionary, partially discretionary or mandatory cancellation of coupons/dividends	Partially discretionary	Partially discretionary	Partially discretionary	Partially discretionary
21	Including: Redemption incentive mechanism	No	No	No	No
22	Including: Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Yes	Yes	Yes	Yes
24	Including: If convertible, conversion trigger(s)	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	Additional Tier 1 Capital Trigger Event or Tier 2 Capital Trigger Event
25	Including: If convertible, fully or partially	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	Fully or partially convertible when an Additional Tier 1 Capital Trigger Event occurs; fully convertible when a Tier 2 Capital Trigger Event occurs
26	Including: If convertible, conversion rate	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	The initial conversion price is equal to the average trading price of the A 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	Mandatory	Mandatory	Mandatory	Mandatory
28	Including: If convertible, specify instrument type convertible into	Core tier 1 capital	Core tier 1 capital	Core tier 1 capital	Core tier 1 capital
29	Including: If convertible, specify issuer of instrument it converts into	ICBC	ICBC	ICBC	ICBC

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2015 (CONTINUED)

S/N	Main features of regulatory capital instrument	Preference Shares (Offshore)	Preference Shares (Offshore)	Preference Shares (Offshore)	Preference Shares (Domestic)
30	Write-down feature	No	No	No	No
31	Including: If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A
32	Including: If write-down, full or partial	N/A	N/A	N/A	N/A
33	Including: If write-down, permanent or temporary	N/A	N/A	N/A	N/A
34	Including: If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	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	After all liabilities of the Bank and instruments issued or guaranteed by the Bank ranking senior to the Domestic Preference Shares, in the same liquidation order with the holders of Parity Obligations
36	Non-compliant transitioned features	No	No	No	No
	Including: If yes, specify non-compliant features	N/A	N/A	N/A	N/A

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2015 (CONTINUED)

S/N	Main features of regulatory capital instrument	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds
1	Issuer	ICBC (Asia)	ICBC	ICBC
2	Unique identifier	ISIN: XS0976879279 BBGID:BBG005CMF4N6	1428009	Rule 144A ISIN: US455881AD47 Regulation S ISIN: USY39656AC06
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	The Notes and the Fiscal Agency Agreement shall be governed by, and shall be construed in accordance with, New York law, except that the provisions of the Notes relating to subordination shall be governed by, and construed in accordance with, PRC law
	Regulatory treatment			
4	Including: Transition arrangement of Regulation Governing Capital of Commercial Banks (Provisional)	Tier 2 capital	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	Tier 2 capital
6	Including: Eligible to the parent company/group level	Group	Parent company/Group	Parent company/Group
7	Instrument type	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument
8	Amount recognized in regulatory capital (in millions, as at the latest reporting date)	RMB equivalent 3,247	RMB19,995	RMB equivalent 12,842
9	Par value of instrument (in millions)	USD500	RMB20,000	USD2,000
10	Accounting treatment	Debt securities issued	Debt securities issued	Debt securities issued
11	Original date of issuance	10 October 2013	4 August 2014	21 September 2015
12	Perpetual or dated	Dated	Dated	Dated
13	Including: Original maturity date	10 October 2023	5 August 2024	21 September 2025
14	Issuer call (subject to prior supervisory approval)	Yes	Yes	No
15	Including: Optional call date, contingent call dates and redemption amount	10 October 2018, in full amount	5 August 2019, in full amount	N/A
16	Including: Subsequent call dates, if applicable	N/A	N/A	N/A
	Coupons/dividends			
17	Including: Fixed or floating dividend/coupon	Fixed	Fixed	Fixed
18	Including: Coupon rate and any related index	4.50%	5.80%	4.875%
19	Including: Existence of a dividend stopper	No	No	No
20	Including: Fully discretionary, partially discretionary or mandatory cancellation of coupons/dividends	Mandatory	Fully discretionary	Mandatory

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2015 (CONTINUED)

S/N	Main features of regulatory capital instrument	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds
21	Including: Redemption incentive mechanism	No	No	No
22	Including: Non-cumulative or cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	No	No	No
24	Including: If convertible, conversion trigger(s)	N/A	N/A	N/A
25	Including: If convertible, fully or partially	N/A	N/A	N/A
26	Including: If convertible, conversion rate	N/A	N/A	N/A
27	Including: If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	Including: If convertible, specify instrument type convertible into	N/A	N/A	N/A
29	Including: If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
30	Write-down feature	Yes	Yes	Yes
31	Including: If write-down, write-down trigger(s)	Non-viability of ICBC (Asia) or the Bank	Non-viability of the Bank	The occurance of the earlier of either: (i) the CBRC having decided that a Write-off is neccesary, without which the Issuer would become non-viable; or (ii) any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable
32	Including: If write-down, full or partial	Full write-down	Full write-down	Full write-down
33	Including: If write-down, permanent or temporary	Permanent write-down	Permanent write-down	Permanent write-down
34	Including: If temporary write-down, description of write-up mechanism	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	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	After depositor and general creditor, in the same liquidation order with other subordinated debts
36	Non-compliant transitioned features	No	No	No
	Including: If yes, specify non-compliant features	N/A	N/A	N/A

Definitions

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

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
CCXI	China Chengxin International Credit Rating Co., Ltd.
China Ratings	China Bond Rating Co., Ltd.
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 (Macau)	Industrial and Commercial Bank of China (Macau) Limited
ICBC (Thai)	Industrial and Commercial Bank of China (Thai) Public Company Limited
ICBC (Turkey)	ICBC Turkey Bank Anonim Şirkoti
ICBC International	ICBC International Holdings Limited
ICBC Leasing	ICBC Financial Leasing Co., Ltd.
ICBC Standard Bank	ICBC Standard Bank Limited
ICBC-AXA	ICBC-AXA Assurance Co., Ltd.
LH Ratings	China Lianhe Credit Rating 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

中國北京市西城區復興門內大街55號　　郵編：100140
No.55 Fuxingmennei Avenue, Xicheng District, Beijing, PRC　　Post Code: 100140
www.icbc.com.cn, www.icbc-ltd.com