ICBC

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
EUR Preference Shares Stock Code: 4604
USD Preference Shares Stock Code: 4620

2020

Capital Adequacy Ratio Report

CONTENTS

This report is prepared in both Chinese and English. In the 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 Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited.

Through its continuous endeavor and stable development, the Bank has developed into the leading bank in the world, possessing an excellent customer base, a diversified business structure, strong innovation capabilities and market competitiveness. The Bank regards service as the very foundation to seek further development and adheres to creating value through services while providing a comprehensive range of financial products and services to over 8.60 million corporate customers and 680 million personal customers. The Bank has been consciously integrating the social responsibilities with its development strategy and operation and management activities, and gaining wide recognition in the aspects of supporting pandemic containment, promoting inclusive finance, backing poverty alleviation and rural revitalization, developing green finance and participating in public welfare undertakings.

The Bank always keeps in mind its underlying mission of serving the real economy with its principal business, and along with the real economy it prospers, suffers and grows. Taking a risk-based approach and never overstepping the bottom line, it constantly enhances its capability of controlling and mitigating risks. Besides, the Bank remains steadfast in understanding and following the business rules of commercial banks to strive to be a century-old bank. It also stays committed to seeking progress with innovation while maintaining stability, continuously enhances the key development strategies, actively develops the FinTech and accelerates the digital transformation. The Bank unswervingly delivers specialized services, and pioneers a specialized business model, thus making it "a craftsman in large banking".

The Bank was ranked the 1st place among the Top 1000 World Banks by *The Banker*, the 1st place in the Global 2000 by *Forbes*, and the 1st place in the list of commercial banks of the Global 500 in *Fortune* for the eighth consecutive year, and took the 1st place among the Top 500 Banking Brands of *Brand Finance* for the fifth consecutive year.

Disclosure Basis

This report is prepared and disclosed in accordance with the Capital Regulation 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 forecasts, 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 INVESTEES FOR THE CALCULATION OF CONSOLIDATED CAPITAL ADEQUACY RATIO

S/N	Type of investee	Treatment for the calculation of consolidated capital adequacy ratio
1	Financial institutions with majority voting rights or controlling interest (excluding insurance companies)	Included in the calculation of consolidated capital adequacy ratio
2	Insurance companies with majority voting rights or controlling interest	Excluded from the calculation of consolidated 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 consolidated 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 consolidated 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 consolidated capital adequacy ratio and calculated as risk-weighted assets

At the end of 2020, 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 Consolidated Capital Adequacy Ratio

TOP 10 INVESTEES INCLUDED IN THE CALCULATION OF CONSOLIDATED CAPITAL ADEQUACY RATIO

In RMB millions, except for percentages

S/N	Name of investee	Balance of investment	Shareholding percentage (%)	Place of incorporation	Principal activity
1	ICBC (Asia)	47,621	100.00	Hong Kong, China	Commercial banking
2	ICBC Wealth Management	16,000	100.00	Beijing, China	Wealth management
3	ICBC Investment	12,000	100.00	Nanjing, China	Financial assets investment
4	ICBC Leasing	11,000	100.00	Tianjin, China	Leasing
5	ICBC (Macau)	10,316	89.33	Macau, China	Commercial banking
6	ICBC (Argentina)	5,782	100.00	Buenos Aires, Argentina	Commercial banking
7	ICBC Standard Bank	5,348	60.00	London, UK	Commercial banking
8	ICBC (Thai)	4,898	97.86	Bangkok, Thailand	Commercial banking
9	ICBC International	4,066	100.00	Hong Kong, China	Investment banking
10	ICBC (Europe)	3,294	100.00	Luxembourg	Commercial banking

INVESTEES DEDUCTED FROM THE CALCULATION OF CONSOLIDATED CAPITAL ADEQUACY RATIO

In RMB millions, except for percentages

S/N	Name of investee	Balance of investment	Shareholding percentage (%)	Place of incorporation	Principal activity
1	ICBC-AXA	7,980	60.00	Shanghai, China	Insurance

Capital Deficiencies and Restrictions on Capital Transfer

As at the end of 2020, 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

According to the scope of implementing the advanced capital management approaches as approved by the regulatory authorities, the foundation internal ratings-based (IRB) approach was 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. The weighted approach was adopted for credit risk uncovered by the IRB approach and the standardized approach for market risk uncovered by the IMA.

Capital Adequacy Ratio

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

In RMB millions, except for percentages

	At 31 December 2020		At 31 December 2019	
Item	Group	Parent Company	Group	Parent Company
Net core tier 1 capital	2,653,002	2,404,030	2,457,274	2,222,316
Net tier 1 capital	2,872,792	2,605,594	2,657,523	2,403,000
Net capital base	3,396,186	3,114,878	3,121,479	2,852,663
Core tier 1 capital adequacy ratio (%)	13.18	13.14	13.20	13.29
Tier 1 capital adequacy ratio (%)	14.28	14.24	14.27	14.37
Capital adequacy ratio (%)	16.88	17.02	16.77	17.06

Capital Composition

As at the end of 2020, 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 13.18%, 14.28% and 16.88%, respectively, complying with regulatory requirements.

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

In RMB millions, except for percentages

Item	At 31 December 2020	At 31 December 2019
Core tier 1 capital	**2,669,055**	**2,472,774**
Paid-in capital	356,407	356,407
Valid portion of capital reserve	148,534	149,067
Surplus reserve	322,692	292,149
General reserve	339,486	304,876
Retained profits	1,508,562	1,367,180
Valid portion of minority interests	3,552	4,178
Others	(10,178)	(1,083)
Core tier 1 capital deductions	**16,053**	**15,500**
Goodwill	8,107	9,038
Other intangible assets other than land use rights	4,582	2,933
Cash flow hedge reserves that relate to the hedging of items that are not fair valued on the balance sheet	(4,616)	(4,451)
Investments in core tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	7,980	7,980
Net core tier 1 capital	**2,653,002**	**2,457,274**
Additional tier 1 capital	**219,790**	**200,249**
Additional tier 1 capital instruments and related premium	219,143	199,456
Valid portion of minority interests	647	793
Net tier 1 capital	**2,872,792**	**2,657,523**
Tier 2 capital	**523,394**	**463,956**
Valid portion of tier 2 capital instruments and related premium	351,568	272,680
Surplus provision for loan impairment	170,712	189,569
Valid portion of minority interests	1,114	1,707
Net capital base	**3,396,186**	**3,121,479**
Risk-weighted assets(1)	**20,124,139**	**18,616,886**
Core tier 1 capital adequacy ratio (%)	**13.18**	**13.20**
Tier 1 capital adequacy ratio (%)	**14.28**	**14.27**
Capital adequacy ratio (%)	**16.88**	**16.77**

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 the 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 Item as well as Main Features of Eligible Capital Instruments.

CAPS IN THE CAPITAL CALCULATION

In RMB millions

Item	At 31 December 2020	At 31 December 2019
I. Valid caps of surplus provision for loan impairment to tier 2 capital		
Parts covered by internal ratings-based approach		
Provision for loan impairment	507,096	460,851
Expected loss	241,738	227,853
Surplus provision for loan impairment	265,358	232,998
Valid cap of surplus provision for loan impairment in tier 2 capital irrespective of adjustment during the parallel period	73,678	66,488
Valid portion of surplus provisions for loan impairment in tier 2 capital higher than 150% of allowance to non-performing loans ("NPL") giving consideration to adjustment during the parallel period	89,232	115,158
Valid cap of surplus provisions for loan impairment in tier 2 capital giving consideration to adjustment during the parallel period	162,910	181,646
Valid portion of surplus provision for loan impairment in tier 2 capital during the parallel period	162,910	181,646
Parts uncovered by internal ratings-based approach		
Provision for loan impairment	23,204	17,647
Minimum requirement on provision for loan impairment	15,402	9,724
Surplus provision for loan impairment	7,802	7,923
Valid caps of surplus provision for loan impairment in tier 2 capital	78,098	75,006
Valid portion of surplus provision for loan impairment in tier 2 capital	7,802	7,923
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	138,247	84,515
Relevant cap	265,300	245,727
Deductible portion	–	–
Significant minority investments in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	32,452	37,654
Relevant cap	265,300	245,727
Deductible portion	–	–
Deferred tax assets arising from temporary differences	65,719	60,846
Relevant cap	265,300	245,727
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	98,171	98,500
Relevant cap	397,950	368,590
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 2020 Annual Report. For material capital investment activities of the Bank during the reporting period, please refer to "Significant Events" in the 2020 Annual Report.

Risk-Weighted Assets

In RMB millions

Item	At 31 December 2020	At 31 December 2019
Credit risk-weighted assets	18,535,324	17,089,815
Parts covered by internal ratings-based approach	12,279,663	11,081,413
Parts uncovered by internal ratings-based approach	6,255,661	6,008,402
Market risk-weighted assets	174,784	178,718
Parts covered by internal model approach	94,238	102,412
Parts uncovered by internal model approach	80,546	76,306
Operational risk-weighted assets	1,414,031	1,348,353
Total	**20,124,139**	**18,616,886**

Internal Capital Adequacy Assessment

The Bank's internal capital adequacy assessment comprises the risk identification, risk assessment, capital adequacy forecast and enterprise risk stress testing. The risk identification is to make a judgment on all the major risks the Bank is exposed to. The risk assessment system provides an assessment on all major risks of the Bank and conducts a comprehensive analysis on the risk profile and management status of various major 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 enterprise risk stress testing is to set stress scenarios reflecting business operation, asset-liability portfolio and risk features of the Bank under the premise of analysis on future macroeconomic trends to work out changes in indicators such as capital adequacy ratios of the Bank under the stress scenarios.

Capital Planning and Management Plan for Capital Adequacy Ratios

The Board of Directors and the Shareholders' General Meeting of the Bank reviewed and approved the 2018–2020 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. 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 constantly deepen the reform on economic capital management to increase capital use efficiency. 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. In 2020, the Board of Directors and the Shareholders' General Meeting of the Bank reviewed and approved the 2021–2023 Capital Planning of ICBC, which will be implemented from 2021.

On the basis of capital replenishment by retained profits, the Bank proactively expanded the channels for external capital replenishment and continuously promoted the innovation of capital instruments, to reinforce the capital strength, optimize capital structure and control the cost of capital rationally.

The Bank made a non-public issuance of 145 million USD-denominated non-cumulative perpetual offshore preference shares in September 2020, raising a total amount of USD2.9 billion. Subject to applicable laws and the approval of regulatory authorities, all proceeds from the issuance, after deduction of commissions and issuance expenses, will be used to replenish additional tier 1 capital of the Bank.

The Bank received a reply from CBIRC in September 2020, pursuant to which, approval was granted to the Bank to issue undated additional tier 1 capital bonds in foreign currency of an amount no more than RMB40.0 billion equivalent in the offshore market, which will be counted as the additional tier 1 capital of the Bank in accordance with relevant regulatory requirements.

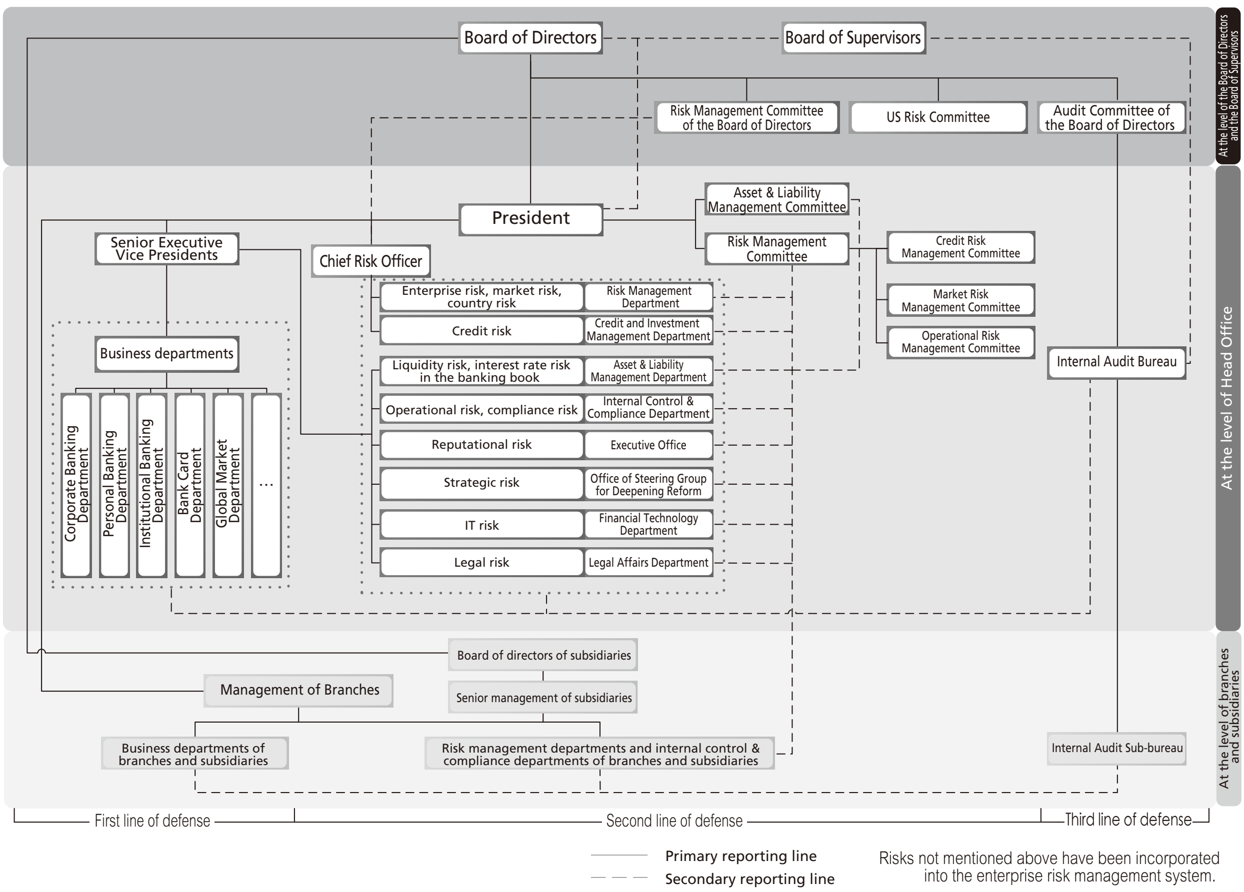
The Proposal on the Issuance of Undated Additional Tier 1 Capital Bonds was reviewed and approved at the Second Extraordinary General Meeting of 2020 of the Bank, pursuant to which, the Bank planned to issue undated additional tier 1 capital bonds with the total amount up to RMB100.0 billion in the domestic market, which will be used to replenish the Bank's additional tier 1 capital. The issuance plan of undated additional tier 1 capital bonds is still subject to the approval of relevant regulatory authorities.

