中国建设银行
China Construction Bank

China Construction Bank Corporation

Capital Adequacy Ratio Report 2018

CONTENTS

IMPORTANT NOTICE

China Construction Bank Corporation (the "Bank" or "CCB" or the "Group") warrants the authenticity, accuracy and completeness of all contents contained and information disclosed herein.

In accordance with the *Capital Rules for Commercial Banks (Provisional)* issued by the former China Banking Regulatory Commission (the "CBRC"), the Group is required to disclose information relevant to capital adequacy ratios on a quarterly, semi-annual and annual basis; however, the disclosed contents might vary based on different disclosure frequencies. The Group is scheduled to release a detailed annual capital adequacy ratio report and quarterly highlights starting from March 2013. The *Capital Adequacy Ratio Report 2018 of China Construction Bank Corporation* (the "Report") is prepared in accordance with the definition and rules of the capital adequacy ratios promulgated by the CBRC other than Accounting Standards, thus part of the information disclosed herein cannot be directly compared with the financial information as disclosed in the *Annual Report 2018 of China Construction Bank*, of which the disclosure of credit risk exposures are especially obvious.

China Construction Bank Corporation

March 2019

1 BACKGROUND

1.1 Profile

China Construction Bank Corporation, headquartered in Beijing, is a leading joint stock large commercial bank in China. Its predecessor, China Construction Bank, was established in October 1954. It was listed on Hong Kong Stock Exchange in October 2005 (stock code: 939) and the Shanghai Stock Exchange in September 2007 (stock code: 601939). At the end of 2018, the Bank’s market capitalisation reached US$207,179 million, ranking fifth among all listed banks in the world. The Group ranks second among global banks by Tier 1 capital.

The Bank provides customers with comprehensive financial services, such as personal banking, corporate banking, investment and wealth management. With 14,977 banking outlets and 345,971 staff members, the Bank serves hundreds of millions of personal and corporate customers. The Bank has commercial banking branches and subsidiaries in 29 countries and regions with nearly 200 commercial banking entities at various levels, and subsidiaries in different industries and sectors, including fund management, financial leasing, trust, insurance, futures, pension and investment banking.

1.2 Objectives

The Report is prepared in accordance with the *Capital Rules for Commercial Banks (Provisional)* issued by the CBRC, the *Circular of the China Banking Regulatory Commission on Printing and Distributing the Supporting Policy Documents for the Capital Regulation and Administration of Commercial Banks* and other relevant regulations. This report provides relevant qualitative and quantitative information, such as the calculation scope of the capital adequacy ratios, composition of capital, risk management framework, measurement and management of credit risk, market risk, operational risk and other risks, and remuneration, helping the investors and the public fully understand the Group’s capital, risk and remuneration management conditions.

2 CAPITAL ADEQUACY RATIO

2.1 Consolidation Scope

The Group calculates the capital adequacy ratios in accordance with the *Capital Rules for Commercial Banks (Provisional)* promulgated by the CBRC in June 2012. The scope for calculating capital adequacy ratios includes both the Bank's domestic and overseas branches and sub-branches, and subsidiaries of the financial institution type (insurance company excluded).

2.1.1 Differences between the Regulatory and Accounting Scopes of Consolidation

According to the regulatory requirements, the Group includes neither the industrial and commercial enterprises, nor the subsidiaries of the insurance type to the consolidated calculation scope of the capital adequacy ratios, resulting in certain differences between the regulatory and financial consolidation scopes. As at 31 December 2018, the differences between the Group's regulatory and accounting consolidation scopes are outlined in the table below.

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

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

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

2.1.2 General Information of the Invested Institutions

According to the regulatory requirements, different types of the invested institutions are given different treatments while calculating the consolidated capital adequacy ratios.

- With respect to the financial institution type of subsidiaries that are included in both the regulatory and accounting scopes of consolidation, the Group includes their capital and risk-weighted assets to the calculation scope of consolidated capital adequacy ratios.
- With respect to the insurance subsidiary that are outside the regulatory scope of consolidation but within the accounting scope of consolidation, the Group deducts the investment in such subsidiary from the capital while calculating the consolidated capital adequacy ratios.
- With respect to the industrial and commercial enterprise type of subsidiaries that are outside the regulatory scope of consolidation but within the accounting scope of consolidation, while calculating the consolidated capital adequacy ratios, the Group calculates the risk-weighted assets for the investment in such subsidiaries based on the regulatory risk weights.

- With respect to other financial institutions outside both the regulatory and accounting scopes of consolidation, the Group follows the threshold deduction method for the investments in these financial institutions. The portion of the investments exceeding the threshold is deducted from the capital. For the portion not deducted from the capital, the risk-weighted assets are calculated using the regulatory risk weights.
- With respect to other industrial and commercial enterprises outside both the regulatory and accounting scopes of consolidation, the Group calculates their risk-weighted assets based on the regulatory risk weights.

Table 2: Particulars of the top 10 invested institutions under the regulatory scope of consolidation

No.	Name of the invested institutions	Equity investment balance (in millions of RMB)	% of ownership directly held by the Bank	% of ownership indirectly held by the Bank	Place of registration
1	China Construction Bank (Asia) Corporation Limited	32,878	-	100%	Hong Kong, the PRC
2	CCB Financial Asset Investment Co.,Ltd.	12,000	100%	-	Beijing, the PRC
3	China Construction Bank (Brasil) Banco Múltiplo S/A	9,542	-	100%	São Paulo, Brasil
4	CCB Financial Leasing Corporation Limited	8,163	100%	-	Beijing, the PRC
5	CCB International (Holdings) Limited	4,320	-	100%	Hong Kong, the PRC
6	CCB Trust Co., Ltd.	3,409	67%	-	Anhui, the PRC
7	China Construction Bank (London) Limited	2,861	100%	-	London, United Kingdom
8	CCB Pension Management Co., Ltd.	1,955	85%	-	Beijing, the PRC
9	China Construction Bank (Europe) S.A.	1,629	100%	-	Luxembourg
10	Sino-German Bausparkasse Corporation Limited	1,502	75.1%	-	Tianjin, the PRC
Total		**78,259**			

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

Table 3: Particulars of the top 10 invested institutions subject to deduction treatment

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

1. Invested institutions subject to deduction treatments refer to capital investment which shall be fully deducted or meet the threshold deductions while calculating the eligible capitals.

2.2 Capital Adequacy Ratio

As at 31 December 2018, given relevant rules during the parallel period, the Group's total capital ratio, Tier 1 ratio and Common Equity Tier 1 ratio, which were calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)*, were 17.19%, 14.42% and 13.83%, respectively, and were in compliance with the regulatory requirements. The total capital ratio, Tier 1 ratio and Common Equity Tier

1 ratio increased by 1.69, 0.71 and 0.74 percentage points respectively compared with those as at 31 December 2017.

The increase in the Group's capital adequacy ratios was mainly attributable to the following three factors. Firstly, the profits maintained steady growth. Secondly, the Group promoted the intensive capital development, reinforced the capital-centred planning and incentive and restraint mechanism, optimised the business structure and strengthened the refined management of capital, thus effectively reducing inefficient and invalid capital occupation and raising the efficiency of capital utilisation. Thirdly, the Group issued Tier 2 capital bonds with an amount of RMB83 billion in China, further enhancing its capital strength.

Table 4: Capital adequacy ratios

(In millions of RMB, except percentages)	As at 31 December 2018		As at 31 December 2017	
	The Group	**The Bank**	**The Group**	**The Bank**
Capital adequacy ratios calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)*[1]				
Capital after regulatory adjustments:				
Common Equity Tier 1 capital	1,889,390	1,766,840	1,691,332	1,579,469
Tier 1 capital	1,969,110	1,838,956	1,771,120	1,652,142
Total capital	2,348,646	2,215,308	2,003,072	1,881,181
Capital adequacy ratios:				
Common Equity Tier 1 ratio[2]	13.83%	13.74%	13.09%	12.87%
Tier 1 ratio[2]	14.42%	14.30%	13.71%	13.47%
Total capital ratio[2]	17.19%	17.22%	15.50%	15.33%
Capital adequacy ratios calculated in accordance with the *Measures for the Management of Capital Adequacy Ratios of Commercial Banks*				
Core capital adequacy ratio[3]	12.89%	12.83%	12.38%	12.31%
Capital adequacy ratio[3]	16.37%	16.14%	15.40%	15.11%

1. Since the 2014 Half-Year Report, the Group has calculated capital adequacy ratios simultaneously with advanced approaches and other approaches for capital measurement, and complied with the relevant capital floors.
2. Common Equity Tier 1 ratio, Tier 1 ratio and total adequacy ratio are the ratios of Common Equity Tier 1 capital regulatory adjustments, Tier 1 capital after regulatory adjustments and total capital after regulatory adjustments to the risk-weighted assets, respectively.
3. Core capital adequacy ratio and capital adequacy ratio are the ratios of the common equity capital after regulatory adjustments and total capital after regulatory adjustments to the risk-weighted assets, respectively.

2.3 Regulatory Capital Shortfall of Consolidated Subsidiaries

As at the end of December 2018, financial institutions, of which the Bank holds majority of the equity or owns the control rights, had no regulatory capital shortfall in accordance with the *Capital Rules for Commercial Banks (Provisional)* and supporting policies issued by CBRC or local regulatory requirements.

2.4 Restrictions on Intragroup Transfer of Capital

In 2018, none of the Group's overseas subsidiaries experienced significant restrictions on transfer of capital such as capital increase, mergers & acquisitions and payment of dividends.

3 CAPITAL MANAGEMENT

3.1 Approaches and Procedures of Internal Capital Adequacy Assessment

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

3.2 Capital Planning and Capital Adequacy Ratio Management Plan

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

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

3.3 Overview of Capital Composition

3.3.1 Composition of Capital

The following table shows the information related to the Group's composition of capital.

