ICBC

INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED

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

Stock Code: 1398

2013

Capital Adequacy Ratio Report

CONTENTS

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

Introduction

Company Profile

Industrial and Commercial Bank of China Limited, formerly known as Industrial and Commercial Bank of China, was established on 1 January 1984. On 28 October 2005, the Bank was wholly restructured to a joint-stock limited company. On 27 October 2006, the Bank was successfully listed on both SSE and SEHK.

Through its continuous endeavor and stable development, the Bank has developed into the top large listed bank in the world, possessing an excellent customer base, a diversified business structure, strong innovation capabilities and market competitiveness. The Bank has its presence in six continents, and its overseas network has expanded to 40 countries and regions. The Bank provides comprehensive financial products and services to 4,735 thousand corporate customers and 432 million personal customers by virtue of the distribution channels consisting of 17,245 domestic institutions, 329 overseas institutions and over 1,903 correspondent banks worldwide, as well as through its E-banking network comprising a range of internet and telephone banking services and self-service banking centers, forming an internationalized, information-based trans-market operating structure focusing on commercial banking business and continuously maintaining a leading position in the domestic market. Upholding the management tenet of "Focusing on Customers and Creating Value through Services", the Bank constantly improves its financial services to enrich brand connotation, with the brand image of "By Your Side and as Your Trust" being widely recognized. In 2013, the Bank ranked in the first place among Top 1000 World Banks by *The Banker*. Among the Global 2000 listed by the US magazine *Forbes*, the Bank became the largest enterprise in the world and was selected as one of Global Systemically Important Banks for the first time.

The Bank strives to duly implement the organic unification of economic and social responsibilities, establishing the image of a large responsible bank in the aspects of supporting economic and social development, protecting environment and resources, and participating in community services, and has won awards such as "Best Social Responsibility Financial Institution Award" and "Most Responsible Enterprise".

In future, the Bank will strive for the goal of becoming a global leading bank with the best profitability, performance and prestige.

Disclosure Basis

CBRC promulgated the Regulation Governing Capital of Commercial Banks (Provisional) in June 2012. The Bank started to disclose the capital adequacy ratio report since 2013 as required by the Capital Regulation.

Disclosure Statement

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

Scope of Calculation of Capital Adequacy Ratio

Investees' Consolidation Treatment under Capital Adequacy Ratio Calculation

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

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

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

At the end of 2013, the difference between the scope of the calculation of consolidated capital adequacy ratio and the scope of financial reporting consolidation is ICBC-AXA. Pursuant to the Capital Regulation, ICBC-AXA was excluded from the calculation of consolidated capital adequacy ratio.

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

TOP 10 INVESTEES INCLUDED IN THE CALCULATION OF CAPITAL ADEQUACY RATIO

In RMB millions, except for percentages

S/N	Name of investee	Balance of investment	Shareholding percentage (%)	Place of incorporation	Principal activities
1	ICBC (Asia)	30,265	100.00	Hong Kong, China	Commercial banking
2	ICBC (Macau)	8,033	89.33	Macau, China	Commercial banking
3	ICBC Leasing	8,000	100.00	Tianjin, China	Leasing
4	ICBC (Argentina)	4,503	80.00	Buenos Aires, Argentina	Commercial banking
5	ICBC International	4,066	100.00	Hong Kong, China	Investment banking
6	ICBC (Thai)	3,793	97.70	Bangkok, Thailand	Commercial banking
7	ICBC (Indonesia)	1,883	98.61	Jakarta, Indonesia	Commercial banking
8	ICBC (Europe)	1,794	100.00	Luxembourg	Commercial banking
9	ICBC (London)	1,579	100.00	London, UK	Commercial banking
10	ICBC (USA)	924	80.00	New York, USA	Commercial banking

INVESTEES DEDUCTED FROM REGULATORY CAPITAL

In RMB millions, except for percentages

S/N	Name of investee	Balance of investment	Shareholding percentage (%)	Place of incorporation	Principal activities
1	ICBC-AXA	3,900	60.00	Shanghai, China	Insurance

Capital Deficiencies and Restrictions on Capital Transfer

As at the end of 2013, there is no material capital deficiency in the financial institutions in which the majority or controlling interests is held by the Bank as measured in accordance with local regulatory requirements and regulatory standards of China. During the reporting period, there is no material restriction on the fund transfer within the Group.

Capital and Capital Adequacy Ratio

Capital Adequacy Ratio

The table below sets out the capital adequacy ratios of the Bank at the end of 2013 measured in accordance with the Capital Regulation and the Regulations Governing Capital Adequacy of Commercial Banks promulgated by CBRC.

In RMB millions, except for percentages

Item	Group	Parent Company
Calculated in accordance with the Capital Regulation:		
Net core tier 1 capital	1,266,841	1,190,490
Net tier 1 capital	1,266,859	1,190,490
Net capital base	1,572,265	1,478,863
Core tier 1 capital adequacy ratio	10.57%	10.58%
Tier 1 capital adequacy ratio	10.57%	10.58%
Capital adequacy ratio	13.12%	13.14%
Calculated in accordance with the Regulations Governing Capital Adequacy of Commercial Banks and related regulations:		
Core capital adequacy ratio	10.62%	10.86%
Capital adequacy ratio	13.31%	13.25%

Composition of Capital

As at the end of 2013, the core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio calculated by the Bank in accordance with the Capital Regulation stood at 10.57%, 10.57% and 13.12% respectively, all fulfilled regulatory requirements. During the reporting period, the Bank's profit maintained continuous growth, which effectively supplemented the core tier 1 capital. Meanwhile, the Bank further reinforced the capital constraint mechanism so that the growth rate of risk-weighted assets was controlled effectively and the capital adequacy ratio remained at a moderate level.

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

In RMB millions, except for percentages

Item	At 31 December 2013
Core tier 1 capital	**1,276,344**
Paid-in capital	351,390
Valid portion of capital reserve	108,202
Surplus reserve	123,870
General reserve	202,940
Retained profits	512,024
Valid portion of minority interests	1,956
Others[(1)]	(24,038)
Core tier 1 capital deductions	**9,503**
Goodwill	8,049
Other intangible assets other than land use rights	1,474
Cash flow hedge reserves that relate to the hedging of items that are not fair valued on the balance sheet	(3,920)
Investment in core tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	3,900
Net core tier 1 capital	**1,266,841**
Additional tier 1 capital[(2)]	**18**
Net tier 1 capital	**1,266,859**
Tier 2 capital	**324,806**
Valid portion of tier 2 capital instruments and related premium	189,877
Surplus provision for loan impairment	134,857
Valid portion of minority interests	72
Tier 2 capital deductions	**19,400**
Significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	19,400
Net capital base	**1,572,265**
Risk-weighted assets	**11,982,187**
Core tier 1 capital adequacy ratio	**10.57%**
Tier 1 capital adequacy ratio	**10.57%**
Capital adequacy ratio	**13.12%**

Notes: (1) Others were foreign currency translation reserve.

(2) Additional tier 1 capital was the valid portion of minority interests.

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

The table below sets out caps involved in the calculation process of the Bank's capital.

CAPS IN THE CAPITAL CALCULATION

In RMB millions

Item	At 31 December 2013
I. Valid caps of surplus provision for loan impairment in tier 2 capital	
Provision for loan impairment set aside under the weighted approach	240,959
Minimum requirement on provision for loan impairment under the weighted approach	93,689
Surplus provision for loan impairment under the weighted approach	147,270
Valid cap of provision for loan impairment in tier 2 capital under the weighted approach	134,857
Valid portion of surplus provision for loan impairment in tier 2 capital	134,857
II. Deduction cap for items applicable to thresholds deduction	
Non-significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	26,898
Relevant cap	126,684
Deductible portion	–
Significant capital investments in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	27,893
Relevant cap	126,684
Deductible portion	–
Deferred tax assets arising from temporary differences	28,724
Relevant cap	126,684
Deductible portion	–
Significant capital investments in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation and deferred tax assets arising from temporary differences	56,617
Relevant cap	190,026
Deductible portion	–

For changes in share capital of the Bank for the reporting period, please refer to "Details of Changes in Share Capital and Shareholding of Substantial Shareholders" in the 2013 Annual Report. For material capital investment activities of the Bank for the reporting period, please refer to "Significant Events" in the 2013 Annual Report.