The Bank publicly issued two tranches of tier 2 capital bonds, worth RMB60.0 billion and RMB40.0 billion, in September and November 2020 successively in China's national inter-bank bond market, raising a total amount of RMB100.0 billion. The Bank issued a tier 2 capital bond of RMB30.0 billion in China's national inter-bank bond market in January 2021. All proceeds will be used to replenish the Bank's tier 2 capital in accordance with the applicable laws as approved by relevant regulatory authorities.

Enterprise Risk Management

Enterprise risk management is a process to effectively identify, assess, measure, monitor, control or mitigate and report risks in order to ensure the realization of the Group's operating and strategic objectives by setting up effective and balanced risk governance structure, fostering robust and prudent risk culture, formulating unified risk management strategies and risk appetite, and implementing the risk limit and risk management policies. The principles of enterprise risk management of the Bank include full coverage, matching, independence, perspectiveness and effectiveness, etc.

The Bank's organizational structure of risk management comprises the Board of Directors and its special committees, the Board of Supervisors, the Senior Management and its special committees, the risk management departments, the internal audit departments, etc. The risk management organizational structure is illustrated below:



In 2020, the Bank's overall objective was to "build an enterprise risk management framework that matches a world-class and modern financial enterprise with global competitiveness". It focused on the "management of personnel, assets, defense lines and bottom lines", continuously improved the top-level design of risk management, and enhanced enterprise risk management based on the path of "active prevention, smart control and comprehensive management". The Bank revised and ameliorated the enterprise risk management system, performed risk management responsibilities, transmitted risk management culture, and achieved full coverage of institutions, businesses and personnel with risk management measures. Besides, it optimized the risk appetite and risk limit management system, improved risk emergency management capabilities and consolidated the foundation of the Group's consolidated risk management, to promote the intelligent construction of risk control system, and deepen the application of new technologies such as big data and artificial intelligence.

Credit Risk

Credit risk is the risk where loss is caused to the 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 regulatory requirements regarding credit risk management, 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 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 Charters of the Credit Risk Management Committee. The credit and investment management departments at different levels undertake the responsibility of coordinating credit risk management at respective levels, and the business departments implement credit risk management policies and standards for their respective business areas in accordance with their functions.

The Bank's credit risk management has the following characteristics: (1) Unified risk appetite. Unified credit risk appetite is implemented for the Bank's credit risk exposures; (2) Entire-process management. The credit risk management covers the entire process including customer investigation, credit rating, loan evaluation, loan review and approval, loan payment and post-lending monitoring; (3) System management. It continues to enhance the building of credit information system, and improve the tools to manage and control credit risk; (4) Strict management over credits. Strict qualification management is enforced on the business institutions and the credit practitioners. The Bank supervises and inspects its credits to promote compliant and robust operation; (5) The specialized institution is set up to conduct unified risk monitoring over credit risk businesses; and (6) The specialized institution is established to effectively coordinate management and directly participate in the collection and disposal of non-performing assets ("NPAs") in a timely manner or guide branches to do so.

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 in default, expected loss ratio, credit rating, collateral and other quantitative and qualitative factors.

Credit Risk Management of Corporate Loans

The Bank continued to strengthen the building of the credit policy system. A joint prevention and control mechanism was established to support key business development and risk management, with the coordinated participation by front-, middle- and back-office departments, and an intelligent credit risk management and control model consisting of "Three Gates" and "Seven-color Pools"[1] was built, to highlight the strengthening of credit risk management and control. New credit approval regulations were implemented in an all-around manner, to optimize the review and approval system, and improve credit risk mitigation measures. Besides, the working capital loan management rules were optimized and integrated, the management

1 The intelligent credit risk management solutions of "Three Gates" and "Seven-color Pools" are the systematic summary of the Bank's management and control ideas on credit risk. "Three Gates" refer to asset selection at the entrance end, asset management at the threshold end and asset disposal at the exit end. "Seven-color Pools" cover seven color pools with risk rating from low to high, which are driven by intelligent risk control and can strengthen holistic coordination of the credit risk management and realize differential and precise risk management by pool, area and segment.

of risk control process was strengthened, and the transformation of supporting systems was completed. The Bank also formulated the loan management measures for supporting technological enhancements of manufacturing enterprises, so as to provide positive support for the financing needs of these enterprises for technological upgrading and transformation and for the construction of high-quality projects.

The Bank strengthened the strategic guidance on credit policies. It actively provided support for the infrastructure projects under construction such as highways, railways, airports, urban rail transit and municipal public facilities as well as the construction of major projects for tackling areas of weaknesses. It highlighted the support for high-quality customers and projects in the emerging manufacturing fields such as new generation information technology and high-end equipment, to continuously intensify the differentiated policy management of the traditional manufacturing industry. Besides, active support was also given to the financing demand for consumption upgrade in the service industry. Through organic connection between industrial and regional policies, the Bank revised and improved the credit policies for key regions such as the Yangtze River Delta, the Guangdong-Hong Kong-Macau Greater Bay Area, the Beijing-Tianjin-Hebei region, Central China, and the Chengdu-Chongqing economic circle. Priority was given to supporting key investment and financing projects along the Belt and Road, upgrading core technologies, stabilizing the global industrial chain, and promoting the dual-cycle related business needs at home and abroad.

The Bank strengthened the risk management in the real estate industry. It paid close attention to the risk changes in the real estate markets of different regions, focused on supporting ordinary commercial housing projects aimed to satisfy rigid demands that are in line with regulatory policies, proactively and prudently promote financing for commercial rental housing projects, and provided financial support for the building of government-subsidized housing projects in compliance with laws and regulations. In addition, it continued to implement quota management for commercial real estate investment and financing, for the purpose of reasonably controlling the total amount of investment and financing for such projects.

The Bank enhanced the risk management of inclusive loans. In adherence to the whole-process risk prevention and control of inclusive loans, the Bank followed the development direction of "digital inclusiveness", and created an inclusive loan risk management system featuring "data-driven, intelligent warning, dynamic management, and continuous operation". It optimized customer selection and model access, to strictly control customer access. The duration management model in combination with on-site inspection and off-site monitoring was constantly prompted, with the performance of on-site inspection responsibilities, to continuously enrich off-site monitoring data sources, optimize monitoring models, and improve the accuracy and coverage of off-site monitoring. Moreover, the Bank kept monitoring the use of loans related to epidemic prevention, strictly implemented bail-in policy arrangements such as deferred principal and interest repayment, and reinforced the tracking and monitoring of loans with deferred debt service.

Credit Risk Management of Personal Loans

For the purpose of proactively responding to the risks caused by the pandemic, the Bank made every effort to provide credit support and service guarantee for personal customers during the outbreak of the pandemic, and strengthened the mitigation of credit risk for customers whose repayment capability was severely affected by the pandemic. An intelligent implementation plan for credit risk management and control of personal loans was prepared, to strictly manage customer access, and strengthen differentiated risk warning and refined management of NPAs. Furthermore, the personal loan risk monitoring model was optimized to improve monitoring and warning capabilities, the case prevention management was properly conducted to enhance the tracking and remediation of risk events, and close attention was paid to the tracking and governance of key risk points.

Credit Risk Management of Credit Card Business

The Bank consolidated the credit management system for credit card business by improving related regulations and processes including the joint prevention and control mechanism for review and approval process and the authenticity review rules; and it established a scenario-based "1+N" credit management mechanism, to realize functions such as credit view, real-time credit granting, and real-time digital card issuance. The Bank innovated the limit management mode and built a customer-based financing limit management and control system was built. In addition, the Bank established and improved a multi-dimensional risk monitoring system, and developed a credit default risk management and control system for existing customers, to enhance differentiated risk management and control.

Credit Risk Management of Treasury Operations

In terms of investment business, the Bank strengthened pre-investment screening and analysis, paid close attention to the redemption risk of bonds due within the year, strengthened the monitoring of exiting bonds in key risk industries, and reinforced duration management. With respect to money market business, the Bank tightened up the pre-review and regular risk assessment of counterparty access, strengthened the systematic management and control of important risk management processes such as authorization, credit extension, counterparty access, collateral, transaction price and concentration, and improved ex post duration management, with appropriate potential risk analysis and investigation. As for derivative business, the Bank actively promoted the negotiation and signing of ISDA, NAFMII and other legal agreements, strictly managed and controlled the credit line of derivative counterparties through the Global Financial Market Transaction platform, and maintained regular monitoring of client margins and credit line.

Credit Risk Exposure

In RMB millions

Item	At 31 December 2020		At 31 December 2019	
	Parts covered by internal ratings-based approach	Parts uncovered by internal ratings-based approach	Parts covered by internal ratings-based approach	Parts uncovered by internal ratings-based approach
Corporate	10,942,603	1,400,916	9,905,090	1,437,024
Sovereign	—	7,019,844	—	5,998,583
Financial institution	—	3,472,859	—	3,727,940
Retail	6,984,921	507,002	6,252,608	484,400
Equity	—	176,993	—	161,426
Asset securitization	—	97,887	—	97,663
Others	—	5,359,568	—	5,034,184
Total risk exposure	**17,927,524**	**18,035,069**	**16,157,698**	**16,941,220**

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 system. The Senior Management is responsible for implementation of IRB system across the Bank. The Risk Management Department of the Head Office is responsible for design, development, implementation, monitoring and promotion of the IRB 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 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. Relevant customer 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 satisfying regulatory requirements with rating models established based on quantitative technologies as well as experts' judgmental 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's rating is determined by rating score and their 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 approach, 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 2020				
PD level	Exposure at default	Weighted average PD (%)	Weighted average LGD (%)	Risk-weighted assets	Average risk weight (%)
Level 1	1,232,593	0.09	44.77	356,363	28.91
Level 2	1,544,923	0.21	42.09	707,669	45.81
Level 3	2,155,413	0.65	43.06	1,574,946	73.07
Level 4	2,716,833	1.63	42.84	2,601,332	95.75
Level 5	1,771,130	2.57	42.70	1,847,214	104.30
Level 6	611,791	3.72	42.34	683,964	111.80
Level 7	331,289	5.28	41.86	415,447	125.40
Level 8	103,425	7.20	41.24	143,729	138.97
Level 9	108,298	9.60	40.76	166,971	154.18
Level 10	49,953	18.00	41.79	100,137	200.46
Level 11	94,723	56.00	42.72	171,688	181.25
Level 12	222,232	100.00	43.80	36,481	16.42
Total	**10,942,603**	**—**	**—**	**8,805,941**	**80.47**

PD level	At 31 December 2019 Exposure at default	Weighted average PD (%)	Weighted average LGD (%)	Risk-weighted assets	Average risk weight (%)
Level 1	1,149,672	0.09	44.85	329,997	28.70
Level 2	1,330,325	0.21	41.77	592,970	44.57
Level 3	1,926,387	0.65	43.31	1,430,541	74.26
Level 4	2,531,365	1.63	42.94	2,467,274	97.47
Level 5	1,525,028	2.57	42.44	1,569,509	102.92
Level 6	607,498	3.72	42.19	680,813	112.07
Level 7	265,605	5.28	41.68	333,085	125.41
Level 8	119,075	7.20	41.38	172,230	144.64
Level 9	101,558	9.60	42.01	164,425	161.90
Level 10	49,294	18.00	41.82	96,161	195.08
Level 11	104,928	56.00	42.51	193,303	184.22
Level 12	194,355	100.00	44.00	21,472	11.05
Total	**9,905,090**	**—**	**—**	**8,051,780**	**81.29**

Retail Business

The Bank adopts IRB approach 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 by utilizing the historical data accumulated in a long term 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 score model system including application score, behavior score and collection score models and realizing the coverage of entire life cycle of retail business.

According to relevant IRB approach requirements, the Bank has put in place asset pool classification procedures and technologies suited for the actual retail business, developed the asset pool classification system applied to measurement of all risk parameters 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 APPROACH

In RMB millions, except for percentages

Type of risk exposure	At 31 December 2020 Exposure at default	Weighted average PD (%)	Weighted average LGD (%)	Risk-weighted assets	Average risk weight (%)
Residential mortgages	5,637,631	1.22	27.87	1,136,677	20.16
Qualifying revolving retail exposure	709,742	2.85	42.65	124,405	17.53
Other retail exposures	637,548	4.32	47.53	361,786	56.75
Total	**6,984,921**	**—**	**—**	**1,622,868**	**23.23**

Type of risk exposure	At 31 December 2019 Exposure at default	Weighted average PD (%)	Weighted average LGD (%)	Risk-weighted assets	Average risk weight (%)
Residential mortgages	5,090,032	1.20	27.17	1,025,226	20.14
Qualifying revolving retail exposure	689,431	3.95	42.76	139,772	20.27
Other retail exposures	473,145	5.99	47.59	275,218	58.17
Total	**6,252,608**	**—**	**—**	**1,440,216**	**23.03**

Application of Internal Rating Results

The internal rating results of the Bank are widely used throughout the whole credit risk management process including the credit risk strategy and credit policy formulation, customer access, credit approval, loan pricing, post-lending management, capital measurement, risk limit management, 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 for decision-making over credit risk management and credit business.