Table 5: Composition of capital

(In millions of RMB)	As at 31 December 2018	As at 31 December 2017
Common Equity Tier 1 capital		
Qualifying common share capital	250,011	250,011
Capital reserve[1]	134,511	109,968
Surplus reserve	223,231	198,613
General reserve	279,627	259,600
Undistributed profits	989,113	883,184
Non-controlling interest given recognition in Common Equity Tier 1 capital	2,744	3,264
Others[2]	19,836	(4,256)
Regulatory adjustments for Common Equity Tier 1 capital		
Goodwill[3]	2,572	2,556
Other intangible assets (excluding land use right)[3]	3,156	2,274
Cash-flow hedge reserve from items that are not measured at fair value	53	320
Investments in common equity of financial institutions being controlled but outside the scope of consolidation	3,902	3,902
Additional Tier 1 capital		
Directly issued qualifying additional Tier 1 instruments including related premium	79,636	79,636
Non-controlling interest given recognition in Additional Tier 1 capital	84	152
Tier 2 capital		
Directly issued qualifying Tier 2 instruments including related premium	206,615	138,848
Provisions in Tier 2	172,788	92,838
Non-controlling interest given recognition in Tier 2 capital	133	266
Common Equity Tier 1 capital after regulatory adjustments[4]	**1,889,390**	**1,691,332**
Tier 1 capital after regulatory adjustments[4]	**1,969,110**	**1,771,120**
Total capital after regulatory adjustments[4]	**2,348,646**	**2,003,072**

1. "Capital reserve" no longer includes investment revaluation reserve since the end of the reporting period.
2. "Others" include other comprehensive income at the end of the reporting period.
3. Both balances of goodwill and other intangible assets (excluding land use right) are the net amounts after deducting relevant deferred tax liabilities.
4. Common Equity Tier 1 capital after regulatory adjustments is calculated by netting off the corresponding deduction items from the Common Equity Tier 1 capital. Tier 1 capital after regulatory adjustments is calculated by netting off the corresponding deduction items from the Tier 1 capital. Total capital after regulatory adjustments is calculated by netting off the corresponding deduction items from the total capital.

3.3.2 Thresholds for Deduction and Caps on the Inclusion of Provisions

As at 31 December 2018, neither the Group's capital investments in financial institutions outside the regulatory scope of consolidation, nor other net deferred tax assets that rely on the Bank's future profitability exceeded the thresholds; therefore, both of them were not required to be deducted from the corresponding capital. The following table shows relevant information of thresholds for deduction.

Table 6: Thresholds for deduction

(In millions of RMB)	As at 31 December 2018			
Items applicable to threshold deduction approach	**Amount**	**Capital deduction threshold**		**Amount below thresholds for deduction**
		Item	**Amount**	
Non-significant investments in the capitals of financial institutions outside the regulatory scope of consolidation	37,101	10% of Common Equity Tier 1 capital after regulatory adjustments[1]	188,939	151,838
Common Equity Tier 1 capital	4,211			
Additional Tier 1 capital	-			
Tier 2 capital	32,890			
Significant investments in the Common Equity Tier 1 capital of financial institutions outside the regulatory scope of consolidation	111	10% of Common Equity Tier 1 capital after regulatory adjustments[2]	188,939	188,828
Other deferred tax assets that rely on the Bank's future profitability (net of related tax liability)	57,464		188,939	131,475
Amounts of significant investments in the Common Equity Tier 1 capital of financial institutions outside the regulatory scope of consolidation and other deferred tax assets that rely on the Bank's future profitability below the above thresholds for deduction	57,575	15% of Common Equity Tier 1 capital after regulatory adjustments[3]	283,408	225,833

1. Common Equity Tier 1 capital after regulatory adjustments is calculated by netting off the full deduction items from the Common Equity Tier 1 capital.
2. Common Equity Tier 1 capital after regulatory adjustments is calculated by netting off the full deduction items and the amounts exceeding the 10% recognition cap of the non-significant investments in financial institutions outside the regulatory scope of consolidation in Common Equity Tier 1.
3. Common Equity Tier 1 capital after regulatory adjustments is calculated by netting off the full deduction items and the amounts exceeding the 10% recognition caps of the non-significant and significant investments in the common equity Tier 1 of financial institutions outside the regulatory scope of consolidation and other deferred tax assets relying on the Bank's future profitability.

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

(In millions of RMB)		As at 31 December 2018
Measurement approach	**Item**	**Balance**
Uncovered by internal ratings-based approach	Excess of provisions	24,082
	Caps on the inclusion of provisions in Tier 2 capital	51,005
	Amount below the caps if not reach the caps	26,923
	Provisions eligible for inclusion in Tier 2 capital	24,082
Covered by internal ratings-based approach	Excess of provisions	189,957
	Caps on the inclusion of provisions in Tier 2 capital	148,706
	Amount below the caps if not reach the caps	-
	Provisions eligible for inclusion in Tier 2 capital	148,706

3.3.3 Changes in Qualifying Common Share Capital

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

3.3.4 Significant Capital Investments

With the approval of the Ministry of Finance, the Bank sought to transfer all its equity interests in 27 rural banks by listing them on Beijing Financial Assets Exchange in June 2018. In August 2018, the Bank entered into equity transfer agreements with the transferees, Bank of China Limited and Fullerton Financial Holdings Pte Ltd. With the approval of CIBRC and local regulators of the 27 rural banks, the equity transfer as a whole was completed in December 2018. The transfer of these equity interests enables the Group to more efficiently manage and allocate its resources, refocus its strengths, and leverage fintech and product and service innovation, to be better positioned to promote the economic development in relation to “agriculture, farmers and rural areas”.

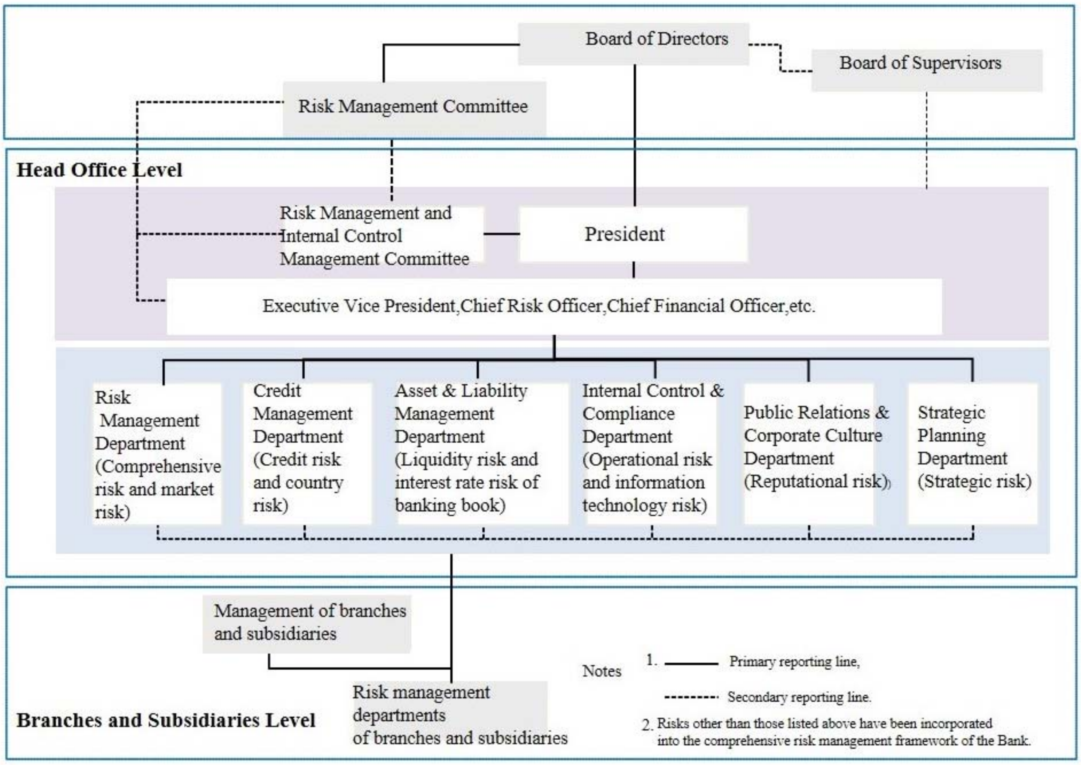
Upon consideration and approval by the strategy development committee of Board of the Bank and approval by the chairman of the Board, the Bank signed the *Agreement on the Sponsors of the National Financing Guarantee Fund Co., Ltd.* in July 2018, undertaking a capital commitment of RMB3 billion to the National Financing Guarantee Fund Co., Ltd. Please refer to the announcement of the Bank published on 31 July 2018 for details. Under approval by CBIRC, the Bank has completed the initial capital contribution of RMB0.75 billion on 23 November 2018.

Upon consideration and approval by the Board of the Bank in November 2018, the Bank intended to establish a wholly-owned subsidiary, CCB Wealth Management Co., Ltd., with the capital contribution of no more than RMB15 billion. Please refer to the announcement of the Bank published on 16 November 2018 for details. The investment was approved by CBIRC in December 2018.

4 RISK MANAGEMENT

4.1 Risk Management Framework

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



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

Chief Risk Officer of the Bank assists the President with the corresponding risk management work within designated responsibilities. Risk management department is the leading management department responsible for the Group's comprehensive risk management, and its subordinate department, market risk management department takes the lead in market risk management. Credit management department is the leading management department responsible for the overall credit risk management and country risk management. Asset & liability management department is the leading management department responsible for the management of liquidity risk and interest rate risk of banking book. Internal control & compliance department is the leading management department responsible for operational risk and information technology risk management. Public relations & corporate culture department is the leading management department responsible for reputational risk management. Strategic planning department is the leading management department responsible for strategic risk management. Other specialised departments are responsible for other respective risks.

4.2 Risk-Weighted Assets

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

Table 8: Risk-weighted assets

(In millions of RMB)	**As at 31 December 2018**	**As at 31 December 2017**
Credit risk-weighted assets	**12,473,529**	**11,792,974**
Covered by the internal ratings-based approach	8,369,011	8,166,348
Uncovered by the internal ratings-based approach	4,104,518	3,626,626
Market risk-weighted assets	**120,524**	**94,832**
Covered by the internal models approach	72,578	50,734
Uncovered by the internal models approach	47,946	44,098
Operational risk-weighted assets	**1,065,444**	**1,032,174**
Additional risk-weighted assets due to the application of capital floor	**-**	**-**
Total	**13,659,497**	**12,919,980**

5 CREDIT RISK

5.1 Credit Risk Management

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its obligation or commitment to the Bank.

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

The Bank develops the management policies for credit risk based on the development strategies and risk appetites, including:

- Industry policies: strictly implement the macroeconomic and industry policies, comply with the national trend of economic structure adjustment, keep pace with implementation of major national strategies, support traditional industry upgrading and enterprise technological innovation, comprehensively promote green financial services and initiatives, guide the whole Bank to proactively adjust the industry structure, optimise and improve the industry policies and credit arrangement through refining the industry classification management, and effectively guard against the systematic and concentration risk of industry.

- Customer policies: based on the national industry policies, the risk appetite of the Bank, as well as the distinctive risk characteristics of industry customers, specify the acceptance baseline and classification standards for customers from different industries and enhance the customer selections; adopt differentiated credit policy arrangements for financial service needs of different customer bases to improve comprehensive contribution by customers.

- Regional policies: according to the state regional development strategy, the development strategy of important regions and the economic characteristics of various regions, and fully taking into account the resource availability, market environment, market potentials and management foundation of the regions where the branches are located, specify the regional differentiated policies.

- Product policies: excavate customers' needs, focus on capital saving, consolidate traditional advantageous products, increase the proportions of products occupied with low capital and high profitability.