Measurement of Risk-Weighted Assets

The table below sets out the risk-weighted assets of the Bank measured in accordance with the Capital Regulation. Specifically, the weighted approach, standardized approach and basic indicator approach are applied to the measurement of credit risk-weighted assets, market risk-weighted assets and operational risk-weighted assets, respectively.

RISK-WEIGHTED ASSETS

In RMB millions

Item	At 31 December 2013
Credit risk-weighted assets	10,923,428
On-balance sheet credit risk	9,916,061
Off-balance sheet credit risk	953,813
Counterparty credit risk	53,554
Market risk-weighted assets	78,283
Operational risk-weighted assets	980,476
Total	**11,982,187**

Internal Capital Adequacy Assessment

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

Capital Planning and Management Plan for Capital Adequacy Ratios

In June 2012, CBRC officially promulgated the Regulation Governing Capital of Commercial Banks (Provisional), which was put into effect on 1 January 2013. The Capital Regulation enhanced the regulatory requirements on capital adequacy ratios of commercial banks: core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio of domestic systemically important banks shall be not lower than 8.5%, 9.5% and 11.5%, respectively. The Bank earnestly analyzed the influence of the Capital Regulation on the business development of commercial banks to proactively explore replenishment channels for new capital instruments. In 2012, the meeting of the Board of Directors and the Shareholders' General Meeting of the Bank reviewed and approved the 2012–2014 Capital Planning of Industrial and Commercial Bank of China Limited. The meeting of the Board of Directors reviewed and approved the Compliance Planning for Capital Adequacy Ratio of Industrial and Commercial Bank of China.

The 2012–2014 Capital Planning of Industrial and Commercial Bank of China Limited took into comprehensive consideration the future business development and investment demands, the influence of the Capital Regulation on capital adequacy ratio, supplementary capital replenished by future retained profits and supplementary capital needed for the compliance with new regulatory requirements, made a plan for specific capital supplementary ways and limit, conducted systematic and non-systematic stress testing in various scenarios and proposed specific work arrangements for the implementation of the capital planning. According to the 2012–2014 Capital Planning of Industrial and Commercial Bank of China Limited, on the basis of the compliance with capital adequacy ratio, the capital adequacy of the Bank will keep a range of safety margin and buffer so as to support the Bank's strategic development and prevent capital adequacy ratio from falling below the requirements of regulatory policies on accidental occasions. On the basis of keeping capital adequacy ratio at a reasonable level, the Bank attached great importance to the balance of the relation between capital adequacy and return on capital, stabilized capital adequacy ratio, avoided idle capital resulted from large fluctuation of capital adequacy ratio to improve capital utilization and increase return on capital. With the focus on capital replenishment and constraint mechanism, the Bank will further improve the capital management system and promote the enterprise capital management. It will strengthen the overall management of capital replenishment and utilization, and effectively constrain risk asset from expanding with economic capital management measures to ensure that capital adequacy ratio meets the regulatory requirements and remains stable.

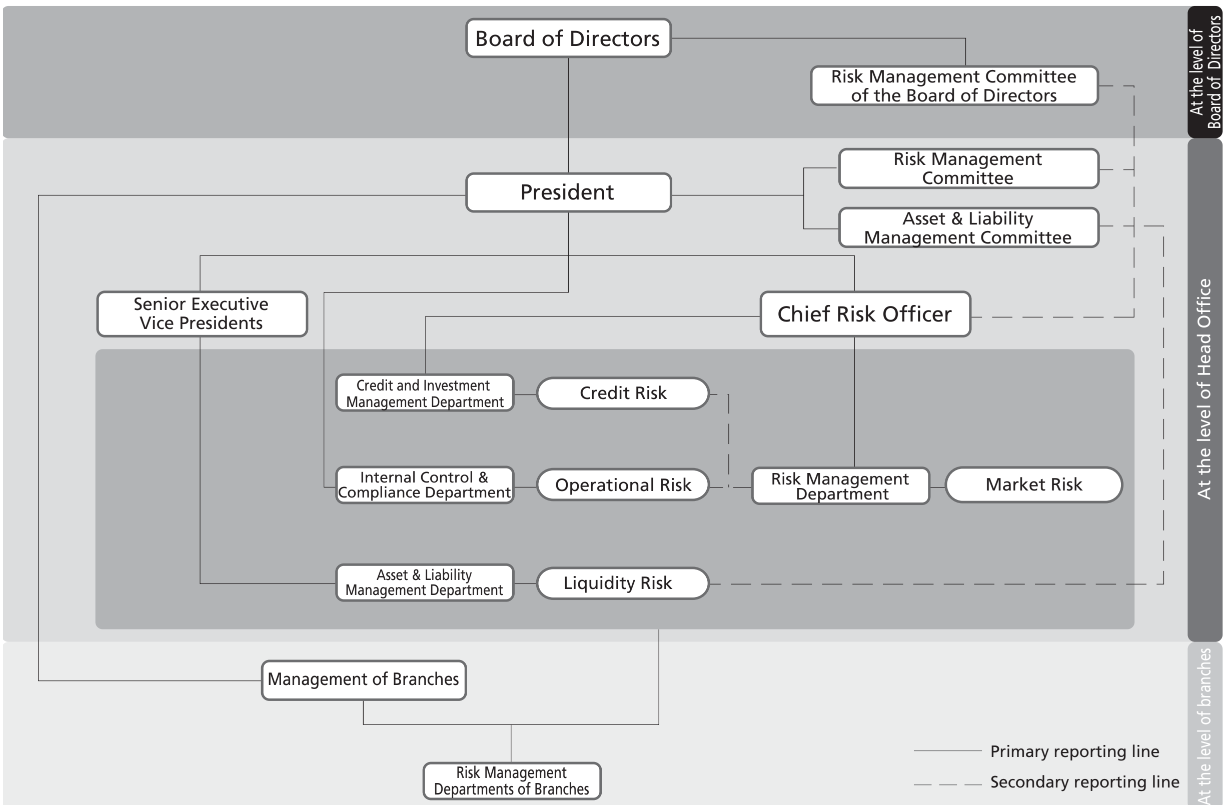
The Capital Regulation specifies that the Bank shall achieve the compliance of capital adequacy ratio with new regulatory requirements by the end of 2018 and encouraged qualified commercial banks to reach the compliance ahead of the schedule. In accordance with relevant regulatory policies and the Compliance Planning for Capital Adequacy Ratio of Industrial and Commercial Bank of China, the Bank had reached the compliance of capital adequacy ratio ahead of the schedule during the reporting period and will continue to fulfill the regulatory requirements.

The Bank actively explored the external channels for capital supplement and constantly promoted the issuance of new capital instruments. The Board of Directors of the Bank convened a meeting on 15 January 2013 to review and approve the proposal on the issuance of eligible tier 2 capital instruments in accordance with the Capital Regulation with the write-down feature and a term of no less than five years, without share transfer clause for an amount up to RMB60 billion equivalent by the end of 2014. The proposal was reviewed and approved by the First Extraordinary General Meeting of 2013 held on 20 March 2013, and the Board of Directors of the Bank considered and approved the authorization to the Senior Management on matters regarding its issuance at the meeting held on 27 June 2013. The Bank will submit the proposal to the regulatory authorities for approval pursuant to relevant regulatory requirements before its implementation at a proper time. For details on the planned issuance of eligible tier 2 capital instruments, please refer to the announcements published by the Bank at the websites of SEHK and SSE.

Enterprise Risk Management System

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

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



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

In 2013, the Bank proactively improved the enterprise risk management system and the enterprise risk management regulations, enhanced risk management of subsidiaries, and further enhanced the risk management capability at the group level. The Bank strived to meet the regulatory requirements on systemically important banks by studying and establishing working mechanisms and management processes, conducted substantive risk assessments of branches and subsidiaries, and revised measures regarding risk assessment and risk limit management. Accordingly, the Bank further improved the level of its enterprise risk management.

Construction of Advanced Capital Management Approach

In 2013, the Bank continued to prepare for the implementation of advanced capital management approach. The Bank implemented the inspection opinion of CBRC on the advanced approaches, further improved data quality management and risk measurement models, promoted IT system upgrading and its overseas expansion, and strengthened application of risk measurement results. As a result, risk management of the Bank was further enhanced.