Weighted Approach

The Bank adopts weighted approach to measure credit risk exposures uncovered by the IRB approach.

RISK EXPOSURE UNCOVERED BY IRB APPROACH BY WEIGHT

In RMB millions

Risk weight	At 31 December 2020 Risk exposure	At 31 December 2020 Unmitigated risk exposure	At 31 December 2019 Risk exposure	At 31 December 2019 Unmitigated risk exposure
0%	6,072,406	6,071,002	5,546,742	5,544,641
2%	237,156	55,756	365,057	19,111
20%	4,744,264	4,698,028	4,053,912	3,961,892
25%	2,022,522	1,917,209	2,160,000	1,765,233
50%	165,739	164,245	137,065	132,505
75%	767,592	765,825	662,334	661,318
100%	3,652,796	3,038,413	3,725,953	3,337,843
150%	39,124	25,735	11,147	11,147
250%	119,989	119,867	113,752	113,618
400%	139,686	139,686	110,617	110,617
1250%	73,795	73,795	54,641	54,641
Total	**18,035,069**	**17,069,561**	**16,941,220**	**15,712,566**

Note: The weights adopted in the weighted approach-based measurement of credit risk by the Bank were in strict compliance with the 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 2020	At 31 December 2019
Ordinary shares issued by other commercial banks	29,258	30,011
Long-term subordinated bonds issued by other commercial banks	94,140	48,116
Preference shares issued by other commercial banks	217	2,265
Equity investment in commercial entities	134,417	111,544
Total	**258,032**	**191,936**

Credit Risk Mitigation

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

The Bank monitors the market value of collateral and pledges and the solvency of a guarantor regularly or irregularly if special circumstances warrant. Collateral mainly includes real estate, land and the right of construction land use, and the management right of contracted land, and pledges mainly include document of title and marketable securities, etc. Collateral and pledges valuation procedures are divided into basic procedures and direct identification procedures.

Basic procedures include investigation, review and examination, and approval; direct identification procedures include investigation and approval. For initial value appraisal of collateral, the Bank shall consider the characteristics of different types of collateral and employ proper appraisal methods to determine collateral value in consideration of market price, difficulty degree of liquidation and existence of flaws and other factors affecting the asset disposal price, thereby reasonably identifying the amount of collateral that can be guaranteed. Revaluation cycle of collateral 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 and pledge value irregularly upon discovering conditions which may possibly result in an impairment of the collateral and pledge or obvious adverse changes happening to the customer.

The Bank analyzes concentration risk of 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 collateral and pledges.

COVERAGE OF ELIGIBLE RISK MITIGATION INSTRUMENTS COVERED BY IRB APPROACH

In RMB millions

	At 31 December 2020				At 31 December 2019			
Type of risk exposure	Eligible financial pledge	Other eligible collateral	Guarantee	Total	Eligible financial pledge	Other eligible collateral	Guarantee	Total
Non-retail business								
Corporate loans	295,294	982,488	827,620	2,105,402	250,828	955,872	723,482	1,930,182
Subtotal	**295,294**	**982,488**	**827,620**	**2,105,402**	**250,828**	**955,872**	**723,482**	**1,930,182**
Retail business								
Residential mortgages	–	5,637,631	–	5,637,631	–	5,090,032	–	5,090,032
Other retail exposures	7,670	515,244	4,413	527,327	7,003	374,507	5,206	386,716
Subtotal	**7,670**	**6,152,875**	**4,413**	**6,164,958**	**7,003**	**5,464,539**	**5,206**	**5,476,748**
Total	**302,964**	**7,135,363**	**832,033**	**8,270,360**	**257,831**	**6,420,411**	**728,688**	**7,406,930**

COVERAGE OF ELIGIBLE RISK MITIGATION INSTRUMENTS UNCOVERED BY IRB APPROACH

In RMB millions

	At 31 December 2020				At 31 December 2019			
Type of risk exposure	Netting settlement	Mortgage & pledge and guarantee	Others	Total	Netting settlement	Mortgage & pledge and guarantee	Others	Total
On-balance sheet credit risk	–	384,272	–	384,272	–	399,969	–	399,969
Off-balance sheet credit risk	–	54,796	–	54,796	–	44,584	–	44,584
Counterparty credit risk	11,523	–	514,917	526,440	5,881	–	778,220	784,101
Total	**11,523**	**439,068**	**514,917**	**965,508**	**5,881**	**444,553**	**778,220**	**1,228,654**

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 2020		At 31 December 2019	
	Amount	Percentage (%)	Amount	Percentage (%)
Pass	17,918,430	96.21	16,066,266	95.86
Special mention	411,900	2.21	454,866	2.71
NPLs	293,978	1.58	240,187	1.43
Substandard	114,438	0.61	97,864	0.58
Doubtful	149,926	0.81	113,965	0.68
Loss	29,614	0.16	28,358	0.17
Total	**18,624,308**	**100.00**	**16,761,319**	**100.00**

OVERDUE LOANS

In RMB millions, except for percentages

Overdue periods	At 31 December 2020		At 31 December 2019	
	Amount	% of total loans	Amount	% of total loans
Less than 3 months	98,963	0.54	83,084	0.50
3 months to 1 year	74,820	0.40	89,625	0.53
1 to 3 years	72,467	0.39	66,848	0.40
Over 3 years	21,257	0.11	28,659	0.17
Total	**267,507**	**1.44**	**268,216**	**1.60**

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.

MOVEMENTS OF ALLOWANCE FOR IMPAIRMENT LOSSES ON LOANS

In RMB millions

Item	Movements of allowance for impairment losses on loans and advances to customers measured at amortised cost				Movements of allowance for impairment losses on loans and advances to customers measured at FVOCI			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	**215,316**	**78,494**	**184,688**	**478,498**	**227**	**–**	**5**	**232**
Transfer:								
to stage 1	24,002	(22,507)	(1,495)	–	–	–	–	–
to stage 2	(6,913)	9,311	(2,398)	–	–	–	–	–
to stage 3	(4,838)	(53,754)	58,592	–	–	–	–	–
Charge/(reverse)	(2,984)	78,244	95,941	171,201	(16)	–	645	629
Write-offs and transfer out	–	(7)	(120,317)	(120,324)	–	–	–	–
Recoveries of loans and advances previously written off	–	–	4,977	4,977	–	–	–	–
Other movements	(880)	(630)	(2,542)	(4,052)	(0)	–	–	(0)
Balance at 31 December 2020	**223,703**	**89,151**	**217,446**	**530,300**	**211**	**–**	**650**	**861**

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 2020 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, approves and regularly reviews special credit extension for derivatives trading. Before trading, the Bank will first enquire whether the credit limit of the counterparty is adequate.

For OTC derivatives financial trading, the Bank concludes the Credit Support Appendix (CSA) under the ISDA master agreement with certain counterparty in accordance with the requirements of both sides' regulatory authorities. Where the counterparty's credit rating is downgraded, it shall be set based on the agreement provisions as to whether the downgraded party has to provide extra collateral to its counterparty. In case that there is no relevant expression in the agreement, such downgrading will not affect both sides' collateral swap; and if there is relevant expression in the agreement, the quantity of collateral will be adjusted as per the agreement. For institutions that have not signed the CSA agreement, the signing strategy will be adjusted in a timely manner in accordance with changes in compliance requirements of domestic and overseas regulatory authorities.

COUNTERPARTY CREDIT RISK EXPOSURE OF DERIVATIVES TRADING

In RMB millions

Item	At 31 December 2020	At 31 December 2019
Risk exposure at default of parts covered by netting settlement	122,362	82,123
Risk exposure at default of parts uncovered by netting settlement	103,253	100,488
Total of counterparty credit risk exposure of derivatives trading before mitigation	**225,615**	**182,611**
Counterparty credit risk mitigation	–	–
Total of counterparty credit risk exposure of derivatives trading	**225,615**	**182,611**

NOMINAL PRINCIPAL OF CREDIT DERIVATIVES

In RMB millions

	At 31 December 2020		At 31 December 2019	
Item	Credit derivatives bought	Credit derivatives sold	Credit derivatives bought	Credit derivatives sold
Nominal principal of credit derivatives as credit portfolios of the Bank	**1,569**	**5,251**	**2,284**	**1,755**
Credit default swap	1,569	1,949	1,936	1,755
Total return swap	–	3,302	348	–
Nominal principal of credit derivatives where the Bank acts as intermediary	**6,847**	**6,847**	**9,748**	**9,748**
Credit default swap	1,870	1,870	4,526	4,526
Total return swap	4,977	4,977	5,222	5,222

Asset Securitization

Credit 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, and 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, lead underwriter and institutional investor.

◆ *As originator and lending services provider*

The Bank continued to stimulate the development of asset securitization business and effectively supported disposal of non-performing loans, revitalization of stock assets and optimization of credit structure. As at the end of 2020, some underlying assets of the asset securitization projects originated by the Bank were still retained, and the project operation remained steady. As the originator, the Bank held part of asset-backed securities which the Bank issued in line with the regulatory authority's risk self-retention requirement, and took corresponding credit risk and market risk for the part the risk of which was self-retained. At the end of 2020, assets continued to be recognized by the Group amounted to RMB63,808 million.

CREDIT ASSET SECURITIZATION BUSINESS ORIGINATED BY THE GROUP 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 2020	Non-performing at the end of 2020	Overdue at the end of 2020
2016 Gongyuan Phase III non-performing asset-backed securities	2016	The Bank	CCXI, China Ratings	Personal NPL	4,080	–	–	–
2016 Gongyuan Phase IV residential mortgage asset-backed securities	2016	The Bank	CCXI, China Ratings	Residential mortgage	10,255	2,886	–	–
2017 Gongyuan Phase II non-performing asset-backed securities	2017	The Bank	CCXI, China Ratings	Personal NPL	3,600	28	28	28
2017 Gongyuan Phase III residential mortgage asset-backed securities	2017	The Bank	CCXI, China Ratings	Residential mortgage	13,922	5,283	–	–
2017 Gongyuan Phase IV residential mortgage asset-backed securities	2017	The Bank	CCXI, China Ratings	Residential mortgage	12,726	4,859	–	–
2017 Gongyuan Phase V residential mortgage asset-backed securities	2017	The Bank	LH Ratings, China Ratings	Residential mortgage	13,052	4,970	–	–
2017 Gongyuan Phase VII non-performing asset-backed securities	2017	The Bank	CCXI, China Ratings	Personal operating NPL claim	2,350	376	376	376
2018 Gongyuan Phase I residential mortgage asset-backed securities	2018	The Bank	LH Ratings, China Ratings	Residential mortgage	10,950	5,108	–	–

CREDIT ASSET SECURITIZATION BUSINESS ORIGINATED BY THE GROUP AND NOT SETTLED AT THE END OF THE REPORTING PERIOD (CONTINUED)

In RMB millions

Asset securitization product	Originating year	Originator	External credit rating institution	Underlying assets: Type of underlying assets	Exposure at origination	Exposure at the end of 2020	Non-performing at the end of 2020	Overdue at the end of 2020
2018 Gongyuan Phase II residential mortgage asset-backed securities	2018	The Bank	CCXI, China Ratings	Residential mortgage	10,877	4,927	–	–
2018 Gongyuan Phase III residential mortgage asset-backed securities	2018	The Bank	LH Ratings, China Ratings	Residential mortgage	10,943	4,896	–	–
2018 Gongyuan Phase IV residential mortgage asset-backed securities	2018	The Bank	CCXI, China Ratings	Residential mortgage	11,864	7,202	–	–
2018 Gongyuan Zhicheng Phase II non-performing asset-backed securities	2018	The Bank	CCXI, China Ratings	Non–performing residential mortgage claim	1,240	362	362	362
2018 Gongyuan Zhicheng Phase III non-performing asset-backed securities	2018	The Bank	CCXI, China Ratings	Personal consumption NPL claim	441	145	145	145
2018 Gongyuan Zhicheng Phase IV non-performing asset-backed securities	2018	The Bank	CCXI, China Ratings	Personal operating NPL claim	525	267	267	267
2018 Gongyuan Phase V residential mortgage asset-backed securities	2018	The Bank	LH Ratings, China Ratings	Residential mortgage	11,800	6,957	–	–
2018 Gongyuan Phase VI residential mortgage asset-backed securities	2018	The Bank	CCXI, China Ratings	Residential mortgage	11,409	6,836	–	–
2018 Gongyuan Phase VII residential mortgage asset-backed securities	2018	The Bank	LH Ratings, China Ratings	Residential mortgage	11,302	6,867	–	–
2018 Gongyuan Phase VIII residential mortgage asset-backed securities	2018	The Bank	CCXI, China Ratings	Residential mortgage	13,422	8,452	–	–
2018 Gongyuan Phase IX residential mortgage asset-backed securities	2018	The Bank	LH Ratings, China Ratings	Residential mortgage	13,363	8,349	–	–
2018 Gongyuan Zhiyuan Phase I credit asset-backed securities	2018	The Bank	LH Ratings, China Ratings	Corporate loans	5,455	382	–	–
2018 Gongyuan Phase X residential mortgage asset-backed securities	2018	The Bank	CCXI, China Ratings	Residential mortgage	13,379	8,328	–	–
2018 Gongyuan Phase XI residential mortgage asset-backed securities	2018	The Bank	LH Ratings, China Ratings	Residential mortgage	13,341	8,291	–	–
2018 Gongyuan Anju Phase I residential mortgage asset-backed securities	2018	The Bank	CCXI, China Ratings	Residential mortgage	14,364	8,897	–	–
2018 Gongyuan Anju Phase II residential mortgage asset-back	2018	The Bank	LH Ratings, China Ratings	Residential mortgage	14,323	8,990	–	–