The Bank's credit risk management process comprises a series of comprehensive and timely risk management activities, such as risk identification, risk measurement, risk monitoring, risk mitigation and control and risk report, capable of implementing the specified risk appetites and strategic targets, and effectively maintaining the sound operation and sustainable development of the Bank. This process is aligned with the risk management culture of the Bank.

- Risk identification: identify the credit risk in the products and businesses, and give attentions to the relevance between the credit risk and other risks to prevent other risks from resulting in credit risk loss events.

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

In 2018, facing the complex and changing economic environment and increasingly fierce market competition, the Group made uncompromising efforts in maintaining its risk management standards, and continued to strengthen its capabilities in comprehensive credit risk management, precise credit structure control capacity and delicacy management capacity for the whole process. In the course of concretely supporting the real economy, the Group continued to optimise its credit structure, strengthen credit basis management, perfect the normalization and long-acting management mechanism of credit, increase efforts in mitigating credit risks, and remain stable in its asset quality.

5.2 Credit Risk Exposure

5.2.1 Overview of Credit Risk Exposure

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

Table 9: Credit risk exposure

(In millions of RMB)	As at 31 December 2018		As at 31 December 2017	
	Using the internal ratings-based approach	**Not using the internal ratings-based approach[1]**	**Using the internal ratings-based approach**	**Not using the internal ratings-based approach[1]**
On and off-balance sheet credit risk exposures	**12,646,709**	**12,318,868**	**12,278,430**	**11,796,402**
Corporate exposure	7,013,594	1,886,729	7,262,022	2,105,936
Sovereign exposure	-	4,158,495	-	3,645,006
Financial institution exposure	-	2,714,098	-	2,264,747
Retail exposure	5,633,115	604,413	5,016,408	516,905
Equity exposure	-	20,295	-	17,026
Securitisation exposure	-	50,616	-	15,523
Other exposures	-	2,884,222	-	3,231,259
Counterparty credit risk exposure	**-**	**120,070**	**-**	**152,608**
Total	**12,646,709**	**12,438,938**	**12,278,430**	**11,949,010**

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

5.2.2 Overdue and Non-Performing Loans

Overdue loans

Overdue loans represent loans of which the whole or part of the principal or interest are overdue by 1 or more days. As at the end of 2018, the Group's overdue loans (under the accounting scope of consolidation) were RMB175,721 million, an increase of RMB9,849 million compared to the beginning of the year.

Non-performing loans (NPLs)

The Group adopts a loan risk classification approach to monitor the loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their risk level. Substandard, doubtful and loss loans are considered as NPLs and advances.

Since the beginning of the year, the Group has continued its concrete efforts in optimising its credit portfolio structure, comprehensively improved its management of expected risk exposures, strengthened risk prevention and mitigation, and enhanced the effectiveness and efficiency of NPL disposal. As a result, credit asset quality continued to be stable. As at the end of 2018, the Group's NPLs (under the accounting scope of consolidation) were RMB200,881 million, an increase of RMB8,590 million compared to the beginning of the year.

5.2.3 Allowances for Impaired Loans

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

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

The Group's method of measuring expected credit losses of financial instruments reflects the following elements: (i) unbiased probability-weighted average amount determined by evaluating a range of possible outcomes; (ii) the time value of money; and (iii) reasonable and evidence-based information about past events, current conditions, and future economic forecasts that can be obtained without unnecessary additional costs or efforts at the balance sheet date.

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

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

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

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

The Group always adhered to the prudent principle by fully considering the impact of changes in the external environment including macro economy and government control policies on credit asset quality, and made full allowances for impairment losses on loans and advances to customers. As at the end of 2018, the Group's allowances for impairment losses on loans and advances measured at amortised cost (under the accounting scope of consolidation) were RMB417,623 million. In addition, the allowances for impairment losses on loans and advances at fair value through other comprehensive income were RMB946 million.

5.3 Credit Risk Measurement

5.3.1 Internal Ratings-Based Approach

CBRC carried out pre-evaluations, on-site inspections and acceptance reviews of the Group's internal ratings-based approach implementation from 2010 to 2012, and approved the Group's adoption of the IRB approach in April 2014. The CBRC considered that the Group had established a relatively complete internal rating management structure, and its policies covered risk identification, risk measurement, risk mitigation, model verification, internal audit, capital management, etc. With a standardised rating process, the Group's model development methodology and parameter estimations were basically in compliance with the regulatory requirements. With the establishment of data quality control system and continuously intensified control of data inputting system, the Group steadily improved its data quality, and set up a relatively comprehensive model with the support of the IT system. Internal ratings-based results were thoroughly applied in risk management policy making, credit approval, credit limit monitoring, reporting, economic capital, risk-adjusted return on capital (RAROC), etc., and used as an important reference and source of risk appetite and performance assessment.

Governance structure

The Group defines clear roles for implementation and governance structure of internal rating systems to ensure effective implementation and complete development of internal rating systems under the structure of comprehensive risk management.

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

Internal rating systems

Based on the features of different customers within the scope of non-retail exposures, the Group established refined rating models which are suitable for large and medium sized corporate customers, small corporate customers, public institution customers, specialised lending customers, etc. to measure customers' probability of default (PD). A combination of qualitative and quantitative methods is used for the modelling, and the modelling data meets the requirements of "no less than 5 years" formulated by the *Capital Rules for Commercial Banks (Provisional)* based on the Group's adequate historical data. At present, the internal rating system of non-retail customers has basically covered all non-retail customers. Meanwhile, the Group has established a sophisticated measurement system for retail risks, which covers the whole life cycles of three types of retail exposures, including retail customer admission, credit approval and business management, and is able to measure the future risk status of retail customers as well as individual loans.

Definitions of key risk parameters

The definitions of key risk parameters such as probability of default (PD), loss given default (LGD) and exposure at default (EAD) are in accordance with those in the *Capital Rules for Commercial Banks (Provisional)*. PD refers to the default possibility of a debtor/an individual loan in the coming year. LGD refers to the ratio of loss amount due to default to exposure at default, i.e. the percentage of loss to total exposure. The LGD is measured based on economic losses, both direct and indirect, taking into account of time value of recovered amount. EAD refers to the total exposures expected on and off-balance sheet at default of a debtor, including used credit balance, overdue interest, expected withdrawal of unused credit limit and possible expenses.

Application of internal ratings

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

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

Table 10: Non-retail exposures under the IRB approach

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

(In millions of RMB)					As at 31 December 2017
PD grade	**EAD**	**Average PD**	**Weighted average LGD**	**Risk-weighted assets**	**Average risk weight**
Grade 1	1,224	0.04%	45.00%	194	15.85%
Grade 2	66,916	0.14%	45.00%	24,084	35.99%
Grade 3	104,811	0.19%	45.00%	44,493	42.45%
Grade 4	163,418	0.25%	44.33%	79,719	48.78%
Grade 5	1,103,867	0.59%	43.39%	792,113	71.76%
Grade 6	1,165,736	0.70%	40.90%	840,473	72.10%
Grade 7	1,350,969	0.93%	41.37%	1,074,574	79.54%
Grade 8	1,446,579	1.23%	41.38%	1,250,519	86.45%
Grade 9	601,040	1.63%	38.85%	523,960	87.18%
Grade 10	489,810	2.15%	39.67%	463,742	94.68%
Grade 11	179,849	2.85%	36.35%	164,560	91.50%
Grade 12	128,330	4.29%	38.69%	146,546	114.20%
Grade 13	107,235	5.69%	38.15%	131,950	123.05%
Grade 14	71,504	7.49%	39.77%	99,726	139.47%
Grade 15	69,842	12.99%	36.86%	110,158	157.73%
Grade 16	34,915	22.99%	39.32%	67,546	193.46%
Grade 17	18,316	41.99%	40.12%	35,729	195.06%
Grade 18	13,976	99.99%	40.96%	7	0.05%
Grade 19	143,685	100.00%	42.98%	17,274	12.02%
Total	**7,262,022**			**5,867,367**	

Table 11: Retail exposures under the IRB approach

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

(In millions of RMB)	As at 31 December 2017				
Category of retail exposures	**EAD**	**Average PD**	**Weighted average LGD**	**Risk-weigh ted assets**	**Average risk weight**
Individual residential mortgage	4,201,956	1.32%	23.74%	1,101,728	26.22%
Qualified revolving retail	556,762	1.66%	37.33%	58,333	10.48%
Other retails	257,690	4.39%	27.36%	71,720	27.83%
Total	**5,016,408**			**1,231,781**	

5.3.2 Regulatory Weighting Approach

In terms of exposures not covered by the IRB approach, the Group determines related applicable risk weights and calculates credit risk-weighted assets in accordance with regulations related to regulatory weighting approach in the *Capital Rules for Commercial Banks (Provisional)*. The following table shows the information related to exposures covered by regulatory weighting approach broken down by entities and weights as at 31 December 2018.

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

(In millions of RMB)	As at 31 December 2018		As at 31 December 2017	
	Exposure	**Exposure after mitigation**	**Exposure**	**Exposure after mitigation**
On-balance sheet credit risk exposures	**12,014,702**	**11,427,550**	**11,367,283**	**10,516,722**
Cash and cash equivalents	2,479,960	2,479,960	2,913,792	2,913,792
Claims on central governments and central banks	1,424,641	1,424,641	1,187,334	1,187,334
Claims on public sector entities	2,727,825	2,679,238	2,450,281	2,364,195
Claims on domestic financial institutions	2,341,536	2,209,310	1,930,805	1,727,085
Claims on financial institutions registered in other countries/regions	75,840	75,840	49,974	49,974
Claims on ordinary enterprises and public institutions	1,573,717	1,178,561	1,819,933	1,270,324
Claims on qualified micro and small enterprises	326,616	323,672	164,209	159,545
Claims on individual customers	582,347	574,108	501,330	494,848
Equity investments	28,608	28,608	12,714	12,714
Securitisation	49,379	49,379	14,757	14,757
Other on-balance sheet items	404,233	404,233	322,154	322,154
Off-balance sheet credit risk exposures	**245,070**	**160,515**	**380,764**	**308,987**
Counterparty credit risk exposure	**120,070**	**113,287**	**152,608**	**152,608**
Total	**12,379,842**	**11,701,352**	**11,900,655**	**10,978,317**

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

(In millions of RMB)	As at 31 December 2018		As at 31 December 2017	
Risk weights	**Exposure**	**Exposure after mitigation**	**Exposure**	**Exposure after mitigation**
0%	4,687,647	4,687,647	4,929,731	4,929,731
2%	36,761	36,761	44,555	44,555
20%	3,347,647	3,231,821	2,845,324	2,625,583
25%	802,125	794,984	575,552	574,948
50%	69,794	69,794	66,718	66,718
75%	868,707	856,565	621,844	607,548
100%	2,431,923	1,888,542	2,745,462	2,057,765
250%	61,744	61,744	48,328	48,328
400%	12,802	12,802	1,540	1,540
1250%	60,692	60,692	21,601	21,601
Total	**12,379,842**	**11,701,352**	**11,900,655**	**10,978,317**

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

(In millions of RMB)	As at 31 December 2018	As at 31 December 2017
	Exposure	**Exposure**
Investments in capital instruments issued by other commercial banks	19,334	2,460
Common Equity Tier 1 Capital	2,212	1,677
Additional Tier 1 Capital	-	-
Tier 2 Capital	17,122	783
Investments in equity of industrial and commercial enterprises	24,328	9,927
Non-self-use real estate	1,400	1,389

5.3.3 Risk Mitigation Management

Management policies and processes

In accordance with the requirements under the *Capital Rules for Commercial Banks (Provisional)* and through the active formulation and improvement of relevant policies and systems, the Bank has developed a completed and integral policy system, and defined the baselines for the risk mitigation management. It specifies the Bank's basic management requirements and policy baselines for standardising the collaterals, such as requirements for eligible collaterals, classification, pledge and mortgage rate, receipt and examination, value assessment, establishment and modification of rights, warrant management, monitoring, return and disposal, information input and data maintenance.