In terms of credit risk, the Bank fully applied the corporate customers rating system and the retail internal rating system, and reinforced the Group's internal credit risk rating management. The Bank improved continuous monitoring mechanism and re-evaluation mechanism for internal rating, set rigorous rules regarding rating re-evaluation and approval management, and played the risk warning role of internal rating. The Bank fully optimized facility rating models, and enhanced the ability of measurement models to predict loss given default (LGD) in the current economic cycle. The Bank made use of latest business data to optimize and create retail rating modeling methods, significantly enhancing the efficiency of the models. The Bank applied the retail internal rating results, perfected economic capital management measures, and realized balance between risk and returns by applying RAROC assessment tools. The Bank further promoted rigid control policies for credit card business rating and strengthened the requirement on management of cross-default customers. As a result, risk management and control capability of rating results was further elevated.

In terms of market risk, the Bank actively prepared for the implementation of internal model approach (IMA), and continued to improve the IMA-based market risk management system. The Bank also continuously intensified independent research and development of the market risk internal models, further optimized measurement models, and improved data integration capability. In addition, the Bank actively carried out the validation of IMA for market risk, and promoted the core application of the IMA in limit management, risk reporting, stress test and capital measurement.

In terms of operational risk, the Bank constantly optimized the operational risk management system, further improved advanced measurement approach models for operational risk, and promoted the advanced measurement approach application and management system in overseas institutions.

During the reporting period, the Bank submitted a formal application on the implementation of advanced capital management approach to CBRC, where the foundation internal ratings-based approach was applied to non-retail credit risk, the internal ratings-based approach to retail credit risk, the internal model approach to market risk and the standardized approach to operational risk.

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

Credit Risk Management

The Bank strictly adheres to the guidance from CBRC regarding credit risk management and other regulatory requirements, diligently delivers established strategies and objectives under the leadership of the Board of Directors and the Senior Management, implements an independent, integrated and vertical credit risk management mode, continuously optimizes the credit flow, and has formed a management organizational structure featuring the separation of the front office, the middle office and the back office of the credit business. The Board of Directors assumes the ultimate responsibility to the effectiveness of the implementation and monitoring of credit risk management. The Senior Management is responsible for executing the strategies, overall policy and system regarding credit risk management approved by the Board of Directors. The Credit Risk Management Committee of the Senior Management is the review and decision-making organ of the Bank in respect of credit risk management, and is responsible to review material and important affairs of credit risk management, and performs its duty in accordance with the Working Regulations for the Credit Risk Management Committee. The credit risk management departments at different levels undertake the responsibility to coordinate the work of credit risk management at respective levels, and the business departments play their roles in implementing credit risk management policies and standards in respective business areas.

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

In 2013, in response to the changes in the macroeconomic environment and financial regulatory requirements, the Bank vigorously supported rational credit demand of the real economy and maintained the credit growth compatible with the capital scale of the Bank. The Bank continued to promote the credit system building and optimize its credit operations flow. According to macroeconomic dynamics and trends in industrial restructuring, the Bank timely adjusted and improved various credit policies, increased the efforts in credit restructuring, strictly controlled credit risk of key areas, and strengthened potential risk loans management and collection and disposal of non-performing loans. The Bank also continuously advanced the application of internal rating results, and accelerated the construction of credit risk monitoring and analysis center to enhance the whole process monitoring and supervision of credit risk. As a result, credit risk management of the Bank was fully strengthened.

◆ *Credit Risk Management of Corporate Loans*

The Bank continued to advance the development of the credit system and optimized the credit policy system. The Bank perfected basic rules of credit business. In particular, the Bank pushed forward vertical concentration of credit approval, improved the authorization management, actively promoted the optimization of credit business operations flow, and defined departmental functions to enhance efficiency of credit services. The Bank developed and adjusted regional credit policies according to the regional strategic development plan of China as well as regional characteristics and resource and policy advantages.

The Bank improved industry credit policies and enhanced industry-specific risk limit management. Subject to the macroeconomic policy, the orientation of the government's industry policy and operating characterizes of industries, the Bank timely formulated and adjusted the credit policy for certain industries and further expanded the coverage of industrial credit policies. In particular, the Bank actively supported the development of advanced manufacturing industry, modern service industry, culture industries and strategic emerging industries in line with the national economic structure adjustment direction as well as the development of ecological protection, energy saving and environmental protection, recycling economy and other green industries, and promoted the green credit construction across the Bank. The Bank also carried out strict limit management of industries with overcapacity, defined and standardized the operating rules for the industry limit management, and utilized the limit management system to control the total financing amount in a targeted way.

The Bank strengthened risk management of loans to local government financial vehicles (LGFVs). In particular, the Bank earnestly followed the relevant policies of the State Council and regulatory requirements of CBRC, adjusted and improved the approval policy governing loans to LGFVs, and strengthened the efforts in controlling the total financing amount for LGFVs. The Bank also prudently dealt with the exit of loans to LGFVs, closely monitored financing risk of key areas and customers, and further optimized the structure of loans to LGFVs.

The Bank strengthened risk management of the real estate industry. In particular, in response to changes in relevant policies of the government and the real estate market, the Bank improved the credit policy and system for the real estate industry in a timely fashion and enhanced the risk prevention and control capability on property loans. The Bank also continued to implement industry limit management and differentiated customer and project access standards and optimized the distribution of property loans. The Bank strictly followed closed management of property loan funds, and reinforced risk monitoring and prevention of existing property loan projects to timely mitigate project risks. In addition, the Bank intensified loan guarantee management and regularly re-assessed the value of existing loan collateral value with a view to guarding against the loan guarantee risk.

The Bank strengthened risk management in relation to trade finance. In particular, the Bank perfected the supporting policies for key products including commodity finance and domestic factoring, enhanced product analysis and monitoring, and followed up the risk mitigation progress. The Bank made risk analysis and intensified control in a timely manner over customers sensitive to cross-border international trade financing business for arbitrage, and strengthened modeling monitoring of typical risk events. Besides, the Bank promoted the transformation and upgrading of trade finance to supply chain financing model, and enhanced risk management of trade finance business.

The Bank enhanced risk management of small enterprise loans. In particular, the Bank further improved the access standards for small enterprise customers, strengthened related credit and real-time credit management, and regulated external guarantee behaviors of small enterprises to prevent risk contagion. The Bank standardized cooperation process with financing guarantee companies to prevent the risk of small enterprise loans with joint guarantee and mutual guarantee. The Bank carried out special inspections of small enterprise loans, and actively mitigated the credit risk in the steel trade field by conducting special identification and list management of customers engaged in steel trade and implementing system rigid control and monthly special monitoring. The Bank also innovated in the due diligence model for small enterprise loans, promoted rule-based and procedure-based operation of small enterprise loan business, and optimized post-lending management and monitoring of small enterprise loans.

In addition, the Bank continued to improve the level of IT-based credit management. In particular, the Bank accelerated the integration of the global credit management system (GCMS), launched and put into use customer management, rating, credit extension, post-lending management and other system functions, realized integrated information management and unified credit rating of customers at the Group level, and further consolidated post-lending management of the Bank.

◆ *Credit Risk Management of Personal Loans*

The Bank further enhanced credit risk management of personal loans, and improved risk management system. The Bank continued to promote the financing limit management of personal customers, thereby realizing effective management of the total amount of various financing limits for personal customers. The Bank also further improved personal loan collection mechanism construction, customer manager post-lending management assessment mechanism, customer information updating and maintenance as well as governing rules and system functions, and intensified personal loan classification management for enhanced monitoring and analysis of the quality of personal loans.

The Bank actively adjusted the structure of personal credit products and optimized the allocation of personal credit resources. The Bank strictly controlled the entry criteria for borrowers, continued to implement differentiated housing credit policies, and propelled innovation of personal consumption loan products.

The Bank further standardized and improved the operation process for credit business and continued to improve the level of IT-based personal credit management. The Bank enhanced personal loan compliance management to ensure business process compliant with laws and regulations. The Bank also improved credit approval flow based on classification of personal housing loans, defined detailed automatic approval rules and simplified approval implementation conditions, to increase the efficiency of personal housing loan approval.