CREDIT ASSET SECURITIZATION BUSINESS ORIGINATED BY THE GROUP AND NOT SETTLED AT THE END OF THE REPORTING PERIOD (CONTINUED)

In RMB millions

Asset securitization product	Originating year	Originator	External credit rating institution	Underlying assets: Type of underlying assets	Exposure at origination	Exposure at the end of 2020	Non-performing at the end of 2020	Overdue at the end of 2020
2018 Gongyuan Anju Phase III residential mortgage asset-back	2018	The Bank	CCXI, China Ratings	Residential mortgage	14,284	8,927	–	–
2018 Gongyuan Zhicheng Phase VI non-performing asset-backed securities	2018	The Bank	CCXI, China Ratings	Personal residential NPL	2,250	640	640	640
2018 Gongyuan Zhicheng Phase VII non-performing asset-backed securities	2018	The Bank	CCXI, China Ratings	Personal consumption NPL	555	139	139	139
2018 Gongyuan Zhicheng Phase VIII non-performing asset-backed securities	2018	The Bank	CCXI, China Ratings	Personal consumption NPL	880	264	264	264
2018 Gongyuan Anju Phase IV residential mortgage asset-backed securities	2018	The Bank	LH Ratings, China Ratings	Residential mortgage	14,275	8,960	–	–
2018 Gongyuan Anju Phase V residential mortgage asset-backed securities	2018	The Bank	CCXI, China Ratings	Residential mortgage	14,328	8,989	–	–
2019 Gongyuan Anju Phase I residential mortgage asset-backed securities	2019	The Bank	LH Ratings, China Ratings	Residential mortgage	14,232	8,802	–	–
2019 Gongyuan Anju Phase II residential mortgage asset-back	2019	The Bank	CCXI, China Ratings	Residential mortgage	14,193	8,738	–	–
2019 Gongyuan Zhicheng Phase I non-performing asset-backed securities	2019	The Bank	CCXI, China Ratings	Non–performing credit card claim	860	–	–	–
2019 Gongyuan Yiju Phase I residential mortgage asset-backed securities	2019	The Bank	LH Ratings, China Ratings	Residential mortgage	14,977	11,072	–	–
2019 Gongyuan Zhicheng Phase II non-performing asset-backed securities	2019	The Bank	Golden Credit Rating, China Ratings	Personal residential NPL	2,470	1,250	1,250	1,250
2019 Gongyuan Yiju Phase II residential mortgage asset-backed securities	2019	The Bank	CCXI, China Ratings	Residential mortgage	14,995	11,571	–	–
2019 Gongyuan Zhicheng Phase III non-performing asset-backed securities	2019	The Bank	Golden Credit Rating, China Ratings	Personal operating NPL	261	116	116	116
2019 Gongyuan Zhicheng Phase IV non-performing asset-backed securities	2019	The Bank	Golden Credit Rating, China Ratings	Personal consumption NPL	489	221	221	221

CREDIT ASSET SECURITIZATION BUSINESS ORIGINATED BY THE GROUP AND NOT SETTLED AT THE END OF THE REPORTING PERIOD (CONTINUED)

In RMB millions

Asset securitization product	Originating year	Originator	External credit rating institution	Underlying assets				
				Type of underlying assets	Exposure at origination	Exposure at the end of 2020	Non-performing at the end of 2020	Overdue at the end of 2020
2019 Gongyuan Yiju Phase III residential mortgage asset-back	2019	The Bank	LH Ratings, China Ratings	Residential mortgage	15,129	11,654	–	–
2019 Gongyuan Zhiyuan Phase I credit asset-backed securities	2019	The Bank	CCXI, China Ratings	Corporate loans	3,537	962	–	–
2019 Gongyuan Zhicheng Phase V non-performing asset-backed securities	2019	The Bank	LH Ratings, China Ratings	Non–performing credit card claim	437	–	–	–
2019 Gongyuan Yiju Phase IV residential mortgage asset-backed securities	2019	The Bank	CCXI, China Ratings	Residential mortgage	13,913	10,376	–	–
2019 Gongyuan Yiju Phase V residential mortgage asset-backed securities	2019	The Bank	LH Ratings, China Ratings	Residential mortgage	13,938	10,549	–	–
2019 Gongyuan Yiju Phase VI residential mortgage asset-backed securities	2019	The Bank	CCXI, China Ratings	Residential mortgage	13,932	10,484	–	–
2019 Gongyuan Yiju Phase VII residential mortgage asset-backed securities	2019	The Bank	CCXI, China Ratings	Residential mortgage	7,942	5,891	–	–
2019 Gongyuan Yiju Phase VIII residential mortgage asset-backed securities	2019	The Bank	LH Ratings, China Ratings	Residential mortgage	7,989	5,998	–	–
2019 Gongyuan Zhicheng Phase VI non-performing asset-backed securities	2019	The Bank	CCXI, China Ratings	Personal residential NPL	937	651	651	651
2019 Gongyuan Zhicheng Phase VII non-performing asset-backed securities	2019	The Bank	Shanghai Brilliance Rating, China Ratings	Non–performing credit card claim	450	–	–	–
2020 Gongyuan Yiju Phase I residential mortgage asset-backed securities	2020	The Bank	LH Ratings, China Ratings	Residential mortgage	15,633	11,446	–	–
2020 Gongyuan Zhicheng Phase I non-performing asset securitization	2020	The Bank	LH Ratings, China Ratings	Non–performing credit card claim	349	28	28	28
2020 Gongyuan Zhicheng Phase II non-performing asset-backed securities	2020	The Bank	CCXI, China Ratings	Personal consumption NPL	120	22	22	22
2020 Gongyuan Yiju Phase II residential mortgage asset-backed securities	2020	The Bank	CCXI, China Ratings	Residential mortgage	15,590	11,106	–	–

CREDIT ASSET SECURITIZATION BUSINESS ORIGINATED BY THE GROUP AND NOT SETTLED AT THE END OF THE REPORTING PERIOD (CONTINUED)

In RMB millions

Asset securitization product	Originating year	Originator	External credit rating institution	Underlying assets: Type of underlying assets	Exposure at origination	Exposure at the end of 2020	Non-performing at the end of 2020	Overdue at the end of 2020
2020 Gongyuan Yiju Phase III residential mortgage asset-back	2020	The Bank	LH Ratings, China Ratings	Residential mortgage	15,616	11,119	–	–
2020 Gongyuan Zhicheng Phase III non-performing asset securitization	2020	The Bank	Golden Credit Rating, China Ratings	Non–performing credit card claim	366	11	11	11
2020 Gongyuan Zhicheng Phase IV non-performing asset-backed securities	2020	The Bank	CCXI, China Ratings	Personal residential NPL	1,950	1,950	1,950	1,950
2020 Gongyuan Leju Phase I residential mortgage asset-backed securities	2020	The Bank	CCXI, China Ratings	Residential mortgage	14,488	13,129	–	–
2020 Gongyuan Leju Phase II residential mortgage asset-backed securities	2020	The Bank	LH Ratings, China Ratings	Residential mortgage	14,284	12,923	–	–
2020 Gongyuan Leju Phase III residential mortgage asset-back	2020	The Bank	Golden Credit Rating, China Ratings	Residential mortgage	14,291	12,936	–	–
2020 Gongyuan Leju Phase IV residential mortgage asset-back	2020	The Bank	Shanghai Brilliance Rating, China Ratings	Residential mortgage	14,288	12,901	–	–
2020 Gongyuan Zhicheng Phase V non-performing asset-backed securities	2020	The Bank	LH Ratings, China Ratings	Non–performing credit card claim	930	930	930	930
2020 Gongyuan Leju Phase V residential mortgage asset-backed securities	2020	The Bank	CCXI, China Ratings	Residential mortgage	12,498	12,498	–	–
2020 Gongyuan Leju Phase VI residential mortgage asset-backed securities	2020	The Bank	LH Ratings, China Ratings	Residential mortgage	12,496	12,496	–	–
2020 Gongyuan Leju Phase VII residential mortgage asset-backed securities	2020	The Bank	Golden Credit Rating, China Ratings	Residential mortgage	7,973	7,973	–	–
2020 Gongyuan Zhicheng Phase VI non-performing asset-backed securities	2020	The Bank	Golden Credit Rating, China Ratings	Personal residential NPL	1,375	1,375	1,375	1,375
2020 Gongyuan Zhicheng Phase VII non-performing asset-backed securities	2020	The Bank	CCXI, China Ratings	Non–performing auto installment credit card claim	127	127	127	127
2020 Gongyuan Zhicheng Phase VIII non-performing asset-backed securities	2020	The Bank	Golden Credit Rating, China Ratings	Personal consumption NPL	225	225	225	225
Total					**558,835**	**363,107**	**9,127**	**9,127**

Note: As at the end of 2020, the Bank did not originate any credit asset securitization products with underlying assets with revolving and early amortization features.

◆ *As lead underwriter*

The Bank performs obligations that are set forth in relevant requirements and agreements, works diligently, and carries out the sales and distribution of asset-backed securities in strict compliance with laws and regulations, as well as codes of conducts and professional ethics.

◆ *As institutional investor*

The Bank invests in the asset-backed securities which the Bank issues and retains, and the asset-backed securities which the other institutions issue, most of which are senior AAA-rated. The Bank undertakes 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 2020 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 2020, risk-weighted assets for asset securitization stood at RMB229,632 million and capital requirement RMB18,371 million.

ASSET SECURITIZATION RISK EXPOSURE

In RMB millions

Type of risk exposure	At 31 December 2020	At 31 December 2019
As originator		
Asset-backed securities	65,056	53,076
As investor		
Asset-backed securities	32,513	44,587
Total	**97,569**	**97,663**

Market Risk

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

Market Risk Management

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 preventing 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 regulatory requirements on market risk management, has implemented an independent, centralized and coordinated market risk management model, and formed a management organizational structure featuring the segregation of the front, the middle and the back offices in the financial market business. The Board of Directors assumes the ultimate responsibility for monitoring market risk management. The Senior Management is responsible for executing the strategies, overall policy and system concerning 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, is responsible for reviewing material affairs of market risk management, and performs its duty in accordance with the Working Regulations for the Market Risk Management Committee. The risk management departments at different levels undertake the responsibility of coordinating market risk management at respective levels, and the business departments implement market risk management policies and standards for their respective business areas in accordance with their functions.

In 2020, the Bank continued to improve the Group's market risk management, and deepened the establishment of market risk management system at the Group's level, to enrich and ameliorate the market risk management policy system on an ongoing basis. It innovated the financial market business and product risk management system, and established a product life-cycle risk assessment and review mechanism. To cement the market risk management of overseas institutions, a major market risk emergency management plan for overseas institutions was formulated. The Group's market risk appetite and limit transmission mechanism was improved, to strictly control the Group's market risk limits. A forward-looking analysis of interest rate, exchange rate and commodity risks was conducted in a timely manner, with the establishment of a quick risk reporting mechanism during the COVID-19 pandemic. Empowered by technologies, the market risk management system was more intelligent, thus enhancing the optimization, management and application of functions such as stress testing and continuously promoting the extended application of global market risk management system to overseas institutions.

Market Risk Measurement

CAPITAL REQUIREMENT FOR MARKET RISK

In RMB millions

Risk type	At 31 December 2020	At 31 December 2019
Parts covered by internal model approach	**7,539**	**8,193**
Parts uncovered by internal model approach	**6,444**	**6,104**
Interest rate risk	3,405	3,306
Commodity risk	3,015	2,713
Stock risk	–	8
Option risk	24	77
Total	**13,983**	**14,297**

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

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

VALUE AT RISK (VAR)

In RMB millions

Item	2020				2019			
	Period end	Average	Maximum	Minimum	Period end	Average	Maximum	Minimum
VaR	**696**	**1,487**	**2,107**	**597**	**1,824**	**2,249**	**3,522**	**987**
Interest rate risk	451	247	711	92	133	174	263	93
Currency risk	846	1,483	1,996	767	1,845	2,297	3,564	1,044
Commodity risk	142	169	536	40	96	69	133	15
Stressed VaR	**696**	**1,544**	**2,107**	**696**	**1,824**	**3,356**	**4,600**	**987**
Interest rate risk	451	278	711	153	154	209	326	116
Currency risk	846	1,529	2,082	767	1,845	3,299	4,466	1,044
Commodity risk	142	170	536	38	95	68	122	32

The Bank carries out daily back-testing to verify the accuracy of VaR models. During the past 250 trading days before the end of the reporting period, the number of back-testing exceptions of the Group lied in the green zone demarcated by CBIRC. The market risk measurement models of the Bank captured the financial market fluctuations timely and produced objective pictures of market risk faced by the Bank.

In 2020, the Bank continued to improve the market risk stress testing plan, and conducted the stress tests of market risk at different levels and of different trading portfolios on a regular basis or from time to time by using the Global Market Risk Management (GMRM) system, consistent with the regulatory requirements and the Group's internal management needs. The Bank kept widening the application of stress testing management of market risk and continued to ameliorate the Group's market risk stress testing level.