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

Major collateral types

In terms of the categories of collaterals, the collaterals accepted by the Bank are mainly classified into four types, namely financial collaterals, receivables, commercial and residential properties, and other collaterals. Financial collaterals include cash and cash equivalents, precious metals, debt securities, discounted bills, stocks/funds, insurance policy, principal-guaranteed wealth management products, etc.; receivables include receivables held for trading, road tolling rights, rent receivables, etc.; commercial and residential properties include commercial properties, residential properties, commercial and residential land use rights, etc.; while other collaterals comprise current assets, resources, construction in progress, mining rights, intellectual property right and forest ownership, etc.

Collateral valuation policies and processes

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

The Bank requires to perform dynamic re-valuations and monitor the collaterals with varied frequencies based on collaterals' categories and value fluctuation characteristics. Re-valuations are performed by the collateral management team under Credit Management Department. The post-lending examination and 12-level risk classification should be carried out at least on a quarterly basis to examine and verify the collaterals. In case of any forms change of collaterals or any deterioration in collaterals' market prices or other adverse circumstances, re-valuations are required to be duly performed to reflect collaterals' fair values.

Guarantors

According to the characteristics of guarantors, the Bank classifies the acceptable guarantors into general corporate and institutions, professional guarantee companies, natural persons. The general corporate and institution guarantor comprises sovereigns, public sector entities, Multilateral Development Banks (MDBs), other banks and other legal persons and organisations. The professional guarantee company refers to a limited liability company or an incorporated company legally established and engaged in financing guarantee businesses. The natural person guarantors refer to those having full capacity for civil conduct and certain debt repaying capacity as a guarantor. Natural persons are only considered as supplementary guarantors unless they are exclusively designated as the only guarantors bond by specific business rules.

Regulatory measurement

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

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

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

(In millions of RMB)	As at 31 December 2018			As at 31 December 2017		
Exposure category	**Exposures covered by financial collaterals**	**Exposures covered by other eligible collaterals**	**Exposures covered by guarantees**	**Exposures covered by financial collaterals**	**Exposures covered by other eligible collaterals**	**Exposures covered by guarantees**
Corporate exposures	225,132	657,530	544,940	467,641	747,905	474,073
Total	**225,132**	**657,530**	**544,940**	**467,641**	**747,905**	**474,073**

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

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

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

(In millions of RMB)	As at 31 December 2017						
	Cash and cash equivalents	**The Central Government, PBOC, Chinese policy banks**	**Domestic public sector entities**	**Domestic commercial banks**	**Central governments and central banks of other countries or regions**	**Commercial banks and public sector entities registered in other countries or regions**	**MDBs, Bank for International Settlements and IMF**
On-balance sheet credit risk exposures	341,188	304,385	-	204,877	42	68	-
Off-balance sheet credit risk exposures	47,869	179	-	23,730	-	-	-
Counterparty credit risk exposure	-	-	-	-	-	-	-
Total	**389,057**	**304,564**	**-**	**228,607**	**42**	**68**	**-**

5.4 Securitisation

5.4.1 Overview of Securitisation Activity

As originator and loan servicer

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

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

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

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

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

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

The degree of credit risk of securitised assets transferred out by the Bank to other entities is determined by external third-party independent accountants in light of the transaction structures of each securitisation project and the testing results of the risk-reward transfer model, among other considerations. The main risk assumed by the Bank is the possible loss arising from senior and subordinated securities retained by the Bank as per regulatory requirements, and the possible loss arising from cash advance facilities as a result of advance payment of disposal expenses by the Bank as the loan servicer in non-performing asset securitisation projects.

The Bank mainly acts as the originator and loan servicer in the securitisation of credit assets.

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

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

The table below presents all the securitisation products issued by the Bank as originator and the corresponding external credit rating agencies.

Table 17: External credit rating agencies for securitisation products[1]

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

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

Jianxin 2018-1 non-performing asset-backed securities	China Bond Rating Co., Ltd. China Lianhe Credit Rating Co., Ltd.
Jianxin 2018-2 non-performing asset backed securitisation	China Bond Rating Co., Ltd. China Lianhe Credit Rating Co., Ltd.
Jianxin 2018-3 non-performing asset-backed securities	China Bond Rating Co., Ltd. China Cheng Xin International Credit Rating Co., Ltd. (CCXI)
Jianxin 2018-4 non-performing asset backed securitisation	China Bond Rating Co., Ltd. China Cheng Xin International Credit Rating Co., Ltd. (CCXI)
Jianxin 2018-5 non-performing asset backed securitisation	China Bond Rating Co., Ltd. China Lianhe Credit Rating Co., Ltd.
Jianxin 2018-6 non-performing asset-backed securities	China Bond Rating Co., Ltd. China Cheng Xin International Credit Rating Co., Ltd. (CCXI)
Jianyuan-Feichi 2018-1 credit asset-backed securities	China Bond Rating Co., Ltd. China Lianhe Credit Rating Co., Ltd.
Feichi-Jianrong 2018-1 credit asset-backed securities	China Bond Rating Co., Ltd. China Lianhe Credit Rating Co., Ltd.
Feichi-Jianrong 2018-2 credit asset-backed securities	China Bond Rating Co., Ltd. China Cheng Xin International Credit Rating Co., Ltd. (CCXI)
Feichi-Jianrong 2018-3 credit asset-backed securities	China Bond Rating Co., Ltd. China Lianhe Credit Rating Co., Ltd.
Feichi-Jianrong 2018-4 credit asset-backed securities	China Bond Rating Co., Ltd. China Cheng Xin International Credit Rating Co., Ltd. (CCXI)
Feichi-Jianrong 2018-5 credit asset-backed securities	China Bond Rating Co., Ltd. China Lianhe Credit Rating Co., Ltd.

As investor

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

5.4.2 Accounting Policies

The Group securitises certain loans, generally by selling them to structured entities, which then issue securities to investors. The Group retains interests in securitised financial assets in the forms of credit enhancements, subordinated bonds or other residual interests ("retained interests").

(I) Derecognition of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

5.4.3 Securitisation Exposures

As at 31 December 2018, the Group's total securitisation exposures were RMB50,273 million, and details and the distribution of underlying assets where the Group acted as the originator are shown as follows:

Table 18: Securitisation exposures

(In millions of RMB)	As at 31 December 2018		As at 31 December 2017	
	Traditional	**Synthetic**	**Traditional**	**Synthetic**
As originator[1]	49,259	-	12,892	-
As investor	1,014	-	2,306	-
Total	**50,273**	**-**	**15,198**	**-**

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

Table 19: Securitisation underlying assets as originator[1]: non-performing assets, overdue and loss information

(In millions of RMB)	As at 31 December 2018			
Type of underlying assets	**Balance of underlying assets[2]**	**Total non-performing assets**	**Total overdue assets**	**Losses recognised during the reporting period[3]**
Individual residential mortgage loans	314,535	5,549	6,772	-
Corporate credit assets	37,175	-	-	-
Non-performing credit card loans	12,482	12,482	12,482	-
Non-performing individual consumer loans	2,625	2,625	2,625	-
Non-performing individual commercial mortgage loans	756	728	734	-
Non-performing corporate loans	346	346	346	-
Total	**367,919**	**21,730**	**22,959**	**-**

1. This table provides the information with reference to the Group's unsettled securitisation at the end of reporting period as both originator and servicer.
2. The balance of underlying assets refers to the carrying amount of securitisation assets at the end of reporting period.
3. Losses recognised during the reporting period refers to the provisions for impairment and writing off aimed at the securitisation assets held by the Bank during the reporting period.

5.4.4 Measurement of Securitisation Risk

The Group's risk exposures of asset securitisation are measured by standardised approach, and the risk weights are determined by credit ratings issued by eligible external appraisal institutions recognised by the Bank and asset securitisation category. As at 31 December 2018, the Group's total capital requirement of asset securitisation reached RMB19,207 million.

5.5 Counterparty Credit Risk

In recent years, the Group has been making continuous improvement to the risk management system for counterparty credit risk (CCR), including strong management of financial market counterparties using counterparty lists and optimisation of the measurement parameters, processes, systems and management mechanisms for CCR management in light of the market and business changes and conditions. Continued efforts in 2018, including the optimisation and promotion of the CCR management components, improvement of the timeliness and accuracy of risk exposure measurement, streamlining of the straight-through operations across the front, middle and back office processes, significant improvement in automated risk management, and timely stress testing and early warning, provided solid support and safeguard to enable the Bank to adequately respond to the rapid market and business changes.

In order to support the development of the credit derivative market in China, hedge credit risks arising from the debt securities held, increase returns on investments and transactions, and develop new products, the Bank launched its credit risk mitigation instruments, all in the form of Credit Risk Mitigation Warrants (CRMWs) in 2018. As at 31 December 2018, the nominal amount of the Group's credit derivatives with CCR exposures was RMB100 million, including one purchase and four sale transactions.

For CCR related to position squaring in OTC derivatives transactions, the Bank enters into Credit Support Annex (CSA) agreements, which are under the International Swaps & Derivatives Association (ISDA) agreements, whenever necessary, and standardizes the processes for the receipt and payment of margin under the CSAs. For OTC derivatives transactions denominated in foreign currencies with certain counterparties, when the credit rating is downgraded, the Threshold and the Minimum Transfer Amounts for collaterals are adjusted in accordance with CSA.

The Group adopts the current exposure approach to measure the counterparty credit risk exposures and the regulatory weighting approach to measure the credit risk-weighted assets of the counterparties. The following table presents CCR exposures of the Group by product type as at 31 December 2018.