◆ *Credit Risk Management of Credit Card Business*

In accordance with risk characteristics and trends of credit card business, the Bank reinforced credit card approval management, established dynamic credit management system for risk customers, continued to strengthen dynamic credit management of high-risk customers. The Bank optimized the dynamic credit management system by adding the function of monitoring large-amount credit changes, in order to identify and warn against large-amount credit. The Bank also strengthened rigid control of internal rating and scoring in business processes including credit card issuing, credit extention adjustment and collection, and implemented differentiated application strategy according to different customers and products. The Bank increased credit risk monitoring efforts through constantly improving functions of risk monitoring system and risk monitoring model system. In addition, the Bank fully enhanced credit card asset quality management and paid close attention to asset quality trends. The Bank intensified collection and disposal of NPLs by establishing large-amount credit card NPL collection accountability system, making dynamic adjustment of collection strategies, improving collaborated collection management measures and putting into use the collaborated collection management module of post-lending management system.

◆ *Credit Risk Management of Treasury Operations*

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

In 2013, the Bank continued to strengthen risk management of treasury operations by further improving the risk monitoring and analysis mechanism and intensifying credit concentration management for financial institutional customers. The Bank also timely adjusted bonds investment structure according to changes in debt and credit policies, thus effectively reducing credit risk of bonds investment portfolios. Additionally, the Bank continuously followed interbank business risk, implemented stringent customer entry thresholds, to boost interbank credit management.

◆ *Credit Asset Quality Management*

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

In 2013, the Bank consolidated credit asset quality management to ensure stable credit asset quality. Specifically, the Bank improved NPL forecasting mechanism to accurately grasp the trend of changes in NPLs, strengthened management of NPLs to key areas and large-amount NPLs, and intensified management, collection and disposal of NPLs. The Bank also increased cash collection efforts to raise the proportion of cash repayment, promoted the implementation of batch transfer of non-performing assets, and broadened the channels for disposal of non-performing assets.

◆ *Risk Management of Financial Asset Service Business*

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

In 2013, the Bank set up the risk management system for financial asset service business in a gradual manner. The Bank promoted the construction of financial asset service business risk management organizational framework and perfected relevant rules and systems. The Bank streamlined and standardized authorization-related matters from three dimensions of credit risk, wealth management investment and business handling, in order to strengthen authorization management. The Bank formulated and issued the guide for agency investment of financing and investment customers to clarify industry selection, total amount control, entry thresholds for financing customers and projects, and specially developed the methods, process and management requirements on risk limit approval of financing customers. The Bank laid down and improved post-investment management rules, standardized risk management in the duration of agency investment and financing customers, and actively promoted financial asset service business system construction to enhance IT-based management.

Measurement of Credit Risk

Credit Risk Exposure

The table below sets out credit risk exposure of the Bank under the weighted approach.

CREDIT RISK EXPOSURE

In RMB millions

	At 31 December 2013	
Type of risk exposure	Risk exposure	Unmitigated risk exposure
On-balance sheet credit risk	**18,813,159**	**18,106,535**
Cash assets	3,299,133	3,299,133
Claims on the central governments and central banks	1,501,222	1,501,222
Claims on public sector entities	120,648	119,748
Claims on Chinese financial institutions	3,049,481	2,995,218
Claims on financial institutions registered in other countries or jurisdictions	473,650	306,906
Claims on corporates	7,097,938	6,627,534
Claims on qualified small and micro enterprises	79,495	76,750
Claims on retail portfolios	2,675,627	2,665,340
Residual value of leasing assets	91,161	91,161
Equity investment	32,568	32,537
Others	391,657	390,407
On-balance sheet securitization exposures	579	579
Off-balance sheet credit risk	**1,284,485**	**1,100,346**
Counterparty credit risk	**53,715**	**53,048**
Total	**20,151,359**	**19,259,929**

The weights adopted in the weighted approach-based measurement of credit risk by the Bank are subject to relevant provisions of the Capital Regulation. The table below sets out credit risk exposure of the Bank by risk weights.

CREDIT RISK EXPOSURE BY WEIGHTS

In RMB millions

Risk weight	At 31 December 2013 Risk exposure	At 31 December 2013 Unmitigated risk exposure
0%	6,653,376	6,653,376
20%	404,465	396,410
25%	798,904	761,440
50%	1,717,249	1,717,173
75%	1,162,325	1,146,760
100%	9,347,101	8,516,862
150%	6,465	6,465
250%	57,819	57,788
400%	1,641	1,641
1250%	2,014	2,014
Total	**20,151,359**	**19,259,929**

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

In RMB millions

Item	At 31 December 2013
Ordinary shares issued by other commercial banks	27,840
Long-term subordinated bonds issued by other commercial banks	15,446
Equity investment in commercial entities	3,473
Real estate for non-self use	4
Total	**46,763**

Credit Risk Mitigation

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

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

The Bank analyzes concentration risk of risk mitigation regularly or according to changes in internal and external environment, and takes appropriate countermeasures. The Bank keeps improving the structure of collaterals and pledges and reduces concentration risk by credit structure adjustment.

The table below sets out risk exposure covered by eligible credit risk mitigation instruments under the weighted approach as stipulated in the Capital Regulation.

RISK EXPOSURE COVERED BY ELIGIBLE CREDIT RISK MITIGATION INSTRUMENTS UNDER THE WEIGHTED APPROACH

In RMB millions

Type of mitigation	At 31 December 2013		
	On-balance sheet credit risk	Off-balance sheet credit risk	Counterparty credit risk
Cash items	167,218	165,424	667
Chinese central government	6,670	10	–
People's Bank of China	8	–	–
Chinese policy banks	50,590	802	–
Chinese public sector entities	–	590	–
Chinese commercial banks	302,989	16,623	–
Central governments and central banks in countries or jurisdictions with sovereigns rated AA- or above	169,304	5	–
Commercial banks and public sector entities registered in countries or jurisdictions with sovereigns rated AA- or above	9,580	122	–
Commercial banks and public sector entities registered in countries or jurisdictions with sovereigns rated A- or above and AA- below	265	563	–
Total	**706,624**	**184,139**	**667**

Loan Quality and Allowance for Impairment Losses on Loans

DISTRIBUTION OF LOANS BY FIVE-TIER CLASSIFICATION

In RMB millions, except for percentages

Item	At 31 December 2013	
	Amount	Percentage (%)
Pass	9,632,523	97.08
Special mention	196,162	1.98
Non-performing loans	93,689	0.94
Substandard	36,532	0.37
Doubtful	43,020	0.43
Loss	14,137	0.14
Total	**9,922,374**	**100.00**

OVERDUE LOANS

In RMB millions, except for percentages

	At 31 December 2013	
Overdue periods	Amount	% of total
1 to 90 days	53,868	0.54
91 days to 1 year	36,230	0.37
1 to 3 years	20,848	0.21
Over 3 years	22,685	0.23
Total	**133,631**	**1.35**

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

CHANGES IN ALLOWANCE FOR IMPAIRMENT LOSSES ON LOANS

In RMB millions

	Individually assessed	Collectively assessed	Total
Balance at the beginning of the year	**31,405**	**188,998**	**220,403**
Charge for the year	22,941	15,157	38,098
Including: Impairment allowances charged	35,964	107,889	143,853
Impairment allowances transferred	417	(417)	–
Reversal of impairment allowances	(13,440)	(92,315)	(105,755)
Accreted interest on impaired loans	(2,019)	–	(2,019)
Write-offs	(14,002)	(2,498)	(16,500)
Recoveries of loans and advances previously written off	740	237	977
Balance at the end of the year	**39,065**	**201,894**	**240,959**

For provisioning method of allowance for impairment losses on loans, please refer to the Significant Accounting Policies and Estimates in the Notes to the Financial Statements of the 2013 Annual Report.

Counterparty Credit Risk

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

The counterparty shall meet relevant requirements on customer access standards before conducting derivatives trading with the Bank. The Bank assesses credit standing, risk management and capital strength of the counterparty, approved and regularly reviewed special credit extention for derivatives trading. Before trading, the Bank checks whether the credit extention of the counterparty is adequate or not.

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

The table below sets out counterparty risk exposure of OTC derivatives trading of the Bank at the end of the reporting period.