Interest Rate Risk in the Banking Book

Interest rate risk in the banking book is defined as the risk of loss in the economic value and overall profit of the banking book arising from adverse movements in interest rate and maturity structure, etc.

Management of Interest Rate Risk in the Banking Book

In 2020, the Bank actively responded to the challenges brought about by the deepened interest rate liberalization and the impact of the COVID-19 pandemic. It continued to optimize the interest rate risk portfolio control mechanism, improved the "group-wide, full-process and full-product" interest rate risk limit management system, developed a systematic and intelligent risk warning, prevention and control mechanism, and refined the access assessment, accountability and emergency management process, to enhance risk management capabilities in a complex interest rate environment. Besides, a proactive and forward-looking interest rate risk management strategy was implemented, cross-cycle policies were appropriately designed, and a combination of asset-liability quantitative instruments, price instruments and derivative instruments was utilized, to prop up the steady growth of the Group's overall income and long-term value.

Management System and Governance Structure for Interest Rate Risk in the Banking Book

The Bank's management system for interest rate risk in the banking book conforms to the system importance, risk status and business complexity, and fits the Bank's overall development strategy and the enterprise risk management system. The system mainly consists of the following elements: an effective risk governance structure; sound risk management strategies, policies and procedures; effective risk identification, measurement, monitoring, control and mitigation that cover all areas; a complete internal control and review mechanism; a fully-built risk management system; and adequate information disclosure and reporting.

The Bank strictly complied with regulatory requirements for interest rate risk in the banking book, effectively managed interest rate risk in the banking book at the Bank and consolidated level, and developed a sound governance structure for interest rate risk management in the banking book that is fully built and well-structured, with clearly defined rights and responsibilities. The Board of Directors and the Senior Management are vested with the ultimate and executive responsibilities, respectively, for managing interest rate risk in the banking book. The Asset & Liability Management Department of the Head Office takes the leading role in managing interest rate risk in the banking book, and other departments and institutions play their roles in implementing policies and standards concerning interest rate risk in the banking book. The Internal Audit Bureau and the Internal Control & Compliance Department of the Head Office are responsible for reviewing and evaluating duties in respective of interest rate risk in the banking book.

Objective, Strategy and Important Policy of Management of Interest Rate Risk in the Banking Book

The objective of management of interest rate risk in the banking book: The Bank aims 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 formulated strategies and clarified objectives and modes for managing interest rate risk in the banking book based on risk appetite, risk status, macroeconomic and market changes. Based on the pre-judging of the interest rate trend and measurement results of the changes in overall profit and economic value, the Bank formulated and put into practice relevant management policies, and adopted a coordinated approach to using interest rate risk control tools to mitigate and manage risks, so as to ensure the Bank's actual interest rate risks conform to its bearing capability and willingness.

Interest Rate Risk in the Banking Book

On the basis of management strategies and objectives, the Bank developed policies and made clear the modes and instruments for managing interest rate risk in the banking book. By developing and modifying such methods as on-balance sheet adjustment and off-balance sheet hedging to manage interest rate risk, adeptly using quantity, pricing and derivative instruments regarding assets and liabilities, and applying limit management system, business plan, performance assessment and capital evaluation in all areas for interest rate risk management and assessment, the Bank achieved effective control of interest rate risk at the business lines, the branches, the affiliates and the products and portfolios easily affected by interest rate risk.

Stress Testing

In line with the principles of comprehensiveness, prudence and foresight, the Bank's stress testing on interest rate risk in the banking book adopted the interest rate risk exposure measurement approach and standardized duration approach to measure the effect of interest rate changes under different stress scenarios on the overall profit and economic value. Based on the domestic and overseas regulatory requirements, the bank-wide asset and liability business structure, operation and management as well as risk appetite, the Bank set stress testing scenarios for interest rate risk in the banking book by taking into account the current interest rate level, historical changes and trends, total assets and liabilities and their term characteristics, business development strategies, customer behaviors and other factors, and conducted stress testing quarterly.

Banking Book Interest Rate Sensitivity Analysis

The Bank measures interest rate risk in the banking book on a monthly basis and reports the same on a quarterly basis in accordance with relevant requirements of CBIRC. While measuring the impact of interest rate change on net interest income and equity value, the Bank assigns the deposits without a maturity date to a reasonable time bucket in consideration of the deposit and loan characteristics and historic data, and assesses the impact of prepayment on interest rate risk measurement by taking the possibility of prepaying residential mortgages into full consideration.

Supposing that there is parallel shift of overall market interest rates, and taking no account of possible risk management actions taken by the management to mitigate the interest rate risk, the analysis on interest rate sensitivity of the Bank categorized by major currencies at the end of 2020 is shown in the following table:

In RMB millions

	+100 basis points		-100 basis points	
Currency	**Effect on net interest income**	**Effect on equity**	**Effect on net interest income**	**Effect on equity**
RMB	(27,286)	(31,709)	27,286	34,753
USD	(169)	(7,340)	169	7,345
HKD	(1,734)	(68)	1,734	68
Others	(30)	(1,766)	30	1,769
Total	**(29,219)**	**(40,883)**	**29,219**	**43,935**

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

Operational Risk Management

The Bank strictly complies with regulatory requirements on operational risk management. The Board of Directors, the Board of Supervisors, the Senior Management and its Operational Risk Management Committee are respectively responsible for decision-making, supervision and execution with respect to operational risk management, and relevant departments act as the "three lines of defense" for operational risk management pursuant to their management functions, thus forming an operational risk management system with close connection and mutual checks and balances. Institutions and departments function as the first line of defense, which assume the direct responsibility for respective operational risk management. Classified management departments such as Internal Control & Compliance, Legal Affairs, Security, Financial Technology, Finance & Accounting, Operation Management and Human Resources as well as cross-risk management departments including Credit and Investment Management and Risk Management jointly perform the functions as the second line of defense, which are respectively responsible for the lead management of operational risk, the classified management of certain type of operational risk and the management of operational risk across credit and market risks. The Internal Audit Department performs the functions as the third line of defense and assumes the responsibility for supervision, which is responsible for supervising the effectiveness of operational risk management.

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, monitoring, control/mitigation, measurement, reporting and liability determination.

- Risk identification: The Bank identifies operational risk of new products and new businesses, operational risk event, 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 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, checks, analyzes and warns key risk exposures of respective business line and institution 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 business outsourcing, insurance purchase, business continuity plan and contingency plan, and capital allocation.
- 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, and 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.
- Liability determination: The Bank formulates and implements management measures for operational risk liability assessment and determination, determines duty performance by relevant personnel based on objective facts by assessing the subjective and objective reasons of operational risk loss event and material operational risk event, and determines and deals with direct, management, leadership and supervision liabilities.

In 2020, the Bank continued to reinforce operational risk management in line with regulatory focuses and operational risk trends. It optimized the risk limit decomposition and implementation mechanism, effectively transmitted the Group's operational risk management appetite, and strengthened risk warning and forward-looking control of large-value operational risk events. The operational risk and control self-assessment under "regulatory red line" was carried out, with the focus on key risk points in major areas of regulatory penalties, to further address gaps and energetically improve a long-term risk control mechanism. Moreover, the operational risk application and management system was optimized, to continuously enhance effective risk data aggregation and risk reporting capabilities. 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 arises out of or in connection with the failure of the Bank to comply with relevant laws, regulations, administrative rules, regulatory provisions or requirements of other relevant rules during the Bank's operation; the unfavorable legal defects that exist in products, services or information provided to clients, transactions engaged in, and contracts, agreements or other documents executed by the Bank; legal disputes (litigation or arbitration proceedings) between the Bank and its clients, 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 great importance to establishing a sound legal risk management system, forming a full-process legal risk prevention and control mechanism to support and secure business innovation and market competition, and to 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 strategy and policy relating to legal risk management, examining and approving relevant important affairs. The Legal Affairs Department of the Head Office is in charge of legal risk management across the Group, with relevant business departments providing related support and assistance on legal risk prevention and control. The affiliates, domestic and overseas branches undertake the responsibility of legal risk management of their respective institutions.

In 2020, the Bank continued to strengthen legal risk management, by improving the risk prevention and control capacity in legal risk management, ensuring the legal and compliant operation, healthy business development and overall business stability of the Group. In accordance with new laws and regulations such as the Civil Code, its business rules and relevant agreements were continuously improved, and legal risk prevention and control in key areas and links was further pushed forward in line with new requirements of financial regulators. The Bank also improved both the vertical interconnection and horizontal coordination mechanism between the Head Office and branches. By systematically embedding legal risk prevention and control into business negotiations, product design, contract signing and other links, the Bank made risk prevention and control more prospective, proactive and targeted. It improved the cross-border coordination and management for legal work and strengthened the legal risk management of overseas institutions, properly responding to cross-border legal issues emerging in the development of international operations. Moreover, the Bank ameliorated the function design and management mechanic for the electronic signing system, to strengthen its strict control of seal use in business contracts during the whole process, and effectively prevent and control operational risk, legal risk and reputational risk caused by misuse of contract seal. It reinforced authorization management, related party management, trademark management and intellectual property protection, and made efforts to effectively institutionalize risk management and control, and refine the structure of the system. A variety of legal means were utilized comprehensively to improve the effectiveness of collection, practically cement the risk prevention and control of sued cases, avoid and reduce risk losses. In addition to the active assist in online judicial inquiry and enforcement, the Bank played a positive role in improving the efficiency of law enforcement and case handling by competent authorities and building a social credibility system.

Anti-Money Laundering

In strict compliance with anti-money laundering (“AML”) laws and regulations of China and host countries (regions) of overseas institutions, the Bank earnestly implemented the “risk-based” regulatory requirements in respect of AML, and sincerely fulfilled the legal obligations and social responsibilities concerning AML, thus further enhancing the quality and efficiency of AML work.

The Bank pushed forward the all-around building of the Group’s AML management capability by starting the “AML Management Capability Improvement Project”. AML training and education activities covering “learning, training, speaking and testing” were organized and conducted, to popularize AML knowledge and improve AML skills. The governance of customer identification and the management and control of high-risk areas were effectively boosted, for the purpose of comprehensively reconstructing a money laundering risk assessment system integrating “customers, products and institutions”. Besides, the prevention and control of sensitive information risks was intensified, and the research, judgment and reporting of suspicious transactions was reinforced, to facilitate the intelligent construction of AML system in an orderly manner, and build an intelligent, open, shared and integrated AML ecosystem.

Operational Risk Measurement

The Bank adopts the standardized approach to measure capital requirement for operational risk. As at the end of 2020, the capital requirement for operational risk was RMB113,122 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, or perform other payment obligations and satisfy other funding demands arising from the normal course of business. 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 2020, the Bank continued to uphold a steady and prudent liquidity risk management strategy, kept strengthening liquidity risk management, and took different measures to ensure that the Group's liquidity could be stable and safe. It tightened up the monitoring on funds, and maintained reasonable and affluent liquidity reserves, so as to manage liquidity risk properly during peak payments, important holidays and key points in time. Besides, the Group's liquidity risk management system was optimized constantly, the application of fund operation and monitoring system was strengthened, the automation level of liquidity risk measurement and control system was enhanced, and the multi-layer and multi-dimensional liquidity monitoring and warning system was upgraded, to further improve the Group's liquidity risk prevention capabilities.

Liquidity Risk Management System and Governance Structure

The Bank's liquidity risk management system conforms to the overall development strategy and the overall 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 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 of the Head Office; and the execution system comprising the Asset and Liability Management Department, leading management departments of on- and off-balance sheet businesses, the information technology departments, operation management departments of the Head Office and relevant departments of branches. Each of these systems performs the corresponding functions of decision making, supervision and execution 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 affiliates, 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.

The Bank's liquidity risk management strategy and policy are formulated in accordance with the liquidity risk appetite, and they cover all businesses on- and off-balance sheet, all domestic and overseas business departments, branches and affiliates that are likely to have a material impact on the liquidity risk, and contain the liquidity risk management under normal and stressed scenarios. The liquidity risk management strategy specifies the overall objective and mode of liquidity risk management and lists major policies and procedures for liquidity risk management. The 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.

Stress Testing

Following the prudence principle, the Bank employs the scenario analysis and the sensitivity analysis to perform stress testing 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 testing on a quarterly basis. Where necessary, the Bank may carry out temporary and special stress testing at a particular time in light of changes in the external operating environment and regulatory requirements.

Liquidity Risk Analysis

The Bank assesses liquidity risk status by comprehensive use of a variety of methods and tools such as liquidity indicator analysis and liquidity exposure analysis.

In 2020, RMB liquidity ratio and foreign currency liquidity ratio of the Bank were 43.2% and 91.4% respectively, both meeting the regulatory requirements. Loan-to-deposit ratio was 72.8%.

Net stable funding ratio aims to ensure commercial banks have sufficient stable sources of funding to meet the needs for stable funding of assets and off-balance sheet risk exposures. The net stable funding ratio is the ratio of the available stable funding to the required stable funding. As at the end of the fourth quarter of 2020, the net stable funding ratio was 128.33%, 1.32 percentage points higher than that at the end of the previous quarter, mainly because the Bank constantly strengthened the Group's liquidity coordination and management to ensure the sufficient sources of stable funds.

The daily average liquidity coverage ratio for the fourth quarter of 2020 was 123.28%, 1.88 percentage points lower than the previous quarter, mainly because the growth rate of net cash outflows exceeded the eligible high-quality liquid assets. High-quality liquid assets cover cash, available central bank reserve under stress and primary and secondary bond assets that can be included in the liquidity coverage ratio under the regulatory requirements.