Table 20: Counterparty credit risk exposure by product classification

(In millions of RMB)	**As at 31 December 2018**	**As at 31 December 2017**
	Exposure	**Exposure**
Counterparty credit risks from OTC derivative transactions under the regulatory weighting approach	**76,342**	**108,053**
Interest rate contracts	2,272	1,876
Exchange rate and gold contracts	72,481	104,475
Equity contracts	-	29
Precious metals and other commodities contracts (excluding gold)	1,587	1,672
Credit derivative contracts	2	1
Counterparty credit risks from transactions with central counterparties	**36,761**	**44,555**
Counterparty credit risks from securities financing transactions	**6,967**	-
Total	**120,070**	**152,608**

6 MARKET RISK

6.1 Market Risk Management

Market risk is the risk of loss in respect of the Group's on and off-balance sheet activities, arising from adverse movements in market rates, including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk arises from both the Group's trading and banking book. A trading book consists of financial instruments and commodity positions held either with trading intent or in order to hedge other risks of the trading book. A banking book records those financial instruments and commodity positions which are not included in the trading book.

The market risk management of the Group aims at building a comprehensive risk management system of market risk management and transaction business throughout the Group, effectively identifying, measuring, controlling, monitoring and reporting market risk. By effectively operating and managing various market risks, the Group keeps competitive net interest spread and return on investment portfolio, and balances risk and return, further improving market competitiveness of the Bank.

The Group has constantly improved market risk management system. The Market Risk Management Department plays the leading role in formulating overall market risk management policies and rules, developing market risk measurement instruments, monitoring and reporting trading market risks and doing other daily management works. The Asset and Liability Management Department is responsible for the management of the market risk in the banking book, and for the management of the total volume and structure of assets and liabilities, for the purpose of addressing structural market risks. The Financial Market Department is responsible for the overall management of RMB and foreign currency investment portfolios, and the Financial Market Transaction Centre is responsible for conducting proprietary and customer-driven transactions, as well as implementing market risk management policies and rules. The Audit Department is responsible for regularly performing independent audits of the reliability and effectiveness of the processes constituting the risk management system.

In 2018, the Group, in line with the guideline for "comprehensive and active risk management", actively responded to external market changes, with the focus on preventing and mitigating key business risks. In pursuit of "market risk management on a Group basis, comprehensive risk management for investment and trading activities, and automated end-to-end risk management for trading activities", the Group further improved its management and control capabilities for trading business, trading products, trading processes, trading systems, counterparties and traders to minimize cross-systematic financial risks.

6.2 Market Risk Measurement

In 2014, the CBRC approved the Group to implement the advanced approach of capital management, including the use of the internal models approach to measure market risk. The following table shows the market risk capital requirements of the Group as at 31 December 2018.

Table 21: Market risk capital requirements

(In millions of RMB)	As at 31 December 2018	As at 31 December 2017
	Capital requirement	Capital requirement
Covered by the internal models approach	**5,806**	**4,059**
Uncovered by the internal models approach	**3,836**	**3,528**
Interest rate risk	1,305	1,061
Equity position risk	67	120
Foreign exchange risk	2,464	2,347
Commodity risk	-	-
Option risk	-	-
Total	**9,642**	**7,587**

The Group measures market risk using the Value-at-Risk (VaR) model. The VaR model is an approach to estimate potential losses that could occur on risk positions taken, due to movements in market interest rates, foreign exchange rates and other market prices within a specific timeframe and a fixed confidence interval. The Group calculates VaR and stressed VaR and conducts back-testing in compliance with the regulatory requirements. At the end of the reporting period, the number of back testing breaches fell within the yellow zone set by the CBRC, mainly due to movements in foreign exchange rates and interest rates, and no model anomalies had been identified. The following table shows the VaR and stressed VaR of the Group covered by the internal models approach.

Table 22: VaR, stressed VaR of the Group covered by the internal models approach

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

(In millions of RMB)	For the year ended 31 December 2017			
	Amount			
	Average	Maximum	Minimum	Period end
VaR	471	763	218	311
Stressed VaR	731	996	475	873

7 OPERATIONAL RISK

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

Operational risk management is a critical part of the Group’s comprehensive risk management. The aims of operational risk management are as follows: reduce the uncertainties of operational risk and control the risk within a reasonable range that is acceptable to the Bank; improve service efficiency, realise process optimisation and advance sound businesses development of the Bank; reduce management cost and increase income level; lower the impact of emergencies and ensure the normal and consistent operation of businesses.

The Group has established an operational risk management system with a cascaded protection named “Three Lines of Defence” as the core, among which each business department is the first defence line for guarding against operational risk. The business departments are the direct bearers and managers of operational risk and take important responsibility for identifying, assessing, monitoring and managing operational risk. Internal Control and Compliance Department, Risk Management Department and Legal Affairs Department are the second defence line, taking charge of coordinating, guiding, evaluating and monitoring activities of operational risk management in the first defence line. Audit Department is the third defence line for guarding against operational risk, taking charge of auditing, monitoring and evaluating the formation and implementation of operational risk management framework.

The process of the Group’s operational risk management includes risk identification, assessment, control/mitigation, monitoring and reporting. The Group identifies, assesses and monitors operational risks by using risk management tools such as operational risk loss data, operational risk self-assessment and key risk indicators; disperses, reduces and avoids operational risk through a series of control/mitigation methods such as system control, process control, behaviour monitoring, electronisation and insurance so as to adjust the risk to acceptable levels. Meanwhile, the Group has established a business continuity management system and promoted the establishment and drill of emergency plans to ensure the safe and consistent operation of businesses.

The Group has consistently pushed forward the implementation of the standardised approach for operational risk to meet external regulatory compliance requirements; put efforts in collection, review and statistical analysis of operational risk loss data, to improve the overall quality and maximise the value of loss data; selected key areas to carry out operational risk self-assessments, especially the identification and assessment of “fat-finger” risks, so as to enhance risk prevention and control capabilities; monitored and analysed key risk indicators to improve operational risk early warning capabilities; increased efforts in the establishment of emergency plans for key businesses of the “new generation” core system and related drills, and developed necessary systems to improve the capability in managing business emergencies, including interruptions and disruptions.

The Group is actively engaged in behavioural risk researches and studies. By benchmarking against regulatory requirements and best practices of industry leaders, the Group explores and studies solutions, potential applications of various tools and how to best manage its people's behavioural risks. At the same time, it makes solid efforts to increase the applications of video surveillance technology in the identification and early warning of behavioural risks, and study the use of remote monitoring centres to better manage over-the-counter violations and employee behavioural risks.

The Group adopts the standardised approach to measure the capital requirements of operational risk as approved by the CBRC. As at 31 December 2018, the Group's capital requirements of operational risk were RMB85,236 million.

8 OTHER RISKS

8.1 Equity Risk in the Banking Book

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

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

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

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

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

- With respect to other industrial and commercial enterprises outside both the regulatory and accounting scopes of consolidation, the Group calculates their risk-weighted assets based on the regulatory risk weights.

Table 23: Equity exposures in the banking book

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

(In millions of RMB)			As at 31 December 2017
Invested institution categories	**Publicly traded equity exposure**[1]	**Non-publicly traded equity exposure**[1]	**Unrealised potential risk gains and losses**[2]
Financial institutions	1,562	1,225	521
Non-financial institutions	1,540	8,387	305
Total	**3,102**	**9,612**	**826**

1. Publicly traded equity exposure is the equity exposure of invested institutions that are listed companies. Non-publicly traded equity exposure is the equity exposure of invested institutions that are unlisted companies.
2. Unrealised potential risk gains or losses are the portion of gains or losses that have been recognised in the balance sheet but not in the income statement.

8.2 Interest Rate Risk in the Banking Book

Interest rate risk is the risk of loss in the overall income and economic value of the banking book as a result of adverse movements in interest rates, term structure and other interest-related factors. The repricing risk and basis risk arising from mismatches in the term structure and pricing bases of assets and liabilities are the primary sources of interest rate risk for the Bank, while the yield curve risk and option risk carry relatively less impact.

To achieve effective management of its interest rate risk, the Group established its interest rate risk management framework, formulated corresponding management rules and policies in line with internal and external management requirements, and defined the roles, responsibilities and reporting lines of the Board, the senior management and related departments in interest rate risk management. The overall objective of the Bank’s interest rate risk management is to minimise the decrease of net interest income due to interest rate changes, while keeping interest rate risk within a tolerable range in accordance with its risk appetite and risk management capability.

The Group employed multiple methods to measure and analyse the interest rate risk in its banking book, including sensitivity gap analysis, net interest income sensitivity analysis and stress testing. Management suggestions were proposed through regular analysis reports, and relevant measures were taken in light of internal and external management requirements, to maintain the overall interest rate risk level within the set boundaries.

In 2018, the Group paid close attention to changes in the external interest rate environment, and reinforced dynamic risk monitoring and prediction. It timely adjusted the product portfolio and term structure of assets and liabilities to increase the net interest income and keep the net interest margin at a stable level. Meanwhile, the Group continued to optimise the transmission mechanism of its interest rate risk management, established consistent risk appetite at the Group level, and strengthened the interest risk limit management of its overseas branches and subsidiaries. In accordance with the latest regulatory requirements of the Basel Committee and the CIBRC on interest rate risk, it further improved the Bank's interest rate risk management system and improved the level of refinement from the aspects of interest rate risk measurement, monitoring and control. During the reporting period, the interest rate risk of the banking book of the Group remained stable on the whole, with various limits kept within their respective target levels.

9 REMUNERATION

9.1 Nomination and Remuneration Committee of the Board of Directors

The Bank's Nomination and Remuneration Committee consists of eight directors. Sir Malcolm Christopher McCarthy, independent non-executive director of the Bank, serves as chairperson of the Nomination and Remuneration Committee. Members include Ms. Feng Bing, Ms. Anita Fung Yuen Mei, Mr. Carl Walter, Mr. Zhang Qi, Mr. Chung Shui Ming Timpson, Mr. Kenneth Patrick Chung and Mr. Murray Horn. Among them, two are non-executive directors, and six are independent non-executive directors.

The primary responsibilities of the Nomination and Remuneration Committee include:

- formulating criteria and procedures for the selection and appointment of directors and senior management;
- proposing candidates for directors, presidents, chief audit officer, secretary to the Board and board committee members to the Board of Directors;
- reviewing the structure, number of members and composition of the Board of Directors (including aspects on expertise, knowledge and experience), and proposing suggestions on the adjustment of the Board of Directors to implement the corporate strategies;
- evaluating the performance of members of the Board of Directors;
- examining candidates for senior management nominated by the president;
- formulating development plans for senior management and back-up personnel for key positions;
- reviewing the remuneration management system submitted by the president;
- formulating performance evaluation measures for directors and senior management and submitting the measures to the Board of Directors for deliberation;
- organising performance evaluation of directors and senior management, proposing advice on the remuneration distribution plan for directors and senior management in accordance with the performance evaluation results and the diligence evaluation made by the Board of Supervisors and submitting to the Board of Directors for deliberation;
- proposing advice on the remuneration distribution plan for supervisors in accordance with the performance evaluation of the supervisors made by the Board of Supervisors and submitting the plan to the Board of Directors for deliberation;
- monitoring the implementation of the Bank's performance evaluation and remuneration systems; and
- other matters authorised by the Board of Directors.