COUNTERPARTY RISK EXPOSURE OF OTC DERIVATIVES TRADING

In RMB millions

Item	At 31 December 2013
Risk exposure measured under the current exposure method	**52,999**
Interest rate contracts	2,626
Currency contracts	47,770
Equity contracts	3
Commodity contracts	2,600
Credit derivatives	–
Including: Gross positive fair value of derivative contracts	**24,815**
Risk mitigation impact	**–**
Net credit risk exposure of derivatives	**52,999**

Asset Securitization

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

Asset Securitization Business

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

◆ *As originator and lending services provider*

To further adjust the credit structure, diversify asset and capital management means and actively promote business transformation, the Bank originated three securitization projects in 2007, 2008 and 2013, namely 2007 Gongyuan Phase I credit asset-backed securities, 2008 Gongyuan Phase I credit asset securitization project and 2013 Gongyuan Phase I credit asset securitization project. Underlying assets for the three securitization projects were all corporate loans. A total of RMB15,624 million asset-backed securities were issued, where the Bank acted as the originator and lending services provider. As at the end of 2013, 2007 Gongyuan Phase I credit asset-backed securities and 2008 Gongyuan Phase I credit asset securitization trust project completed the payment of principal and interest of all asset-backed securities; for 2013 Gongyuan Phase I credit asset securitization trust project, some underlying assets were still in the duration, the project ran smoothly, and the cash flow generated by the underlying assets pool was timely paid to investors in full.

To raise long-term funds, reduce long and medium-term liquidity risk and support the development of various asset businesses, ICBC (Argentina), a subsidiary of the Bank, conducted several asset securitization businesses. In 2013, ICBC (Argentina) originated three asset securitization products.

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

In RMB millions

Asset securitization product	Originating year	Exposure of underlying assets at origination	Exposure of underlying assets at the end of 2013	External credit rating institution	Originator
2013 Gongyuan Phase I credit asset securitization	2013	3,592	1,250	China Credit Rating Co., Ltd.	The Bank
ICBC (Argentina) asset securitization project — Phase VI	2012	177	74	Fitch	ICBC (Argentina)
ICBC (Argentina) asset securitization project — Phase VII	2012	185	75	Fitch	ICBC (Argentina)
ICBC (Argentina) asset securitization project — Phase VIII	2013	185	112	Fitch	ICBC (Argentina)
ICBC (Argentina) asset securitization project — Phase IX	2013	184	114	Fitch	ICBC (Argentina)
ICBC (Argentina) asset securitization project — Phase X	2013	195	147	Fitch	ICBC (Argentina)

As originator, the Bank held part of subordinated asset-backed securities in the asset securitization business, thereby continuing involvement of transferred credit assets, which was recognized as available-for-sale financial assets on the balance sheet in accordance with the extent of the Bank's continuing involvement. The rest was derecognized. At the end of 2013, assets recognized by the Bank amounted to RMB182 million.

ICBC (Argentina) did not derecognize the underlying assets of these assets securitization. During the reporting period, provisions for impairment loss on underlying assets under duration were RMB20 million.

◆ *As institutional investor*

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

For accounting policies regarding asset securitization, please refer to the Significant Accounting Policies and Estimates in the Notes to the Financial Statements of the 2013 Annual Report.

Asset Securitization Risk Exposure and Capital Requirement

The Bank measures asset securitization risk exposure and capital requirement according to the Capital Regulation. At the end of 2013, risk-weighted assets for asset securitization stood at RMB1,362 million and capital requirement RMB109 million.

ASSET SECURITIZATION RISK EXPOSURE

In RMB millions

Type of risk exposure	Risk exposure at 31 December 2013
As originator	
Asset-backed securities	182
Subtotal	182
As investor	
Asset-backed securities	343
Mortgage-backed securities	54
Subtotal	397
Total	**579**

Asset Securitization Business as Originator

The table below sets out underlying assets of asset securitization business originated by the Bank and not settled at the end of the reporting period.

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

In RMB millions

	At 31 December 2013		
Type of underlying assets	Exposure of underlying assets	Exposure of non-performing underlying assets	Exposure of overdue underlying assets
Corporate loans	1,250	–	–
Personal loans	522	14	46
Total	**1,772**	**14**	**46**

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

The table below sets out new asset securitization business originated by the Bank during the reporting period, all of which were issued at par value.

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

In RMB millions

Type of underlying assets	Exposure of underlying assets at origination	Exposure of underlying assets at the end of 2013
Corporate loans	3,592	1,250
Personal loans	564	373
Total	**4,156**	**1,623**

At the end of 2013, the Bank did not originate any asset securitization products with revolving underlying assets and early amortization feature.

Market Risk

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

Market Risk Management

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

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

In 2013, the Bank continued to strengthen its consolidated management of market risk and comprehensively enhanced the management and measurement of market risk at the Group's level. The Bank constantly improved the Group's market risk management system, strengthened the Group's market risk reporting and limit management as well as the pre-transaction risk control, and sped up the construction of pre-transaction risk control system across the Group to prevent significant risk events. The Bank continued to improve the Group's product control management system, carried out daily product control for each transaction including business reconciliation, verification of valuations, profit and loss analysis and price monitoring, and accelerated the application of the global product control system (GPC) in the overseas institutions. The Bank also actively promoted the preparation for the implementation of IMA for market risk, enhanced independent research and development capability for market risk internal models, optimized market risk measurement models and data management, and popularized core application of IMA. Moreover, the Bank accelerated overseas expansion of the global market risk management (GMRM) system, extended market risk measurement and monitoring coverage, laying a foundation for the implementation of advanced capital management approach.

Measurement of Market Risk

As at the end of 2013, the Bank calculated capital requirement for market risk under the standardized approach which amounted to RMB6,263 million.

CAPITAL REQUIREMENT FOR MARKET RISK

In RMB millions

Risk type	Capital requirement at 31 December 2013
Currency risk	5,010
Interest rate risk	1,048
Commodity risk	53
Equity risk	2
Option risk	150
Total	**6,263**

The Bank continued to strengthen and improve risk measurement and product control of the trading book, and used methods such as value at risk (VaR) for the measurement and management of products of the trading book. The Bank applied the Historical Simulation Method (adopting a confidence interval of 99%, holding period of one day and historical data of 250 days) to measure the VaR of the interest rate risk, currency risk, and commodity risk of fundamental commodity products and derivative products of the trading books of the Head Office and all overseas branches.

VALUE AT RISK (VAR) OF THE TRADING BOOK

In RMB millions

	2013			
Item	Period end	Average	Maximum	Minimum
Interest rate risk	50	45	85	13
Currency risk	39	29	54	15
Commodity risk	16	5	19	0
Total portfolio VaR	**61**	**53**	**95**	**26**

Operational Risk

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

Operational Risk Management

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

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

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

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

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

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

- Risk control / mitigation: The Bank formulates and implements operational risk control basic standards and measures, establishes and implements operational risk mitigation related management measures, builds operational risk control system of the Bank, and timely prevents and mitigates potential operational risk. The Bank's operational risk mitigation measures include but are not limited to outsourcing, insurance, business continuity plan and capital allocation.
- Risk monitoring: The Bank formulates and implements management measures for operational risk monitoring, establishes an overall, professional and regional operational risk indicators monitoring system, and monitors, analyzes and warns key risk exposures of respective business line and institution on a regular basis.
- Risk measurement: The Bank formulates and implements management measures for operational risk capital measurement; relevant departments research and improve calculation methods and models for economic capital and regulatory capital, make capital allocation and adjustment, monitor operational risk capital management according to their responsibilities.
- Risk reporting: The Bank formulates and implements operational risk management measures for risk reporting, truly and fully reflects the operational risk profile of all business lines and institutions, reveals potential critical risks and proposes effective measures and suggestions for improvement.

In 2013, in accordance with latest regulatory requirements concerning operational risk and the trends of operational risk, the Bank continuously strengthened the refined management of operational risks in key fields and core links, gradually promoted operational risk management in overseas institutions, and further improved the operational risk management of the Group. The Bank amended, among the others, the Working Regulations for the Operational Risk Management Committee, developed the operational risk limit management plan as well as operational risk loss events identification and classification standards, and further improved the three-tier policy and regulation system for operational risk management comprising the provisions for operational risk management, relevant administrative measures and detailed rules, and manuals. The Bank also enhanced the risk management functions and system construction of internal and external frauds control departments as well as operational risk control system for each business line, continued to optimize the operational risk indicators monitoring system, and strengthened the Group's operational risk data quality control. Besides, the Bank upgraded the operational risk measurement and management system, and actively promoted the optimization of system functions in domestic institutions and extension of system functions in overseas institutions, laying a solid foundation for the implementation of the advanced measurement approach (AMA) for operational risk.