As at the end of 2020, the negative liquidity exposure for 1 month to 3 months decreased from the end of last year, mainly due to the decrease of matured due to customers within corresponding term and increase of bond investments. The positive liquidity exposure for the 1 to 5 years category decreased, mainly due to the increase of matured due to customers and the decrease of loans and advances to customers within corresponding term. The positive liquidity exposure for the category of over 5 years expanded, which was mainly due to the increase in matured loans and advances to customers and bond investments within corresponding term. Deposits maintained steady growth with a high deposition rate, and at the same time the Bank made major investment in highly liquid bond assets, and possessed sufficient liquidity reserves. Therefore, the overall liquidity of the Bank maintained at a safe level.

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 2020	(14,309,956)	335,580	(209,780)	(563,541)	981,145	13,324,640	3,351,427	2,909,515
At 31 December 2019	(13,148,663)	372,311	(701,406)	(715,546)	3,498,846	10,069,296	3,317,165	2,692,003

Equity Risk in the Banking Book

The Bank's equity investments in the banking book mainly include long-term equity investments, the portion of equity investments measured at fair value through profit or loss and equity investments measured at fair value through other comprehensive income which belong to the banking book. 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 2020			At 31 December 2019		
Equity type	Publicly-traded equity investment risk exposure(1)	Non-publicly-traded equity investment risk exposure(1)	Unrealised potential gains (losses)(2)	Publicly-traded equity investment risk exposure(1)	Non-publicly-traded equity investment risk exposure(1)	Unrealised potential gains (losses)(2)
Financial institution	28,675	15,423	9,025	33,859	16,023	6,618
Corporate	12,686	126,595	(2,709)	3,537	108,007	(1,486)
Total	**41,361**	**142,018**	**6,316**	**37,396**	**124,030**	**5,132**

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) Unrealised potential gains (losses) refer to unrealised 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 2020 Annual Report.

Reputational Risk

Reputational risk is defined as the risk of negative comments on the Bank from stakeholders, the public or the media as a result of the behaviors of the Bank or practitioners or external events, thereby damaging brand value, detrimental to normal operation, and even affecting market and social stability. 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. Good reputation is central to the operation and management of a commercial bank. The Bank highly values its reputation and has incorporated reputational risk management in the corporate governance and enterprise risk management system to prevent reputational risk.

The Board of Directors is responsible for reviewing and finalizing bank-wide policies concerning reputational risk management that are in line with the strategic objective of the Bank, establishing a bank-wide system of reputational risk management, monitoring the overall status and effectiveness of reputational risk management across the Bank and assuming the ultimate responsibility for reputational risk management. The Senior Management is responsible for leading reputational risk management of the Bank, implementing the strategies and policies established by the Board of Directors, reviewing and finalizing the rules, measures and operating procedures for reputational risk management, preparing plans for responding to and coping with extraordinarily major reputational risk events and ensuring the proper and effective operation of the reputational risk management system. The Bank has established a special reputational risk management team to take charge of the daily management of reputational risk.

In 2020, the Bank kept improving the structure of reputational risk management system, to optimize relevant working mechanism and enhance reputational risk management. For the improvement of institutional construction, a sound responsibility review and identification mechanism for reputational risk events was established, to consolidate the main management responsibilities, strengthen the governance of reputational risk sources, and mitigate hidden reputational risk in an active and effective manner. In addition, the Bank promptly responded to social focuses and public concerns, and organized and promoted influential brand communication activities, to enhance the Bank's brand image. During the reporting period, the reputational risk of the Bank was stable and within a controllable range.

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 regulatory requirements on country risk 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 with a series of tools, including country risk assessment and rating, country risk limit, country risk exposure calculation and monitoring and stress testing. The Bank reviews the country risk rating and limits at least once every year.

In 2020, facing the increasingly complicated international political and economic environment under the COVID-19 pandemic, the Bank strictly abode by regulatory requirements and, with consideration of its business development needs, continued to strengthen country risk management. The Bank closely observed changes in country risk exposures, constantly tracked, monitored and reported country risk, and timely updated and adjusted the country risk rating and limits. It continued to strengthen early warning mechanism for country risk, proactively conducted stress testing on country risk and reasonably and effectively controlled country risk while steadily promoting internationalization.

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 Resources 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 and compensation plans for Directors, organizing the assessment on the performance of duties of Directors, putting forth proposal on remuneration distribution for Directors, 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 results, the Compensation Committee consisted of four directors, including Independent Non-executive Directors Mr. Nout Wellink, Mr. Anthony Francis Neoh and Mr. Shen Si; Non-executive Director Mr. Lu Yongzhen. Independent Non-executive Director Mr. Nout Wellink was Chairman of the Committee. During the reporting period, the Compensation Committee held four 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 mainly consists of basic remuneration and performance-based remuneration. The remuneration allocation takes "job value, capabilities and performance" as the basic principles. The basic remuneration 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 of the employee and the employee. Currently, in accordance with relevant laws and regulations promulgated by the state 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 is 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. The remuneration structures of each institution or position are different according to the need of risk management. The Bank adjusts 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 implements performance assessment and incentives to promote a positive and healthy risk management culture.

The Bank gradually established deferred payment mechanism based on business needs and 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 is based on their value contributed, capability, and job 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 2020 Annual Report.

The following information is disclosed in accordance with the 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 2020	At 31 December 2019	Reference[1]
Core tier 1 capital:				
1	Paid-in capital	356,407	356,407	X18
2	Retained earnings	2,170,740	1,964,205	
2a	Surplus reserve	322,692	292,149	X21
2b	General reserve	339,486	304,876	X22
2c	Retained profits	1,508,562	1,367,180	X23
3	Accumulated other comprehensive income (and other public reserves)	138,356	147,984	
3a	Capital reserve	148,534	149,067	X19
3b	Others	(10,178)	(1,083)	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	3,552	4,178	X25
6	**Core tier 1 capital before regulatory adjustments**	**2,669,055**	**2,472,774**	
Core tier 1 capital: Regulatory adjustments				
7	Prudential valuation adjustments	–	–	
8	Goodwill (net of deferred tax liabilities)	8,107	9,038	X16
9	Other intangible assets other than land use rights (net of deferred tax liabilities)	4,582	2,933	X14–X15
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of deferred tax liabilities)	–	–	
11	Cash flow hedge reserves that relate to the hedging of items that are not fair valued on the balance sheet	(4,616)	(4,451)	X20
12	Shortfall of provision for loan impairment	–	–	
13	Gain on sale related to asset securitization	–	–	
14	Unrealised gains and losses due to changes in own credit risk on fair valued liabilities	–	–	
15	Defined-benefit pension fund net assets (net of deferred tax liabilities)	–	–	

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 2020	At 31 December 2019	Reference
16	Direct or indirect investments in own ordinary shares	–	–	
17	Reciprocal cross-holdings in core tier 1 capital between banks or between banks and other financial institutions	–	–	
18	Deductible amount of non-significant minority investment in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	–	–	
19	Deductible amount of significant minority investment in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	–	–	
20	Mortgage servicing rights	N/A	N/A	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of deferred tax liabilities)	–	–	
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 (net of deferred tax liabilities)	–	–	
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	Investments in core tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	7,980	7,980	X11
26b	Shortfall in core tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	–	–	

CAPITAL COMPOSITION (CONTINUED)

In RMB millions, except for percentages

S/N	Item	At 31 December 2020	At 31 December 2019	Reference
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**	**16,053**	**15,500**	
29	**Core tier 1 capital**	**2,653,002**	**2,457,274**	
Additional tier 1 capital:				
30	Additional tier 1 capital instruments and related premium	219,143	199,456	
31	Including: Portion classified as equity	139,156	199,456	X28+X32
32	Including: Portion classified as liabilities	79,987	–	
33	Invalid instruments to additional tier 1 capital after the transition period	–	–	
34	Valid portion of minority interests	647	793	X26
35	Including: Invalid portion to additional tier 1 capital after the transition period	–	–	
36	**Additional tier 1 capital before regulatory adjustments**	**219,790**	**200,249**	
Additional tier 1 capital: Regulatory adjustments				
37	Direct or indirect investments in own additional tier 1 instruments	–	–	
38	Reciprocal cross-holdings in additional tier 1 capital between banks or between banks and other financial institutions	–	–	
39	Deductible amount of non-significant minority investment in additional tier 1 capital instruments issued by financial institutions that are not subject to consolidation	–	–	
40	Significant minority investments in additional tier 1 capital instruments issued by financial institutions that are not subject to consolidation	–	–	
41a	Investments 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	–	–	

CAPITAL COMPOSITION (CONTINUED)

In RMB millions, except for percentages

S/N	Item	At 31 December 2020	At 31 December 2019	Reference
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**	**219,790**	**200,249**	
45	**Tier 1 capital (core tier 1 capital + additional tier 1 capital)**	**2,872,792**	**2,657,523**	
Tier 2 capital:				
46	Tier 2 capital instruments and related premium	351,568	272,680	X17
47	Invalid instruments to tier 2 capital after the transition period	40,570	60,855	
48	Valid portion of minority interests	1,114	1,707	X27
49	Including: Invalid portion to tier 2 capital after the transition period	–	439	
50	Valid portion of surplus provision for loan impairment	170,712	189,569	X02+X04
51	**Tier 2 capital before regulatory adjustments**	**523,394**	**463,956**	
Tier 2 capital: Regulatory adjustments				
52	Direct or indirect investments in own tier 2 instruments	–	–	
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	–	–	X31
56a	Investments 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	–	–	

CAPITAL COMPOSITION (CONTINUED)

In RMB millions, except for percentages

S/N	Item	At 31 December 2020	At 31 December 2019	Reference
56c	Others that should be deducted from tier 2 capital	–	–	
57	**Total regulatory adjustments to tier 2 capital**	**–**	**–**	
58	**Tier 2 capital**	**523,394**	**463,956**	
59	**Total capital (tier 1 capital + tier 2 capital)**	**3,396,186**	**3,121,479**	
60	**Total risk-weighted assets**	**20,124,139**	**18,616,886**	
Requirements for capital adequacy ratio and reserve capital				
61	Core tier 1 capital adequacy ratio	13.18%	13.20%	
62	Tier 1 capital adequacy ratio	14.28%	14.27%	
63	Capital adequacy ratio	16.88%	16.77%	
64	Institution specific buffer requirement	4.0%	4.0%	
65	Including: Capital conservation buffer requirement	2.5%	2.5%	
66	Including: Countercyclical buffer requirement	–	–	
67	Including: G-SIB buffer requirement	1.5%	1.5%	
68	Percentage of core tier 1 capital meeting buffers to risk-weighted assets	8.18%	8.20%	
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 portion of non-significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	138,247	84,515	X05+X07+X08+X09+X12+X29+X30
73	Undeducted portion of significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	32,452	37,654	X06+X10+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)	65,719	60,846	
Valid caps of surplus provision for loan impairment in tier 2 capital				
76	Provision for loan impairment under the weighted approach	23,204	17,647	X01

CAPITAL COMPOSITION (CONTINUED)

In RMB millions, except for percentages

S/N	Item	At 31 December 2020	At 31 December 2019	Reference
77	Valid cap of surplus provision for loan impairment in tier 2 capital under the weighted approach	7,802	7,923	X02
78	Surplus provision for loan impairment under the internal ratings-based approach	507,096	460,851	X03
79	Valid cap of surplus provision for loan impairment in tier 2 capital under the internal ratings-based approach	162,910	181,646	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	40,570	60,855	
85	Excluded from tier 2 capital for the current period due to cap	67,463	63,383	

BALANCE SHEET AT THE GROUP'S LEVEL

In RMB millions

Item	At 31 December 2020		At 31 December 2019	
	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	3,537,795	3,537,795	3,317,916	3,317,916
Due from banks and other financial institutions	522,913	489,231	475,325	450,976
Precious metals	277,705	277,705	238,061	238,061
Placements with banks and other financial institutions	558,984	558,984	567,043	567,043
Derivative financial assets	134,155	134,155	68,311	68,311
Reverse repurchase agreements	739,288	738,958	845,186	841,954
Loans and advances to customers	18,136,328	18,134,777	16,326,552	16,325,339
Financial investments:	8,591,139	8,429,328	7,647,117	7,528,268
— Financial investments measured at fair value through profit or loss	784,483	732,478	962,078	921,042
— Financial investments measured at fair value through other comprehensive income	1,540,988	1,498,008	1,476,872	1,451,357
— Financial investments measured at amortised cost	6,265,668	6,198,842	5,208,167	5,155,869
Long-term equity investments	41,206	49,186	32,490	40,470
Fixed assets	249,067	249,008	244,902	244,846
Construction in progress	35,173	35,166	39,714	39,712
Deferred income tax assets	67,713	67,713	62,536	62,536
Other assets	453,592	440,548	244,283	230,111
Total assets	**33,345,058**	**33,142,554**	**30,109,436**	**29,955,543**

BALANCE SHEET AT THE GROUP'S LEVEL (CONTINUED)

In RMB millions

Item	At 31 December 2020		At 31 December 2019	
	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
Liabilities				
Due to central banks	54,974	54,974	1,017	1,017
Due to banks and other financial institutions	2,315,643	2,315,643	1,776,320	1,776,320
Placements from banks and other financial institutions	468,616	468,616	490,253	490,253
Financial liabilities measured at fair value through profit or loss	87,938	87,938	102,242	102,242
Derivative financial liabilities	140,973	140,973	85,180	85,180
Repurchase agreements	293,434	282,458	263,273	254,926
Certificates of deposit	335,676	335,676	355,428	355,428
Due to customers	25,134,726	25,134,726	22,977,655	22,977,655
Employee benefits payable	32,460	32,073	35,301	34,960
Taxes payable	105,380	105,356	109,601	109,545
Debt securities issued	798,127	798,127	742,875	742,875
Deferred income tax liabilities	2,881	1,994	1,873	1,690
Other liabilities	664,715	483,519	476,415	339,246
Total liabilities	**30,435,543**	**30,242,073**	**27,417,433**	**27,271,337**
Equity				
Share capital	356,407	356,407	356,407	356,407
Other equity instruments	225,819	225,819	206,132	206,132
Capital reserve	148,534	148,534	149,067	149,067
Other comprehensive income	(10,428)	(10,178)	(1,266)	(1,083)
Surplus reserve	322,911	322,692	292,291	292,149
General reserve	339,701	339,486	305,019	304,876
Retained profits	1,510,558	1,508,562	1,368,536	1,367,180
Equity attributable to equity holders of the parent company	**2,893,502**	**2,891,322**	**2,676,186**	**2,674,728**
Minority interests	16,013	9,159	15,817	9,478
Total equity	**2,909,515**	**2,900,481**	**2,692,003**	**2,684,206**

Note: Prepared in accordance with PRC GAAP.