In 2018, the Nomination and Remuneration Committee convened five meetings in total.

The remuneration of members of the Nomination and Remuneration Committee is disclosed in Remunerations of Directors, Supervisors and Senior Management in the 'Annual Report 2018 of China Construction Bank Corporation'.

9.2 Remuneration Policies

The Bank upholds its philosophy of standardising distribution order and building a harmonious distribution relationship and constantly improves intensive management in performance and remuneration, making due contribution to strategic development of the Bank.

The Bank's major allocation rules and other significant matters relating to remuneration management need to be proposed to the Nomination and Remuneration Committee of the Board for review and approval. Important proposals relating to remuneration allocation are required to be voted and approved by the shareholders' general meeting, or reported to the state competent authorities for approval and filing.

Remuneration and risks

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

The Bank brings performance remuneration's function of intensive and restraint into full play. It establishes the principle of assessment and allocation that encourages value creation, continues to implement frontline-oriented remuneration policy, and persists to favour frontline posts, sub-branch level and the posts which directly create value when determining remuneration distribution, thus providing incentives to employees to create extra values. The Bank strengthens remuneration management over overseas institutions and controlling subsidiaries and adheres to strategy of comprehensive operation of the Bank and overseas development. The Bank further consolidated performance assessment orientation, making remuneration match the performance. The Bank further standardised the management of welfare programs across the Bank to properly safeguard the employees' benefits. The Bank also established relevant remuneration reduction measures for staff that were facing disciplinary actions or other penalties due to violation of rules or dereliction of duty.

The remuneration for staff engaging in risk and compliance management is independent from the business areas they supervise, and has nothing to do with the performance evaluation of the business areas they supervise. Their performance objective is consistent with the risk control responsibilities they undertake.

Remuneration and performances

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

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

Flexible remuneration

Risk measurement factors are reflected in allocation of gross staff cost, allocation linked with staff cost in line of business and staff salary distribution. The Bank supports risk control behaviours, as well as the other behaviours that are consistent with the risk framework system and long-term financial indicator, and focuses on the ratio of fixed to flexible remuneration, in order to achieve an appropriate balance. The fixed salary portion can attract and keep skilled staff, while flexible remuneration can stimulate staff that have remarkable performance but prohibit excessive risk-taking, both of which support the Bank in realising its business strategies and targets within the controllable risk goals and risk management framework.

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

9.3 Remuneration of Senior Management

The remuneration standards of the Bank's directors, supervisors and senior management are implemented after the procedures of the corporate governance. The remuneration standards of chairman of the Board of Directors, the chairman of the

Board of Supervisors, the president and the vice president follow the state relevant policies.

The remuneration of directors, supervisors and senior management is disclosed in Remunerations for *Directors, Supervisors and Senior Management in the 'Annual Report 2018 of China Construction Bank Corporation'.*

APPENDIX: INFORMATION RELATED TO COMPOSITION OF CAPITAL

In accordance with the *regulatory requirements for the disclosure of information on capital composition of commercial banks* issued by CBRC, the following table shows the Group's composition of capital, minimum regulatory capital requirements, as well as their connections with the balance sheets under the regulatory scope of consolidation.

(In millions of RMB, except percentages)		Code	As at 31 December 2018	As at 31 December 2017
Common Equity Tier 1 capital:				
1	Qualifying common share capital	o	250,011	250,011
2	Retained earnings		1,491,971	1,341,397
2a	Surplus reserve	t	223,231	198,613
2b	General reserve	u	279,627	259,600
2c	Undistributed profits	v	989,113	883,184
3	Accumulated other comprehensive income and disclosed reserves		154,347	105,712
3a	Capital reserve	q	134,511	109,968
3b	Others	r	19,836	(4,256)
4	Amount recognised in Common Equity Tier 1 capital during transitional period (Only applicable to unlisted companies, while banks of joint-stock companies to be completed with "0")		-	-
5	Non-controlling interest given recognition in Common Equity Tier 1 capital	w	2,744	3,264
6	**Common Equity Tier 1 capital before regulatory adjustments**		**1,899,073**	**1,700,384**
Common Equity Tier 1 capital: Regulatory adjustments				
7	Prudent valuation adjustment		-	-
8	Goodwill (excluding deferred tax liabilities)	l	2,572	2,556
9	Other intangible assets (excluding land use rights) (excluding deferred tax liabilities)	k	3,156	2,274
10	Net deferred tax assets relying on future profits and arising from operating losses		-	-
11	Cash-flow hedge reserves	s	53	320
12	Gaps of loan loss provisions		-	-
13	Gains from sales of asset securitisation		-	-
14	Unrealised profit / loss arising from the changes in own credit risk on fair values of liability		-	-
15	Net defined-benefit pension assets (excluding deferred tax liabilities)		-	-
16	Directly or indirectly investments in own shares		-	-
17	Reciprocal cross-holdings in common equity		-	-
18	Non-significant investments in the capitals of financial institutions outside the regulatory scope of consolidation (amount above 10% threshold)		-	-
19	Significant investments in the capitals of financial institutions outside the regulatory scope of consolidation (amount above 10% threshold)		-	-
20	Mortgage-servicing rights		N/A	N/A

21	Other deferred tax assets relying on the Bank's future profitability (amount above 10% threshold)		-	-
22	Significant investments in the capitals of financial institutions outside the regulatory scope of consolidation and other deferred tax assets that rely on the Bank's future profitability after all regulatory adjustments (amount exceeding the 15% threshold)		-	-
23	of which: Significant investments in the capitals of financial institutions		-	-
24	of which: Mortgage-servicing rights		N/A	N/A
25	of which: Other deferred tax assets that rely on the Bank's future profitability		-	-
26a	Investments in common equity of financial institutions being controlled but outside the regulatory scope of consolidation	h	3,902	3,902
26b	Gaps of common equity of financial institutions being controlled but outside the regulatory scope of consolidation		-	-
26c	Total regulatory adjustments to Common Equity Tier 1 capital		-	-
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions		-	-
28	**Total regulatory adjustments in Common Equity Tier 1 capital**		**9,683**	**9,052**
29	**Common Equity Tier 1 capital after regulatory adjustments**		**1,889,390**	**1,691,332**
Additional Tier 1 capital:				
30	Other directly issued qualifying additional Tier 1 instruments including related premium	p	79,636	79,636
31	of which: Classified as equity	p	79,636	79,636
32	of which: Classified as liabilities		-	-
33	of which: Instruments not recognised in Additional Tier 1 capital after the transition period		-	-
34	Non-controlling interest given recognition in Additional Tier 1 capital	x	84	152
35	of which: Portions not recognised in Additional Tier 1 capital after the transition period		-	-
36	**Additional Tier 1 capital before regulatory adjustments**		**79,720**	**79,788**
Additional Tier 1 capital: Regulatory adjustments				
37	Direct or indirect investments in own Additional Tier 1 instruments		-	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments		-	-
39	Non-significant investments in the capitals of financial institutions outside the regulatory scope of consolidation (amount above 10% threshold)		-	-
40	Significant investments in the Additional Tier 1 capital of financial institutions outside the regulatory scope of consolidation		-	-
41a	Investments in Additional Tier 1 capital of financial institutions being controlled but outside the regulatory scope of consolidation		-	-
41b	Gaps of Additional Tier 1 capital of financial institutions being controlled but outside the regulatory scope of consolidation		-	-
41c	Other deductions from Additional Tier 1 capital		-	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		-	-
43	**Total regulatory adjustments to Additional Tier 1 capital**		**-**	**-**
44	**Additional Tier 1 capital after regulatory adjustments**		**79,720**	**79,788**
45	**Tier 1 capital after regulatory adjustments (Common Equity Tier 1 capital after regulatory adjustments + Additional Tier 1 capital after regulatory adjustments)**		**1,969,110**	**1,771,120**

Tier 2 capital:				
46	Directly issued qualifying Tier 2 instruments including related premium	n	206,615	138,848
47	of which: Portions not recognised in Tier 2 capital after the transition period		63,934	79,917
48	Minority interest recognised in Tier 2 capital	y	133	266
49	of which: Portions not recognised after the transition period		-	-
50	Provisions in Tier 2	-(b+d)	172,788	92,838
51	**Tier 2 capital before regulatory adjustments**		**379,536**	**231,952**
Tier 2 capital: Regulatory adjustments				
52	Direct or indirect investments in the Bank's Tier 2 instruments		-	-
53	Reciprocal cross-holdings in Tier 2 instruments		-	-
54	Non-significant investments in capital of financial institutions outside the regulatory scope of consolidation (amount above 10% threshold)		-	-
55	Significant investments in the Tier 2 capital of financial institutions outside the regulatory scope of consolidation		-	-
56a	Investments in Tier 2 capital of financial institutions being controlled but outside the regulatory scope of consolidation		-	-
56b	Gaps of Tier 2 capital of financial institutions being controlled but outside the regulatory scope of consolidation		-	-
56c	Other deductions from Tier 2 capital		-	-
57	**Total regulatory adjustments in Tier 2 capital**		**-**	**-**
58	**Tier 2 capital after regulatory adjustments**		**379,536**	**231,952**
59	**Total capital after regulatory adjustments (Tier 1 capital after regulatory adjustments +Tier 2 capital after regulatory adjustments)**		**2,348,646**	**2,003,072**
60	**Total risk-weighted assets**		**13,659,497**	**12,919,980**
Capital adequacy ratio and reserve capital requirements				
61	**Common Equity Tier 1 ratio**		**13.83%**	**13.09%**
62	**Tier 1 ratio**		**14.42%**	**13.71%**
63	**Total Capital ratio**		**17.19%**	**15.50%**
64	Specific buffer requirements of regulators		3.50%	3.60%
65	of which: Capital conservation buffer requirements		2.50%	2.10%
66	of which: Countercyclical buffer requirements		0.00%	0.00%
67	of which: Additional buffer requirements of Global Systemically Important Banks		1.00%	1.50%
68	Common Equity Tier 1 capital available to meet buffers as a percentage of risk-weighted assets		8.83%	8.09%
Domestic minimum regulatory capital requirements				
69	Common Equity Tier 1 ratio		5.00%	5.00%
70	Tier 1 ratio		6.00%	6.00%
71	Total Capital ratio		8.00%	8.00%
Amounts below the threshold deductions				
72	Non-significant investments in the capitals of other financial institutions outside of the regulatory scope of consolidation	e+f+g+i	37,101	17,807
73	Significant investments in the capitals of other financial institutions outside of the regulatory scope of consolidation	j	111	167
74	Mortgage-servicing rights (net of deferred tax liabilities)		N/A	N/A
75	Other deferred tax assets relying on the Bank's future profitability (net of deferred tax liabilities)	m	57,464	45,542
Caps on the inclusion of provisions in Tier 2 capital				
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to regulatory weighting approach (prior to the application of cap)	-a	24,082	21,295