Legal Risk

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

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

In 2013, the Bank proactively pushed forward the reform of its legal affairs management system, reinforced the role of the Legal Affairs Department of the Head Office as the Bank's core legal risk control department, and enhanced the legal risk prevention and control ability of branches. The Bank solidified the legal risk management system and rules and regulations, and further improved the working mechanism and process for consolidated legal risk management as well as legal affairs communication and coordination mechanism within the Bank, and applied legal means to support the internationalized and diversified operations as well as the development and innovation of various businesses. The Bank actively organized and promoted legal collection of non-performing assets, and strengthened the management of lawsuits, in particular where the Bank was the defendant to effectively prevent and control risk of being sued and continuously enhance litigation management. The Bank also further standardized contract management and reinforced authorization management, trademark management and related intellectual property protection.

Anti-money Laundering

In strict compliance with applicable laws and regulations concerning anti-money laundering, the Bank actively implemented the "risk-based" regulatory requirements in respect of anti-money laundering, earnestly fulfilled the social obligation to anti-money laundering as a commercial bank, and fully enhanced the compliance level.

In 2013, the Bank completed the objectives of PBC's comprehensive pilot reform in large-amount and suspicious transaction reporting, optimized anti-money laundering processes, independently established anti-money laundering indicator and model, and developed and put into use the new-generation anti-money laundering monitoring system, significantly enhancing the anti-money laundering reporting quality and efficiency. The Bank improved anti-money laundering risk control management system, and completed the anti-money laundering centralized processing mechanism reform, realizing intensive treatment and professional management of anti-money laundering. The Bank continued to promote the maintenance of customer information to further improve the integrity and authenticity of customer information, completed anti-money laundering assessments and compliance inspections for some overseas institutions, continuously perfected and promoted the global special control list processing system and the anti-money laundering system of overseas institutions, and constantly enhanced its anti-money laundering and anti-terrorist financing risk control. The Bank bolstered anti-money laundering professional team building, formed the first anti-money laundering expert team of the Head Office, held trainings on Certified Anti-Money Laundering Specialists (CAMS) to enhance the professional skills of anti-money laundering staff. The Bank also carried out publicity activities on anti-money laundering in various dimensions and forms and to raise employees' awareness of anti-money laundering compliance.

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

Operational Risk Measurement

The Bank adopts the basic indicator approach to measure capital requirement for operational risk. As at the end of 2013, the capital requirement for operational risk was RMB78,438 million.

Liquidity Risk

Liquidity risk is defined as the risk that the Bank, despite its solvency, is unable to raise funds on a timely basis or at a reasonable cost to fund the asset growth or to settle liabilities as they fall due. Liquidity risk includes financing liquidity risk and market liquidity risk. Financing liquidity risk refers to the risk that the Bank fails to satisfy the funding needs in a timely and effective manner without affecting daily operation or financial position of the Bank, while market liquidity risk refers to the risk that the Bank is unable to raise funds through the disposal of assets at a reasonable market price as a result of market illiquidity or volatility.

Liquidity risk may arise from the following events or factors: withdrawal of customers' deposits, drawing of loans by customers, overdue payment of debtors, mismatch between assets and liabilities, difficulties in asset realization, operating losses, derivatives trading risk and risk associated with its affiliates.

Liquidity Risk Management

In 2013, according to the macroeconomic environment and the changes of financial regulatory policies, the Bank continued to strengthen the development of its liquidity risk management system and the management of liquidity risk. The Bank intensified the building of the RMB operation management mechanism for overseas institutions, and formulated the annual management scheme for RMB treasury operation of overseas institutions. The Bank attached great importance to the capital operation of off-balance sheet businesses to enhance consolidated liquidity management of on- and off-balance sheet businesses, and pushed forward the interest rate liberalization reform by improving repricing mechanism. The Bank continued to track the development of PBC second-generation payment system, and improved its functions of the liquidity management module of the Bank's payment system, to strengthen grounds for liquidity management.

◆ *Liquidity Risk Management System and Governance Structure*

The Bank's liquidity risk management system includes the following fundamental elements: effective monitoring by the Board of Directors and the Senior Management; sound strategy, policy and procedures for liquidity risk management; comprehensive identification, measurement, monitoring and control procedures for liquidity risk; sound internal control and effective supervision mechanism; effective and comprehensive information management system; and effective crisis handling mechanism.

In respect of liquidity risk management, the Bank's governance structure embodies the decision-making system comprising the Board of Directors and its special committees as well as the Asset & Liability Management Committee and the Risk Management Committee of the Head Office; the supervision system consisting of the Board of Supervisors, the Internal Audit Bureau and the Internal Control & Compliance Department; and the execution system comprising the Asset & Liability Management Department, the business departments and the operation management departments of the Head Office. Each of these systems undertakes corresponding decision making, supervision and execution functions according to their respective responsibilities.

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

The objective of liquidity risk management of the Bank is to meet the liquidity needs of asset, liability and off-balance sheet activities and meet its payment obligation to external parties on a timely basis and to effectively balance fund profitability and security no matter during the normal operation or at a highly stressed condition which is achieved through the development of a scientific and comprehensive liquidity risk management mechanism and the implementation of effective identification, measurement, monitoring and control measures on liquidity risk. On this basis, the Bank aims to strengthen liquidity risk management and monitoring of its affiliates and to mitigate the overall liquidity risk of the Group.

The strategy of liquidity risk management of the Bank is to establish a centralized liquidity risk management mode based on the thorough consideration of the organizational structure and major business characteristics of the Bank as well as regulatory policies, and list out concrete policies in relation to specific matters of liquidity risk management. Important policies for liquidity risk management are formulated in accordance with external and macro operating environments and business development of the Bank, with a view to striking an effective balance among security, liquidity and profitability.

◆ *Liquidity Risk Management Mode*

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

◆ *Stress Testing*

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

Liquidity Risk Analysis

The Bank paid close attention to the macro-control policy and the trend of market funds, and dynamically adjusted its liquidity management strategy and capital operation tempo in accordance with the Bank's assets and liabilities, business development and liquidity status. The Bank improved the scale and structure of liquidity reserve assets at all levels, effectively overcame the impact of periodical and seasonal factors on the Bank's liquidity, effectively reduced the use of low-efficiency funds while ensuring bank-wide liquidity at a safe level, raised its fund use efficiency and practically improved its ability to deal with liquidity risk.

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

In 2013, the deposit and loan businesses of the Bank maintained coordinated development, the asset and liability structure was further improved, and liquidity risk management ability was further strengthened. Relevant indicators reflecting the Bank's liquidity status all met the regulatory requirements. See the table below for details:

Item		Regulatory criteria	At 31 December 2013
Liquidity ratio (%)	RMB	>=25.0	30.2
	Foreign currency	>=25.0	61.0
Loan-to-deposit ratio (%)	RMB and foreign currency	<=75.0	66.6

The Bank also assessed the liquidity risk status by using liquidity exposure analysis. As at the end of 2013, the decreased negative liquidity exposure for the within 1 month category was mainly due to the decrease of due to banks and other financial institutions; the increased negative liquidity exposure for the 1 to 3 months category was mainly due to the increase of financial liabilities at fair value through profit or loss; the increase of customers' deposits and the decrease of bonds investment led to the increased negative liquidity exposure for the 3 months to 1 year category; the increased positive liquidity exposure for the 1 to 5 years category was mainly attributed to the increased of medium and long-term customers' deposits and bonds investment; the increased positive liquidity exposure for the above 5 years category was mainly attributed to the increased of customers' deposits. Deposits of the Bank maintained steady growth with a high deposition rate, and at the same time, the Bank made major investment in central bank bills, treasury bonds and other high-liquidity assets, and possessed sufficient liquidity reserves, which have driven the cumulative positive liquidity exposure to further increase compared to the end of last year. Therefore, the overall liquidity of the Bank was safe. The liquidity exposure analysis of the Bank as at the end of 2013 is shown in the table below:

LIQUIDITY EXPOSURE ANALYSIS

In RMB millions

	Overdue/ repayable on demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	Total
At 31 December 2013	(7,569,949)	(339,167)	(767,112)	(529,145)	2,978,075	4,387,952	3,117,809	1,278,463
At 31 December 2012	(7,008,584)	(439,485)	(461,287)	(697)	2,158,073	4,046,904	2,833,535	1,128,459

Interest Rate Risk in the Banking Book

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

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

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

In accordance with the relevant provisions of CBRC, the Bank measures the impact of changes in interest rates on net interest income and equity value on a quarterly basis. In the measurement process, the Bank sets demand deposits interest rate re-pricing date as overnight. As personal residential mortgage loans may be prepaid, the Bank analyzes historical prepayment data and access the impact of prepayment on interest rate risk measurement. As at the end of 2013, under the assumption that the overall interest rate in the market moves in parallel without taking into account the risk management actions that the Management may take to mitigate interest rate risk, the Bank's interest rate sensitivity analysis is set out below:

INTEREST RATE SENSITIVITY ANALYSIS

In RMB millions

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

Equity Risk in the Banking Book

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

EQUITY RISK IN THE BANKING BOOK

In RMB millions

	At 31 December 2013		
Equity type	**Publicly-traded equity investment risk exposure[(1)]**	**Non-publicly-traded equity investment risk exposure[(2)]**	**Unrealized potential gains (losses)[(3)]**
Financial institution	28,221	874	218
Corporate	1,900	1,573	863
Total	**30,121**	**2,447**	**1,081**

Notes: (1) Refers to equity investment made in listed companies.