EXPLANATIONS FOR DETAILED ITEMS

In RMB millions

Item	At 31 December 2020 Balance sheet under regulatory scope of consolidation	Reference
Loans and advances to customers	**18,134,777**	
Total loans and advances to customers	18,665,077	
Less: Provision for loan impairment under the weighted approach	23,204	X01
Including: Valid cap of surplus provision for loan impairment in tier 2 capital under the weighted approach	7,802	X02
Less: Provision for loan impairment under the internal ratings-based approach	507,096	X03
Including: Valid cap of surplus provision for loan impairment in tier 2 capital under the internal ratings-based approach	162,910	X04
Financial investments:		
Financial investments measured at fair value through profit or loss	**732,478**	
Including: Non-significant minority investments in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	67	X05
Including: Significant minority investments in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	1,658	X06
Including: Non-significant minority investments in additional tier 1 capital instruments issued by financial institutions that are not subject to consolidation	217	X07
Including: Non-significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	126,749	X08
Financial investments measured at fair value through other comprehensive income	**1,498,008**	
Including: Non-significant minority investments in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	10,998	X09
Including: Significant minority investments in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	3,445	X10
Including: Non-significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	–	X29
Financial investments measured at amortised cost	**6,198,842**	
Including: Non-significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	199	X30
Including: Significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	–	X31

EXPLANATIONS FOR DETAILED ITEMS (CONTINUED)

In RMB millions

Item	At 31 December 2020 Balance sheet under regulatory scope of consolidation	Reference
Long-term equity investments	**49,186**	
Including: Investment in core tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	7,980	X11
Including: Undeducted portion of non-significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	17	X12
Including: Undeducted portion of significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	27,349	X13
Other assets	**440,548**	
Interest receivable	1,985	
Intangible assets	20,717	X14
Including: Land use rights	16,135	X15
Other receivables	359,902	
Goodwill	8,107	X16
Long-term deferred expenses	4,639	
Repossessed assets	5,325	
Others	39,873	
Debt securities issued	**798,127**	
Including: Valid portion of tier 2 capital instruments and their premium	351,568	X17
Share capital	**356,407**	X18
Other equity instruments	**225,819**	
Including: Preference shares	139,156	X28
Including: Perpetual bonds	79,987	X32
Capital reserve	**148,534**	X19
Other comprehensive income	**(10,178)**	X24
Reserve for changes in fair value of financial assets	22,726	
Reserve for cash flow hedging	(4,725)	
Including: Cash flow hedge reserves that relate to the hedging of items that are not fair valued on the balance sheet	(4,616)	X20
Changes in share of other owners' equity of associates and joint ventures	(1,381)	
Foreign currency translation reserve	(27,518)	
Others	720	
Surplus reserve	**322,692**	X21
General reserve	**339,486**	X22
Retained profits	**1,508,562**	X23
Minority interests	**9,159**	
Including: Valid portion to core tier 1 capital	3,553	X25
Including: Valid portion to additional tier 1 capital	647	X26
Including: Valid portion to tier 2 capital	1,114	X27

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2020

S/N	Main features of regulatory capital instrument	Ordinary shares (A share)	Ordinary shares (H share)	Preference shares (Domestic)	Preference shares (Domestic)	Preference shares (Offshore)	Preference shares (Offshore)	Undated additional tier 1 capital bonds (Domestic)
1	Issuer	The Bank	The Bank	The Bank	The Bank	The Bank	The Bank	The Bank
2	Unique identifier	601398	1398	360011	360036	4604	4620	1928018
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	Company Law of the People's Republic of China, Securities Law of the People's Republic of China, Guidance of the State Council on Launch of Preference Shares Pilot, Trial Administrative Measures on Preference Shares, Guidance on the Issuance of Preference Shares of Commercial Banks to Replenish Tier 1 Capital/China	Company Law of the People's Republic of China, Securities Law of the People's Republic of China, Guidance of the State Council on Launch of Preference Shares Pilot, Trial Administrative Measures on Preference Shares, Guidance on the Issuance of Preference Shares of Commercial Banks to Replenish Tier 1 Capital /China	The creation and issue of the Offshore Preference Shares and the rights and obligations (including non-contractual rights and obligations) attached to them are governed by, and shall be construed in accordance with, PRC law	The creation and issue of the Offshore Preference Shares and the rights and obligations (including non-contractual rights and obligations) attached to them are governed by, and shall be construed in accordance with, PRC law	Governed by the Commercial Banking Law of the People's Republic of China, the Regulation Governing Capital of Commercial Banks (Provisional) and the Measures for Administration of Financial Bond Issuance in China's Inter-bank Bond Market, as well as other applicable laws, regulations and normative documents/ China
	Regulatory treatment							
4	Including: Transition arrangement of Regulation Governing Capital of Commercial Banks (Provisional)	Core tier 1 capital	Core tier 1 capital	Additional tier 1 capital	Additional tier 1 capital	Additional tier 1 capital	Additional tier 1 capital	Additional tier 1 capital
5	Including: Post-transition arrangement of Regulation Governing Capital of Commercial Banks (Provisional)	Core tier 1 capital	Core tier 1 capital	Additional tier 1 capital	Additional tier 1 capital	Additional tier 1 capital	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	Parent company/Group	Parent company/Group	Parent company/Group
7	Instrument type	Core tier 1 capital instrument	Core tier 1 capital instrument	Additional tier 1 capital instrument	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)	RMB336,554	RMB168,374	RMB44,947	RMB69,981	RMB equivalent 4,542	RMB equivalent 19,687	RMB79,987

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2020 (CONTINUED)

S/N	Main features of regulatory capital instrument	Ordinary shares (A share)	Ordinary shares (H share)	Preference shares (Domestic)	Preference shares (Domestic)	Preference shares (Offshore)	Preference shares (Offshore)	Undated additional tier 1 capital bonds (Domestic)
9	Par value of instrument (in millions)	RMB269,612	RMB86,795	RMB45,000	RMB70,000	EUR600	USD2,900	RMB80,000
10	Accounting treatment	Share capital, Capital reserve	Share capital, Capital reserve	Other equity	Other equity	Other equity	Other equity	Other equity
11	Original date of issuance	19 October 2006	19 October 2006	18 November 2015	19 September 2019	10 December 2014	23 September 2020	26 July 2019
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual
13	Including: Original maturity date	No maturity date	No maturity date	No maturity date	No maturity date	No maturity date	No maturity date	No maturity date
14	Issuer call (subject to prior supervisory approval)	No	No	Yes	Yes	Yes	Yes	Yes
15	Including: Optional call date, contingent call dates and redemption amount	N/A	N/A	The First Redemption Date is 18 November 2020, in full or partial amount	The First Redemption Date is 24 September 2024, in full or partial amount	The First Redemption Date is 10 December 2021, in full or partial amount	The First Redemption Date is 23 September 2025, in full or partial amount	The First Redemption Date is 30 July 2024, in full or partial amount
16	Including: Subsequent call dates, if applicable	N/A	N/A	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	Commences on the First Redemption Date (24 September 2024) and ends on the completion date of redemption or conversion of all the Domestic Preference Shares	10 December in each year after the First Redemption Date	23 September in each year after the First Redemption Date	Redemption of present bonds in full or in part on each Distribution Payment Date since the First Redemption Date (30 July 2024). The Issuer has the right to redeem the present bonds in full rather than in part if the present bonds are no longer qualify as additional tier 1 capital after they are issued due to unpredictable changes in regulatory rules
	Coupons/dividends							
17	Including: Fixed or floating dividend/coupon	Floating	Floating	Fixed to floating	Fixed to floating	Fixed to floating	Fixed to floating	Fixed to floating

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2020 (CONTINUED)

S/N	Main features of regulatory capital instrument	Ordinary shares (A share)	Ordinary shares (H share)	Preference shares (Domestic)	Preference shares (Domestic)	Preference shares (Offshore)	Preference shares (Offshore)	Undated additional tier 1 capital bonds (Domestic)
18	Including: Coupon rate and any related index	N/A	N/A	4.5% (dividend rate) before 23 November 2020, and 4.58% (dividend rate) between 23 November 2020 and 22 November 2025	4.2% (dividend rate) before 24 September 2024	6% (dividend rate) before 10 December 2021	3.58% (dividend rate) before 23 September 2025	4.45% (interest rate) before 30 July 2024
19	Including: Existence of a dividend stopper	N/A	N/A	Yes	Yes	Yes	Yes	Yes
20	Including: Fully discretionary, partially discretionary or mandatory cancellation of coupons/dividends	Fully discretionary	Fully discretionary	Partially discretionary	Partially discretionary	Partially discretionary	Partially discretionary	Partially discretionary
21	Including: Redemption incentive mechanism	No	No	No	No	No	No	No
22	Including: Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	No	No	Yes	Yes	Yes	Yes	No
24	Including: If convertible, conversion trigger(s)	N/A	N/A	Additional Tier 1 Capital Trigger Event or Tier 2 Capital Trigger Event	Additional Tier 1 Capital Trigger Event or Tier 2 Capital Trigger Event	Additional Tier 1 Capital Trigger Event or Tier 2 Capital Trigger Event	Non-viability Trigger Event	N/A
25	Including: If convertible, fully or partially	N/A	N/A	Fully or partially convertible when an Additional Tier 1 Capital Trigger Event occurs; fully convertible when a Tier 2 Capital Trigger Event occurs	Fully or partially convertible when an Additional Tier 1 Capital Trigger Event occurs; fully convertible when a Tier 2 Capital Trigger Event occurs	Fully or partially convertible when an Additional Tier 1 Capital Trigger Event occurs; fully convertible when a Tier 2 Capital Trigger Event occurs	Fully or partially convertible when an Non-viability Trigger Event occurs	N/A
26	Including: If convertible, conversion rate	N/A	N/A	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	The initial conversion price is equal to the average trading price of the A shares of the Bank for the 20 trading days preceding 30 August 2018, 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 30 August 2018, the date of publication of the Board resolution in respect of the issuance plan	N/A

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2020 (CONTINUED)

S/N	Main features of regulatory capital instrument	Ordinary shares (A share)	Ordinary shares (H share)	Preference shares (Domestic)	Preference shares (Domestic)	Preference shares (Offshore)	Preference shares (Offshore)	Undated additional tier 1 capital bonds (Domestic)
27	Including: If convertible, mandatory or optional conversion	N/A	N/A	Mandatory	Mandatory	Mandatory	Mandatory	N/A
28	Including: If convertible, specify instrument type convertible into	N/A	N/A	Core tier 1 capital	Core tier 1 capital	Core tier 1 capital	Core tier 1 capital	N/A
29	Including: If convertible, specify issuer of instrument it converts into	N/A	N/A	The Bank	The Bank	The Bank	The Bank	N/A
30	Write-down feature	No	No	No	No	No	No	Yes
31	Including: If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A	N/A	N/A	Additional Tier 1 Capital Trigger Event or Tier 2 Capital Trigger Event
32	Including: If write-down, full or partial	N/A	N/A	N/A	N/A	N/A	N/A	Full or partial write-down when an Additional Tier 1 Capital Trigger Event occurs; full write-down when a Tier 2 Capital Trigger Event occurs
33	Including: If write-down, permanent or temporary	N/A	N/A	N/A	N/A	N/A	N/A	Permanent write-down
34	Including: If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to depositor, general creditor, creditor of the subordinated debts and preference shareholders	Subordinated to depositor, general creditor, creditor of the subordinated debts and preference shareholders	Subordinated to deposits, general debts, subordinated debts, tier 2 capital bonds and undated additional tier 1 capital bonds	Subordinated to deposits, general debts, subordinated debts, tier 2 capital bonds and undated additional tier 1 capital bonds	Subordinated to deposits, general debts, subordinated debts, tier 2 capital bonds and undated additional tier 1 capital bonds	Subordinated to deposits, general debts, subordinated debts, tier 2 capital bonds and undated additional tier 1 capital bonds	Subordinated to deposits, general debts, subordinated debts and tier 2 capital bonds
36	Non-compliant transitioned features	No	No	No	No	No	No	No
	Including: If yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A	N/A	N/A

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2020 (CONTINUED)