77	Provisions eligible for inclusion in Tier 2 capital under regulatory weighting approach	-b	24,082	21,295
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to the application of cap)	-c	189,957	111,412
79	Provisions eligible for inclusion in Tier 2 capital under internal ratings-based approach	-d	148,706	71,543
Capital instruments subject to phase-out arrangements				
80	Amount recognised in current-period Common Equity Tier 1 capital due to transitional arrangements		-	-
81	Amount not recognised in current-period Common Equity Tier 1 capital due to transitional arrangements		-	-
82	Amount recognised in current-period Additional Tier 1 capital due to transitional arrangements		-	-
83	Amount not recognised in current-period Additional Tier 1 capital due to transitional arrangements		-	-
84	Amount recognised in current-period Tier 2 capital due to transitional arrangements		63,934	79,917
85	Amount not recognised in current-period Tier 2 capital due to transitional arrangements		74,026	58,020

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

(In millions of RMB)	As at 31 December 2018	
	Balance sheet of the accounting scope of consolidation	Balance sheet of the regulatory scope of consolidation
Assets		
Cash and deposits with central banks	2,632,863	2,632,773
Deposits with banks and non-bank financial institutions	486,949	479,453
Precious metals	33,928	33,928
Placements with banks and non-bank financial institutions	349,727	352,466
Positive fair value of derivatives	50,601	50,523
Financial assets held under resale agreements	201,845	199,052
Loans and advances to customers	13,365,430	13,402,606
Financial assets measured at fair value through profit or loss	731,217	668,490
Financial assets measured at amortised cost	3,272,514	3,185,723
Financial assets measured at fair value through other comprehensive income	1,711,178	1,697,575
Long-term equity investments	8,002	9,617
Investments in consolidated structured entities	-	-
Fixed assets	169,574	168,127
Land use rights	14,373	13,899
Intangible assets	3,622	3,156
Goodwill	2,766	2,572
Deferred tax assets	58,730	57,464
Other assets	129,374	139,483
Total assets	**23,222,693**	**23,096,907**
Liabilities		
Borrowings from central banks	554,392	554,392
Deposits from banks and non-bank financial institutions	1,427,476	1,429,616
Placements from banks and non-bank financial institutions	420,221	426,961
Financial liabilities measured at fair value through profit or loss	431,334	431,366
Negative fair value of derivatives	48,525	48,525
Financial assets sold under repurchase agreements	30,765	23,610
Deposits from customers	17,108,678	17,108,678
Accrued staff costs	36,213	35,055
Taxes payable	77,883	77,634
Provisions	37,928	37,917
Debt securities issued	775,785	758,445
Deferred tax liabilities	485	163
Other liabilities	281,414	180,817
Total liabilities	**21,231,099**	**21,113,179**
Equity		
Share capital	250,011	250,011
Other equity instruments - preference shares	79,636	79,636
Capital reserve	134,537	134,511
Other comprehensive income	18,451	19,836

Surplus reserve	223,231	223,231
General reserve	279,725	279,627
Retained earnings	990,872	989,113
Total equity attributable to equity shareholders of the Bank	1,976,463	1,975,965
Non-controlling interests	15,131	7,763
Total equity	**1,991,594**	**1,983,728**

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

(In millions of RMB)	As at 31 December 2018	
	Balance sheet of the regulatory scope of consolidation	Code
Assets		
Cash and deposits with central banks	2,632,773	
Deposits with banks and non-bank financial institutions	479,453	
Precious metals	33,928	
Placements with banks and non-bank financial institutions	352,466	
Positive fair value of derivatives	50,523	
Financial assets held under resale agreements	199,052	
Loans and advances to customers	13,402,606	
of which: Provisions eligible actually accrued under regulatory weighting approach	(24,082)	a
of which: Provisions eligible for inclusion in Tier 2 in respect of exposures under regulatory weighting approach	(24,082)	b
of which: Provisions eligible actually accrued under internal ratings-based approach	(189,957)	c
of which: Provisions eligible for inclusion in Tier 2 in respect of exposures under internal ratings-based approach	(148,706)	d
Financial assets at fair value through profit or loss	668,490	
of which: Non-significant investments in the capitals of other financial institutions outside of the regulatory scope of consolidation	32,157	e
Financial assets measured at amortised cost	3,185,723	
of which: Non-significant investments in the capitals of other financial institutions outside of the regulatory scope of consolidation	789	f
Financial assets at fair value through other comprehensive income	1,697,575	
of which: Non-significant investments in the capitals of other financial institutions outside of the regulatory scope of consolidation	3,051	g
Long-term equity investments	9,617	
of which: Investments in common equity of financial institutions being controlled but outside the regulatory scope of consolidation	3,902	h
of which: Non-significant investments in the capitals of other financial institutions outside of the regulatory scope of consolidation	1,104	i
of which: Significant investments in the capitals of other financial institutions outside of the regulatory scope of consolidation	111	j
Investments in consolidated structured entities	-	
Fixed assets	168,127	
Land use rights	13,899	
Intangible assets	3,156	k
Goodwill	2,572	l
Deferred tax assets	57,464	m
Other assets	139,483	
Total assets	**23,096,907**	
Liabilities		
Borrowings from central banks	554,392	
Deposits from banks and non-bank financial institutions	1,429,616	
Placements from banks and non-bank financial institutions	426,961	
Financial liabilities at fair value through profit or loss	431,366	
Negative fair value of derivatives	48,525	

Financial assets sold under repurchase agreements	23,610	
Deposits from customers	17,108,678	
Accrued staff costs	35,055	
Taxes payable	77,634	
Provisions	37,917	
Debt securities issued	758,445	
of which: Tier 2 capital instruments and related premium[1]	206,615	n
Deferred tax liabilities	163	
Other liabilities	180,817	
Total liabilities	**21,113,179**	
Equity		
Share capital	250,011	o
Other equity instruments - preference shares	79,636	p
Capital reserve	134,511	q
Other comprehensive income	19,836	r
of which: Cash-flow hedge reserves	53	s
Surplus reserve	223,231	t
General reserve	279,627	u
Retained earnings	989,113	v
Total equity attributable to equity shareholders of the Bank	1,975,965	
Non-controlling interests	7,763	
of which: Non-controlling interests recognised in Common Equity Tier 1 capital	2,744	w
of which: Non-controlling interests recognised in Additional Tier 1 capital	84	x
of which: Non-controlling interests recognised in Tier 2 capital[1]	133	y
Total equity	**1,983,728**	

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

Main features of eligible regulatory capital instruments

The following table shows the information related to main features of various kinds of eligible regulatory capital instruments issued by the Group.

No.	Main features of eligible regulatory capital instruments	H Share	A Share	Rights issues	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument
1	Issuer	CCB	CCB	CCB	CCB	CCB	CCB
2	Identifier code	0939.HK	601939.SH	0939.HK, 601939.SH	ISIN: CND100007Z10	ISIN: HK0000223849	ISIN: XS1227820187
3	Governing law(s)	Hong Kong SAR law	Chinese law	Chinese / Hong Kong SAR law	Chinese law	Hong Kong SAR law	British law
	Regulatory treatment						
4	of which: Transitional rules under *the Capital Rules for Commercial Banks (Provisional)*	Common Equity Tier 1 capital	Common Equity Tier 1 capital	Common Equity Tier 1 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital
5	of which: Post-transitional rules under the *Capital Rules for Commercial Banks (Provisional)*	Common Equity Tier 1 capital	Common Equity Tier 1 capital	Common Equity Tier 1 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital
6	of which: Eligible at the Bank / Group level	the Bank and Group level	the Bank and Group level	the Bank and Group level	the Bank and Group level	the Bank and Group level	the Bank and Group level
7	Instrument type	Equity instrument	Equity instrument	Equity instrument	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument
8	Amount recognised in regulatory capital (In millions of RMB, as at the latest reporting date)	72,550	57,119	61,159	19,986	1,999	13,718
9	Par value of instrument	RMB30,459 million	RMB9,000 million	RMB16,322 million	RMB20,000 million	RMB2,000 million	USD2,000 million
10	Accounting classification	Share capital and capital reserve	Share capital and capital reserve	Share capital and capital reserve	Debt securities issued	Debt securities issued	Debt securities issued
11	Original date of issuance	27 October 2005	25 September 2007	19 November 2010, 16 December 2010	18 August 2014	12 November 2014	13 May 2015
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Dated	Dated	Dated
13	of which: Original maturity date	No maturity	No maturity	No maturity	18 August 2029	12 November 2024	13 May 2025

14	Issuer call subject to regulatory approval	No	No	No	Yes	Yes	Yes
15	of which: Optional call date, contingent call dates and redemption amount	N/A	N/A	N/A	18 August 2024, all redeemed	12 November 2019, all redeemed	13 May 2020, all redeemed
16	of which: Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A	N/A
	Coupons / dividends						
17	of which: Fixed or floating dividend / coupon	Floating	Floating	Floating	Fixed	Fixed for the first five years while floating for the rest five years	The interest rate is fixed for the first five years, and is adjusted based on the interest rate at the coupon rate reset date for the consecutive five years.
18	of which: Coupon rate and any related index	N/A	N/A	N/A	5.98%	Fixed rate of 4.90% for the first five years reset annually by reference to the one year CNHHibor (plus 1.538%) for the rest five years.	The interest rate is fixed at 3.875% for the first five years, and is reset by reference to the five-year U.S. government bond benchmark rate plus the initial interest spread (2.425%) at the coupon rate reset date for the rest five years.
19	of which: Existence of dividend brake mechanism	N/A	N/A	N/A	No	No	No
20	of which: Fully discretionary, partially discretionary or non-discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Non-discretionary	Non-discretionary	Non-discretionary
21	of which: Existence of redemption incentive mechanism	No	No	No	No	No	No
22	of which: Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	N/A	N/A	N/A	No	No	No