(2) Refers to equity investment made in non-listed companies.

(3) Refers to unrealized gains or losses recognized on the balance sheet but not recognized on the income statement.

For accounting policies regarding equity investment, please refer to the Significant Accounting Policies and Estimates in the Notes to the Financial Statements of the 2013 Annual Report.

Reputational Risk

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

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

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

In 2013, the Bank continued to strengthen reputational risk management and enhance the reputational risk management awareness and implementation. The Bank advanced the reputational risk management system and working mechanism construction, carried out identification, evaluation, monitoring, control, mitigation and assessment of reputational risk in an extensive manner, and conducted all-round and whole-process reputational risk management. The Bank reviewed reputational risk in a comprehensive manner, placed emphasis in strengthening the control and mitigation of factors causing reputational risk, and conducted reputational risk management work with a view to achieve consumer protection, service enhancement and internal control management improvement. The Bank paid attention to the impact of new communication patterns including Weibo and WeChat, studied new changes of communication patterns, and developed corresponding reputational risk management strategies.

Country Risk

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

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

In 2013, in response to the complicated international political and economic situation and new challenges brought therefrom, the Bank continued to strengthen country risk management according to regulatory requirements and business development of the Bank. The Bank further improved the country risk management policies and procedures, closely monitored country risk exposure, kept track of changes in country risk, and timely updated the country rating, limits and country risk reporting to fully reflect changes in country risk. The Bank also actively carried out country risk stress tests, strengthened the early warning mechanism for country risk, improved relevant contingency plans, and effectively controlled country risk while pushing ahead the internationalization strategy.

Remuneration

Remuneration Governance Framework

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

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

Compensation Committee of the Board of Directors

The Compensation Committee is mainly responsible for formulating assessment measures on the performance of duties for directors, organizing the assessment on the performance of duties of Directors, putting forth proposal on remuneration distribution for Directors, putting forth proposal on remuneration distribution for Supervisors based on the performance assessment on Supervisors carried out by the Board of Supervisors, formulating and reviewing the assessment measures and compensation plans for Senior Management members of the Bank and evaluating the performance and behaviors of Senior Management members. As at the end of the reporting period, the Compensation Committee of the Bank consisted of eight directors, including Executive Director Mr. Yi Huiman; Independent Non-executive Directors Mr. Or Ching Fai, Mr. Wong Kwong Shing, Frank, Sir Malcolm Christopher McCarthy, Mr. Kenneth Patrick Chung and Mr. Yi Xiqun; Non-executive Directors Ms. Wang Xiaoya and Mr. Fu Zhongjun. Independent Non-executive Director Mr. Or Ching Fai was the chairman of the committee. During the reporting period, the Compensation Committee held two meetings.

Remuneration Management Policies

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

Performance-based Remuneration Mechanism

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

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

Risk-aligned Remuneration Mechanism

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

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

A deferred payment schedule is gradually introduced according to business development needs. The Bank deferred part of the performance-related remuneration of employees who assume responsibilities for material risk and risk management and control. Deferred payment proportion gradually increases along with the level of position and liability. Deferred remuneration for the Senior Management members takes up a minimum 50% of their total remuneration and the term of such deferred payment generally is no less than three years. For employees receiving deferred payment, if significant losses of risk exposures incurred within their responsibility during their employment, the Bank can recall part or all of performance-related remuneration paid in relevant period and stop the further payments.

Independence of the Remuneration for Risk and Compliance Employees

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

For basic information and annual remuneration of Senior Management members and remuneration of the Compensation Committee of the Board of Directors of the Bank, please refer to the 2013 Annual Report.

Appendixes

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

CAPITAL COMPOSITION

In RMB millions, except for percentages

S/N	Item	Amount	Reference
Core tier 1 capital:			
1	Paid-in capital	351,390	p
2	Retained earnings	838,834	
2a	Surplus reserve	123,870	s
2b	General reserve	202,940	t
2c	Retained profits	512,024	u
3	Accumulated other comprehensive income (and other public reserves)	84,164	
3a	Capital reserve	108,202	q
3b	Others	(24,038)	v
4	Valid portion to core tier 1 capital during the transition period (only applicable to non-joint stock companies. Fill in 0 for joint stock banks)	–	
5	Valid portion of minority interests	1,956	w
6	**Core tier 1 capital before regulatory adjustments**	**1,276,344**	
Core tier 1 capital: Regulatory adjustments			
7	Prudential valuation adjustments	–	
8	Goodwill (net of deferred tax liabilities)	8,049	n
9	Other intangible assets other than land use rights (net of deferred tax liabilities)	1,474	l-m
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences	–	
11	Cash flow hedge reserves that relate to the hedging of items that are not fair valued on the balance sheet	(3,920)	r
12	Shortfall of provision for loan impairment	–	
13	Gain on sale related to asset securitization	–	
14	Unrealized gains and losses due to changes in own credit risk on fair valued liabilities	–	
15	Defined-benefit pension fund net assets (net of related deferred tax liabilities)	–	
16	Directly or indirectly holding in own ordinary shares	–	
17	Reciprocal cross-holdings in core tier 1 capital between banks or between banks and other financial institutions	–	
18	Deductible amount of non-significant minority investment in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	–	

CAPITAL COMPOSITION (CONTINUED)

In RMB millions, except for percentages

S/N	Item	Amount	Reference
19	Deductible amount of significant minority investment in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	–	
20	Mortgage servicing rights	N/A	
21	Deductible amount in deferred tax assets arising from temporary differences	–	
22	Deductible amount exceeding the 15% threshold for significant minority capital investments in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation and undeducted portion of deferred tax assets arising from temporary differences	–	
23	Including: Deductible amount of significant minority investments in core tier 1 capital instruments issued by financial institutions	–	
24	Including: Deductible amount of mortgage servicing rights	N/A	
25	Including: Deductible amount in deferred tax assets arising from temporary differences	–	
26a	Investment in core tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	3,900	i
26b	Shortfall in core tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	–	
26c	Others that should be deducted from core tier 1 capital	–	
27	Undeducted shortfall that should be deducted from additional tier 1 capital and tier 2 capital	–	
28	**Total regulatory adjustments to core tier 1 capital**	**9,503**	
29	**Core tier 1 capital**	**1,266,841**	
Additional tier 1 capital:			
30	Additional tier 1 capital instruments and related premium	–	
31	Including: Portion classified as equity	–	
32	Including: Portion classified as liabilities	–	
33	Invalid instruments to additional tier 1 capital after the transition period	–	
34	Valid portion of minority interests	18	x
35	Including: Invalid portion to additional tier 1 capital after the transition period	–	
36	**Additional tier 1 capital before regulatory adjustments**	**18**	
Additional tier 1 capital: Regulatory adjustments			
37	Directly or indirectly holding additional tier 1 capital of the Bank	–	
38	Reciprocal cross-holdings in additional tier 1 capital between banks or between banks and other financial institutions	–	
39	Deductible amount of non-significant minority investment in additional tier 1 capital instruments issued by financial institutions that are not subject to consolidation	–	

CAPITAL COMPOSITION (CONTINUED)