S/N	Main features of regulatory capital instrument	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds
1	Issuer	The Bank	The Bank	The Bank	The Bank	The Bank
2	Unique identifier	Rule 144A ISIN: US455881AD47 Regulation S ISIN: USY39656AC06	1728021	1728022	1928006	1928007
3	Governing law(s) of the instrument	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	Governed by the Commercial Banking Law of the People's Republic of China, the Regulation Governing Capital of Commercial Banks (Provisional) and the Measures for Administration of Financial Bond Issuance in China's Inter-bank Bond Market, as well as other applicable laws, regulations and normative documents /China	Governed by the Commercial Banking Law of the People's Republic of China, the Regulation Governing Capital of Commercial Banks (Provisional) and the Measures for Administration of Financial Bond Issuance in China's Inter-bank Bond Market, as well as other applicable laws, regulations and normative documents /China	Governed by the Commercial Banking Law of the People's Republic of China, the Regulation Governing Capital of Commercial Banks (Provisional) and the Measures for Administration of Financial Bond Issuance in China's Inter-bank Bond Market, as well as other applicable laws, regulations and normative documents /China	Governed by the Commercial Banking Law of the People's Republic of China, the Regulation Governing Capital of Commercial Banks (Provisional) and the Measures for Administration of Financial Bond Issuance in China's Inter-bank Bond Market, as well as other applicable laws, regulations and normative documents /China
	Regulatory treatment					
4	Including: Transition arrangement of Regulation Governing Capital of Commercial Banks (Provisional)	Tier 2 capital	Tier 2 capital	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	Tier 2 capital	Tier 2 capital
6	Including: Eligible to the parent company/group level	Parent company/Group	Parent company/Group	Parent company/Group	Parent company/Group	Parent company/Group
7	Instrument type	Tier 2 capital instruments	Tier 2 capital instruments	Tier 2 capital instruments	Tier 2 capital instruments	Tier 2 capital instruments
8	Amount recognized in regulatory capital (in millions, as at the latest reporting date)	RMB equivalent 12,998	RMB44,000	RMB44,000	RMB45,000	RMB10,000
9	Par value of instrument (in millions)	USD2,000	RMB44,000	RMB44,000	RMB45,000	RMB10,000
10	Accounting treatment	Debt securities issued	Debt securities issued	Debt securities issued	Debt securities issued	Debt securities issued
11	Original date of issuance	21 September 2015	6 November 2017	20 November 2017	21 March 2019	21 March 2019
12	Perpetual or dated	Dated	Dated	Dated	Dated	Dated
13	Including: Original maturity date	21 September 2025	8 November 2027	22 November 2027	25 March 2029	25 March 2034

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2020 (CONTINUED)

S/N	Main features of regulatory capital instrument	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds
14	Issuer call (subject to prior supervisory approval)	No	Yes	Yes	Yes	Yes
15	Including: Optional call date, contingent call dates and redemption amount	N/A	8 November 2022, in full amount	22 November 2022, in full amount	25 March 2024, in full amount	25 March 2029, in full amount
16	Including: Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A
	Coupons/dividends					
17	Including: Fixed or floating dividend/coupon	Fixed	Fixed	Fixed	Fixed	Fixed
18	Including: Coupon rate and any related index	4.875%	4.45%	4.45%	4.26%	4.51%
19	Including: Existence of a dividend stopper	No	No	No	No	No
20	Including: Fully discretionary, partially discretionary or mandatory cancellation of coupons/dividends	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Including: Redemption incentive mechanism	No	No	No	No	No
22	Including: Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	No	No	No	No	No
24	Including: If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A	N/A
25	Including: If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A
26	Including: If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A
27	Including: If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A
28	Including: If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2020 (CONTINUED)

S/N	Main features of regulatory capital instrument	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds
29	Including: If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A
30	Write-down feature	Yes	Yes	Yes	Yes	Yes
31	Including: If write-down, write-down trigger(s)	Whichever occurs earlier: (i) CBIRC having decided that a write-down is necessary, 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	Whichever occurs earlier: (i) CBIRC having decided that a write-down is necessary, 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	Whichever occurs earlier: (i) CBIRC having decided that a write-down is necessary, 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	Whichever occurs earlier: (i) CBIRC having decided that a write-down is necessary, 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	Whichever occurs earlier: (i) CBIRC having decided that a write-down is necessary, 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	Partial or full write-down	Partial or full write-down	Partial or full write-down	Partial or full write-down	Partial or full write-down
33	Including: If write-down, permanent or temporary	Permanent write-down	Permanent write-down	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	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to depositor and general creditor, pari passu with other subordinated debts	Subordinated to depositor and general creditor, but senior to equity capital, other tier 1 capital instruments and hybrid capital bonds; pari passu with other subordinated debts that have been issued by the Issuer and are pari passu with the present bonds; and pari passu with other tier 2 capital instruments that will possibly be issued in the future and are pari passu with the present bonds	Subordinated to depositor and general creditor, but senior to equity capital, other tier 1 capital instruments and hybrid capital bonds; pari passu with other subordinated debts that have been issued by the Issuer and are pari passu with the present bonds; and pari passu with other tier 2 capital instruments that will possibly be issued in the future and are pari passu with the present bonds	Subordinated to depositor and general creditor, but senior to equity capital, other tier 1 capital instruments and hybrid capital bonds; pari passu with other subordinated debts that have been issued by the Issuer and are pari passu with the present bonds; and pari passu with other tier 2 capital instruments that will possibly be issued in the future and are pari passu with the present bonds	Subordinated to depositor and general creditor, but senior to equity capital, other tier 1 capital instruments and hybrid capital bonds; pari passu with other subordinated debts that have been issued by the Issuer and are pari passu with the present bonds; and pari passu with other tier 2 capital instruments that will possibly be issued in the future and are pari passu with the present bonds
36	Non-compliant transitioned features	No	No	No	No	No
	Including: If yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2020 (CONTINUED)

S/N	Main features of regulatory capital instrument	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds
1	Issuer	The Bank	The Bank	The Bank	The Bank	The Bank
2	Unique identifier	1928011	1928012	2028041	2028049	2028050
3	Governing law(s) of the instrument	Governed by the Commercial Banking Law of the People's Republic of China, the Regulation Governing Capital of Commercial Banks (Provisional) and the Measures for Administration of Financial Bond Issuance in China's Inter-bank Bond Market, as well as other applicable laws, regulations and normative documents /China	Governed by the Commercial Banking Law of the People's Republic of China, the Regulation Governing Capital of Commercial Banks (Provisional) and the Measures for Administration of Financial Bond Issuance in China's Inter-bank Bond Market, as well as other applicable laws, regulations and normative documents /China	Governed by the Commercial Banking Law of the People's Republic of China, the Regulation Governing Capital of Commercial Banks (Provisional) and the Measures for Administration of Financial Bond Issuance in China's Inter-bank Bond Market, as well as other applicable laws, regulations and normative documents /China	Governed by the Commercial Banking Law of the People's Republic of China, the Regulation Governing Capital of Commercial Banks (Provisional) and the Measures for Administration of Financial Bond Issuance in China's Inter-bank Bond Market, as well as other applicable laws, regulations and normative documents /China	Governed by the Commercial Banking Law of the People's Republic of China, the Regulation Governing Capital of Commercial Banks (Provisional) and the Measures for Administration of Financial Bond Issuance in China's Inter-bank Bond Market, as well as other applicable laws, regulations and normative documents /China
	Regulatory treatment					
4	Including: Transition arrangement of Regulation Governing Capital of Commercial Banks (Provisional)	Tier 2 capital	Tier 2 capital	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	Tier 2 capital	Tier 2 capital
6	Including: Eligible to the parent company/group level	Parent company/Group	Parent company/Group	Parent company/Group	Parent company/Group	Parent company/Group
7	Instrument type	Tier 2 capital instruments	Tier 2 capital instruments	Tier 2 capital instruments	Tier 2 capital instruments	Tier 2 capital instruments
8	Amount recognized in regulatory capital (in millions, as at the latest reporting date)	RMB45,000	RMB10,000	RMB60,000	RMB30,000	RMB10,000
9	Par value of instrument (in millions)	RMB45,000	RMB10,000	RMB60,000	RMB30,000	RMB10,000
10	Accounting treatment	Debt securities issued	Debt securities issued	Debt securities issued	Debt securities issued	Debt securities issued
11	Original date of issuance	24 April 2019	24 April 2019	22 September 2020	12 November 2020	12 November 2020
12	Perpetual or dated	Dated	Dated	Dated	Dated	Dated
13	Including: Original maturity date	26 April 2029	26 April 2034	24 September 2030	16 November 2030	16 November 2035
14	Issuer call (subject to prior supervisory approval)	Yes	Yes	Yes	Yes	Yes

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2020 (CONTINUED)

S/N	Main features of regulatory capital instrument	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds
15	Including: Optional call date, contingent call dates and redemption amount	26 April 2024, in full amount	26 April 2029, in full amount	24 September 2025, in full amount	16 November 2025, in full amount	16 November 2030, in full amount
16	Including: Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A
	Coupons/dividends					
17	Including: Fixed or floating dividend/coupon	Fixed	Fixed	Fixed	Fixed	Fixed
18	Including: Coupon rate and any related index	4.40%	4.69%	4.20%	4.15%	4.45%
19	Including: Existence of a dividend stopper	No	No	No	No	No
20	Including: Fully discretionary, partially discretionary or mandatory cancellation of coupons/dividends	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Including: Redemption incentive mechanism	No	No	No	No	No
22	Including: Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	No	No	No	No	No
24	Including: If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A	N/A
25	Including: If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A
26	Including: If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A
27	Including: If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A
28	Including: If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A
29	Including: If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A
30	Write-down feature	Yes	Yes	Yes	Yes	Yes

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS AT THE END OF 2020 (CONTINUED)

S/N	Main features of regulatory capital instrument	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds
31	Including: If write-down, write-down trigger(s)	Whichever occurs earlier: (i) CBIRC having decided that a write-down is necessary, 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	Whichever occurs earlier: (i) CBIRC having decided that a write-down is necessary, 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	Whichever occurs earlier: (i) CBIRC having decided that a write-down is necessary, 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	Whichever occurs earlier: (i) CBIRC having decided that a write-down is necessary, 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	Whichever occurs earlier: (i) CBIRC having decided that a write-down is necessary, 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	Partial or full write-down	Partial or full write-down	Partial or full write-down	Partial or full write-down	Partial or full write-down
33	Including: If write-down, permanent or temporary	Permanent write-down	Permanent write-down	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	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to depositor and general creditor, but senior to equity capital, other tier 1 capital instruments and hybrid capital bonds; pari passu with other subordinated debts that have been issued by the Issuer and are pari passu with the present bonds; and pari passu with other tier 2 capital instruments that will possibly be issued in the future and are pari passu with the present bonds	Subordinated to depositor and general creditor, but senior to equity capital, other tier 1 capital instruments and hybrid capital bonds; pari passu with other subordinated debts that have been issued by the Issuer and are pari passu with the present bonds; and pari passu with other tier 2 capital instruments that will possibly be issued in the future and are pari passu with the present bonds	Subordinated to depositor and general creditor, but senior to equity capital, other tier 1 capital instruments and hybrid capital bonds; pari passu with other subordinated debts that have been issued by the Issuer and are pari passu with the present bonds; and pari passu with other tier 2 capital instruments that will possibly be issued in the future and are pari passu with the present bonds	Subordinated to depositor and general creditor, but senior to equity capital, other tier 1 capital instruments and hybrid capital bonds; pari passu with other subordinated debts that have been issued by the Issuer and are pari passu with the present bonds; and pari passu with other tier 2 capital instruments that will possibly be issued in the future and are pari passu with the present bonds	Subordinated to depositor and general creditor, but senior to equity capital, other tier 1 capital instruments and hybrid capital bonds; pari passu with other subordinated debts that have been issued by the Issuer and are pari passu with the present bonds; and pari passu with other tier 2 capital instruments that will possibly be issued in the future and are pari passu with the present bonds
36	Non-compliant transitioned features	No	No	No	No	No
	Including: If yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A

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 in June 2012
CBIRC	China Banking and Insurance Regulatory Commission
CCXI	China Cheng Xin International Credit Rating Co., Ltd.
China Ratings	China Bond Rating Co., Ltd.
Global Systemically Important Banks/G-SIB	Banks undertaking key functions with global features in the financial markets as released by the Financial Stability Board
Golden Credit Rating	Golden Credit Rating International Co., Ltd.
ICBC (Argentina)	Industrial and Commercial Bank of China (Argentina) S.A.
ICBC (Asia)	Industrial and Commercial Bank of China (Asia) Limited
ICBC (Canada)	Industrial and Commercial Bank of China (Canada)
ICBC (Europe)	Industrial and Commercial Bank of China (Europe) S.A.
ICBC (Macau)	Industrial and Commercial Bank of China (Macau) Limited
ICBC (Thai)	Industrial and Commercial Bank of China (Thai) Public Company Limited
ICBC International	ICBC International Holdings Limited
ICBC Investment	ICBC Financial Asset Investment Co., Limited
ICBC Leasing	ICBC Financial Leasing Co., Ltd.
ICBC Standard Bank	ICBC Standard Bank PLC
ICBC Wealth Management	ICBC Wealth Management Co., Ltd.
ICBC-AXA	ICBC-AXA Assurance Co., Ltd.
LH Ratings	China Lianhe Credit Rating Co., Ltd.
PBC	The People's Bank of China
Securities and Futures Ordinance of Hong Kong	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Shanghai Brilliance Rating	Shanghai Brilliance Credit Rating & Investors Service Co, Ltd.
SEHK	The Stock Exchange of Hong Kong Limited
SSE	Shanghai Stock Exchange
the Bank/the Group/ICBC	Industrial and Commercial Bank of China Limited; or Industrial and Commercial Bank of China Limited and its subsidiaries

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