24	of which: If convertible, specify conversion trigger(s)	N/A	N/A	N/A	N/A	N/A	N/A
25	of which: If convertible, specify if it is fully or partially	N/A	N/A	N/A	N/A	N/A	N/A
26	of which: If convertible, specify conversion rate	N/A	N/A	N/A	N/A	N/A	N/A
27	of which: If convertible, specify if it is non-discretionary or optional conversion	N/A	N/A	N/A	N/A	N/A	N/A
28	of which: If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A	N/A
29	of which: If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A	N/A
30	Write-down feature	N/A	N/A	N/A	Yes	Yes	Yes
31	of which: If write-down, specify write-down trigger(s)	N/A	N/A	N/A	Write-down is triggered at the earlier of following: (1) CBRC determines issuer cannot survive if no write-down is conducted; (2) related authorities confirm that issuer cannot survive if public capital injection or equivalent support will not be offered.	Write-down is triggered at the earlier of following: (1) CBRC determines issuer cannot survive if no write-down is conducted; (2) related authorities confirm that issuer cannot survive if public capital injection or equivalent support will not be offered.	Write-down is triggered at the earlier of following: (1) CBRC determines issuer cannot survive if no write-down is conducted; (2) related authorities confirm that issuer cannot survive if public capital injection or equivalent support will not be offered.
32	of which: If write-down, specify if it is full or partial	N/A	N/A	N/A	Full	Full	Full
33	of which: If write-down, specify if it is permanent or temporary	N/A	N/A	N/A	Permanent	Permanent	Permanent
34	of which: If temporary write-down, specify the description of write-up mechanism	N/A	N/A	N/A	N/A	N/A	N/A
35	Hierarchy of claims in liquidation (specify instrument types with higher priority rankings)	The lowest priority of all claims	The lowest priority of all claims	The lowest priority of all claims	The lower priority behind the depositor and general creditor, the	The lower priority behind the depositor and general creditor, the	The lower priority behind the depositor and general creditor, the

					same priority with other tier 2 capital instruments with the same priority.	same priority with other tier 2 capital instruments with the same priority.	same priority with other tier 2 capital instruments with the same priority.
36	Non-eligible transitioned features	No	No	No	No	No	No
37	of which: If yes, specify non-eligible features	N/A	N/A	N/A	N/A	N/A	N/A

No.	Main features of eligible regulatory capital instruments	Preference shares	Tier 2 capital instrument	Preference shares	Tier 2 capital instruments	Tier 2 capital instruments
1	Issuer	CCB	CCB	CCB	CCB	CCB
2	Identifier code	4606.HK	ISIN: CND1000099M8	360030.SH	ISIN：CND10001PYK4	ISIN：CND10001QQJ0
3	Governing law(s)	Overseas preference shares and rights and obligations attached apply to the Chinese law and are interpreted according to the Chinese law	Chinese law	Chinese law	Chinese law	Chinese law
	Regulatory treatment					
4	of which: Transitional rules under *the Capital Rules for Commercial Banks (Provisional)*	Additional Tier 1 capital	Tier 2 capital	Additional Tier 1 capital	Tier 2 capital	Tier 2 capital
5	of which: Post-transitional rules under the *Capital Rules for Commercial Banks (Provisional)*	Additional Tier 1 capital	Tier 2 capital	Additional Tier 1 capital	Tier 2 capital	Tier 2 capital
6	of which: Eligible at the Bank / Group level	The Bank and the Group level	The Bank and the Group level	The Bank and the Group level	The Bank and the Group level	The Bank and the Group level
7	Instrument type	Additional Tier 1 capital instruments	Tier 2 capital instrument	Additional Tier 1 capital instruments	Tier 2 capital instruments	Tier 2 capital instruments
8	Amount recognised in regulatory capital (in millions of RMB, as at the latest reporting date)	19,659	23,989	59,977	42,994	39,995
9	Par value of instrument	USD 3,050 million	RMB24,000 million	RMB60,000 million	RMB 43 billion	RMB 40 billion
10	Accounting classification	Other equity instruments	Debt securities issued	Other equity instruments	Debt securities issued	Debt securities issued
11	Original date of issuance	16 December 2015	21 December 2015	26 December 2017	25 September 2018	29 October 2018
12	Perpetual or dated	Perpetual	Dated	Perpetual	Dated	Dated
13	of which: Original maturity date	No maturity	20 December 2025	No maturity	25 September 2028	29 October 2028
14	Issuer call subject to regulatory approval	Yes	Yes	Yes	Yes	Yes
15	of which: Optional call date, contingent call dates	The first call date is 16 December 2020, all or partial redeemed	20 December 2020, all	The first call date is 27 December 2022, all or partial redeemed	25 September 2023, all	29 October 2023, all redeemed

	and redemption amount		redeemed		redeemed	
16	of which: Subsequent call dates, if applicable	Every 16 December after the first call date	N/A	Every 27 December after the first call date	N/A	N/A
	Coupons / dividends					
17	of which: Fixed or floating dividend / coupon	Adjustable dividend rate (benchmark rate plus the fixed interest spread) by stages is adopted, benchmark rate is adjustable every five years, and the dividend rate during each adjusting period remains unchanged.	Fixed	Adjustable dividend rate (benchmark rate plus the fixed interest spread) by stages is adopted, benchmark rate is adjustable every five years, and the dividend rate during each adjusting period remains unchanged.	Fixed	Fixed
18	of which: Coupon rate and any related index	The dividend yield fixed at 4.65% for the first five years, is reset based on the five-year U.S. government bond rate plus the fixed interest spread (2.974%) at the dividend reset date for the consecutive five years, and the dividend yield during each reset period remains unchanged (the first dividend yield reset date is 16 December 2020 and the subsequent reset date is 16 December of every 5 years thereafter).	4%	The dividend yield fixed at 4.75% for the first five years, is reset based on the five-year Chinese government bond rate plus the fixed interest spread (0.89%) at the dividend reset date for the consecutive five years, and the dividend yield during each reset period remains unchanged (the first dividend yield reset date is 21 December 2022 and the subsequent reset date is 21 December of every 5 years thereafter).	4.86%	4.7%
19	of which: Existence of dividend brake mechanism	Yes	No	Yes	No	No
20	of which: Fully discretionary, partially discretionary or non-discretionary	Fully discretionary	Non-discretionary	Fully discretionary	Non-discretionary	Non-discretionary
21	of which: Existence of redemption incentive mechanism	No	No	No	No	No
22	of which: Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	Yes	No	Yes	No	No
24	of which: If convertible, specify conversion trigger(s)	Additional Tier 1 capital instruments triggers or additional Tier 2 capital instruments triggers	N/A	Additional Tier 1 capital instruments triggers or additional Tier 2 capital instruments triggers	N/A	N/A

25	of which: If convertible, specify if it is fully or partially	Fully or partially convertible for additional Tier 1 capital instruments triggers, and fully convertible for additional Tier 2 capital instruments triggers	N/A	Fully or partially convertible for additional Tier 1 capital instruments triggers, and fully convertible for additional Tier 2 capital instruments triggers	N/A	N/A
26	of which: If convertible, specify conversion rate	The initial conversion price is the average trading price of H shares of the Bank for the 20 trading days preceding the date of publication of the Board resolution in respect of the issuance plan of the preference shares (namely HKD 5.98 per share). Since the date when the Board of Directors passed the resolution to issue the preference shares, Where the Bank distributes bonus shares or stock dividends for H ordinary shareholders, issues new shares at a price lower than the market price (excluding the shares converted from financing instruments that are issued by the Bank and subject to the clauses of conversion into ordinary shares) and makes rights issue after the plan on the preference share issuance is approved by the Board of Directors, the Bank will accumulatively adjust the conversion price in sequence for the matters above. In case of cancellation of repurchased shares, merger, split-up or other circumstances that may lead to changes in the Bank's share class, number and / or shareholders' equity and thereby affect the rights and interests of the preference shareholders, the Bank shall have the right to adjust the forced conversion price in a fair and impartial manner, so as to fully protect and balance the rights and interests of the preference shareholders and the ordinary shareholders.	N/A	The initial conversion price is the average trading price of A shares of the Bank for the 20 trading days preceding the date of publication of the Board resolution in respect of the issuance plan of the preference shares (namely RMB5.20 per share). Since the date when the Board of Directors passed the resolution to issue the preference shares, Where the Bank distributes bonus shares or stock dividends for A ordinary shareholders, issues new shares at a price lower than the market price (excluding the shares converted from financing instruments that are issued by the Bank and subject to the clauses of conversion into ordinary shares) and makes rights issue after the plan on the preference share issuance is approved by the Board of Directors, the Bank will accumulatively adjust the conversion price in sequence for the matters above. However, the distribution of cash dividends of ordinary shares will not cause adjustment. In case of cancellation of repurchased shares, merger, split-up or other circumstances that may lead to changes in the Bank's share class, number and / or shareholders' equity and thereby affect the rights and interests of the	N/A	N/A

				preference shareholders, the Bank shall have the right to adjust the forced conversion price in a fair and impartial manner, so as to fully protect and balance the rights and interests of the preference shareholders and the ordinary shareholders.		
27	of which: If convertible, specify if it is non-discretionary or optional conversion	Yes	N/A	Yes	N/A	N/A
28	of which: If convertible, specify instrument type convertible into	Common Equity Tier 1 capital	N/A	Common Equity Tier 1 capital	N/A	N/A
29	of which: If convertible, specify issuer of instrument it converts into	CCB	N/A	CCB	N/A	N/A
30	Write-down feature	No	Yes	No	Yes	Yes
31	of which: If write-down, specify write-down trigger(s)	N/A	Write-down is triggered at the earlier of following: (1) CBRC determines issuer cannot survive if no write-down is conducted; (2) related authorities confirm that issuer cannot survive if public capital injection or equivalent support will not be offered.	N/A	Write-down is triggered at the earlier of following: (1) CBRC determines issuer cannot survive if no write-down is conducted; (2) related authorities confirm that issuer cannot survive if public capital injection or equivalent support will not be available.	Write-down is triggered at the earlier of following: (1) CBRC determines issuer cannot survive if no write-down is conducted; (2) related authorities confirm that issuer cannot survive if public capital injection or equivalent support will not be available.
32	of which: If write-down, specify if it is full or partial	N/A	Full	N/A	Full	Full
33	of which: If write-down, specify if it is permanent or temporary	N/A	Permanent	N/A	Permanent	Permanent
34	of which: If temporary	N/A	N/A	N/A	N/A	N/A

	write-down, specify the description of write-up mechanism					
35	Hierarchy of claims in liquidation (specify instrument types with a higher priority ranking)	The lower priority behind all depositors, general creditors, and tier 2 capital instrument issued or guaranteed by the Bank, and the capital instruments prior to preference shares, the same priority with additional tier1 capital instruments with the same priority.	The lower priority behind the depositor and general creditor, the same priority with other tier 2 capital instruments with the same priority.	The lower priority behind all depositors, general creditors, and tier 2 capital instrument issued or guaranteed by the Bank, and the capital instruments prior to preference shares, the same priority with additional tier1 capital instruments with the same priority.	The lower priority behind the depositor and general creditor, the same priority with other tier 2 capital instruments with the same priority.	The lower priority behind the depositor and general creditor, the same priority with other tier 2 capital instruments with the same priority.
36	Non-eligible transitioned features	No	No	No	No	No
37	of which: If yes, specify non-eligible 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.

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