In RMB millions, except for percentages

S/N	Item	Amount	Reference
40	Significant minority investments in additional tier 1 capital instruments issued by financial institutions that are not subject to consolidation	–	
41a	Investment in additional tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	–	
41b	Shortfall in additional tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	–	
41c	Others that should be deducted from additional tier 1 capital	–	
42	Undeducted shortfall that should be deducted from tier 2 capital	–	
43	**Total regulatory adjustments to additional tier 1 capital**	**–**	
44	**Additional tier 1 capital**	**18**	
45	**Tier 1 capital (core tier 1 capital + additional tier 1 capital)**	**1,266,859**	
Tier 2 capital:			
46	Tier 2 capital instruments and related premium	189,877	o
47	Invalid instruments to tier 2 capital after the transition period	185,346	
48	Valid portion of minority interests	72	y
49	Including: Invalid portion to tier 2 capital after the transition period	–	
50	Valid portion of surplus provision for loan impairment	134,857	b
51	**Tier 2 capital before regulatory adjustments**	**324,806**	
Tier 2 capital: Regulatory adjustments			
52	Directly or indirectly holding tier 2 capital of the Bank	–	
53	Reciprocal cross-holdings in tier 2 capital between banks or between banks and other financial institutions	–	
54	Deductible portion of non-significant minority investment in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	–	
55	Significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	19,400	h
56a	Investment in tier 2 capital instruments issued by financial institutions that are under control but not subject to consolidation	–	
56b	Shortfall in tier 2 capital instruments issued by financial institutions that are under control but not subject to consolidation	–	
56c	Others that should be deducted from tier 2 capital	–	
57	**Total regulatory adjustments to tier 2 capital**	**19,400**	
58	**Tier 2 capital**	**305,406**	
59	**Total capital (tier 1 capital + tier 2 capital)**	**1,572,265**	
60	**Total risk-weighted assets**	**11,982,187**	
Requirements for capital adequacy ratio and reserve capital			
61	Core tier 1 capital adequacy ratio	10.57%	
62	Tier 1 capital adequacy ratio	10.57%	
63	Capital adequacy ratio	13.12%	

CAPITAL COMPOSITION (CONTINUED)

In RMB millions, except for percentages

S/N	Item	Amount	Reference
64	Institution specific buffer requirement	3.5%	
65	Including: Capital conservation buffer requirement	2.5%	
66	Including: Countercyclical buffer requirement	–	
67	Including: G-SIB buffer requirement	1%	
68	Percentage of core tier 1 capital meeting buffers to risk-weighted assets	5.57%	
Domestic minima for regulatory capital			
69	Core tier 1 capital adequacy ratio	5%	
70	Tier 1 capital adequacy ratio	6%	
71	Capital adequacy ratio	8%	
Amounts below the thresholds for deduction			
72	Undeducted amount of non-significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	26,898	c+d+f+g+j
73	Undeducted amount of significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	27,893	e+k
74	Mortgage servicing rights (net of deferred tax liabilities)	N/A	
75	Deferred tax assets arising from temporary differences (net of deferred tax liabilities)	28,724	
Valid caps of surplus provision for loan impairment to tier 2 capital			
76	Provision for loan impairment set aside under the weighted approach	240,959	a
77	Valid cap of provision for loan impairment to tier 2 capital under the weighted approach	134,857	b
78	Provision for loan impairment set aside under the internal rating-based approach	N/A	
79	Valid cap of provision for loan impairment to tier 2 capital under the internal rating-based approach	N/A	
Capital instruments subject to phase-out arrangements			
80	Valid cap to core tier 1 capital instruments for the current period due to phase-out arrangements	–	
81	Excluded from core tier 1 capital due to cap	–	
82	Valid cap to additional tier 1 capital instruments for the current period due to phase-out arrangements	–	
83	Excluded from additional tier 1 capital due to cap	–	
84	Valid cap to tier 2 capital instruments for the current period due to phase-out arrangements	185,346	
85	Excluded from tier 2 capital for the current period due to cap	17,006	

BALANCE SHEET AT THE GROUP'S LEVEL

In RMB millions

Item	Consolidated balance sheet as in published financial statements[1]	Under regulatory scope of consolidation
Assets		
Cash and balances with central banks	3,294,007	3,294,006
Due from banks and other financial institutions	306,366	300,543
Precious metals	61,821	61,821
Placements with banks and other financial institutions	411,618	411,618
Financial assets at fair value through profit or loss	372,556	372,477
Derivative financial assets	25,020	25,020
Reverse repurchase agreements	331,903	331,870
Loans and advances to customers	9,681,415	9,680,819
Available-for-sale financial assets	1,000,800	996,556
Held-to-maturity investments	2,624,400	2,623,602
Receivables	324,488	320,407
Long term equity investments	28,515	32,415
Fixed assets	135,863	135,828
Construction in progress	24,841	24,841
Deferred income tax assets	28,860	28,860
Other assets	265,279	259,332
Total assets	**18,917,752**	**18,900,015**
Liabilities		
Due to central banks	724	724
Due to banks and other financial institutions	867,094	867,094
Placements from banks and other financial institutions	402,161	402,161
Financial liabilities at fair value through profit or loss	553,607	553,543
Derivative financial liabilities	19,168	19,168
Repurchase agreements	299,304	297,616
Certificates of deposit	130,558	130,558
Due to customers	14,620,825	14,622,319
Employee benefits payable	24,529	24,425
Taxes payable	67,051	67,002
Debt securities issued	253,018	253,018
Deferred income tax liabilities	420	136
Other liabilities	400,830	385,665
Total liabilities	**17,639,289**	**17,623,429**

BALANCE SHEET AT THE GROUP'S LEVEL (CONTINUED)

In RMB millions

Item	Consolidated balance sheet as in published financial statements[(1)]	Under regulatory scope of consolidation
Shareholders' equity		
Share capital	351,390	351,390
Capital reserve	108,023	108,202
Surplus reserve	123,870	123,870
General reserve	202,940	202,940
Retained profits	511,949	512,024
Foreign currency translation reserve	(24,038)	(24,038)
Equity attributable to equity holders of the parent company	1,274,134	1,274,388
Minority interests	4,329	2,198
Total equity	**1,278,463**	**1,276,586**

Note: (1) Prepared in accordance with PRC GAAP.

EXPLANATIONS FOR DETAILED ITEMS

In RMB millions

Item	Balance sheet under regulatory scope of consolidation	Reference
Loans and advances to customers	**9,680,819**	
Total loans and advances to customers	9,921,778	
Less: Provision for loan impairment set aside under the weighted approach	240,959	a
Including: Valid cap of provision for loan impairment to tier 2 capital under the weighted approach	134,857	b
Available-for-sale financial assets	**996,556**	
Bond investment measured at fair value	985,296	
Including: Non-significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	13,119	c
Other debt instrument investment measured at fair value	5,008	
Equity investment	6,252	
Including: Undeducted portion of non-significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	1,171	d
Including: Undeducted portion of significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	117	e
Held-to-maturity investments	**2,623,602**	
Including: Non-significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	2,327	f
Receivables	**320,407**	
Including: Non-significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	10,250	g
Including: Significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	19,400	h
Long term equity investments	**32,415**	
Including: Investment in core tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	3,900	i
Including: Undeducted portion of non-significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	31	j
Including: Undeducted portion of significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	27,776	k

EXPLANATIONS FOR DETAILED ITEMS (CONTINUED)

In RMB millions

Item	Balance sheet under regulatory scope of consolidation	Reference
Other assets	**259,332**	
Interest receivable	98,193	
Intangible assets	22,513	l
Including: Land use rights	21,039	m
Other receivables	122,474	
Goodwill	8,049	n
Long-term deferred and prepaid expenses	4,610	
Repossessed assets	393	
Others	3,100	
Debt securities issued	**253,018**	
Including: Valid portion of tier 2 capital instruments and their premium	189,877	o
Share capital	**351,390**	p
Capital reserve	**108,202**	q
Share capital premium	138,580	
Reserve for changes in fair value of available-for-sale financial assets	(29,200)	
Reserve for cash flow hedging	(3,961)	
Including: Cash flow hedge reserves that relate to the hedging of items that are not fair valued on the balance sheet	(3,920)	r
Changes in share of other owners' equity of associates and joint ventures	255	
Equity component of convertible bonds	1,960	
Other capital reserve	568	
Surplus reserve	**123,870**	s
General reserve	**202,940**	t
Retained profits	**512,024**	u
Foreign currency translation reserve	**(24,038)**	v
Minority interests	**2,198**	
Including: Valid portion to core tier 1 capital	1,956	w
Including: Valid portion to additional tier 1 capital	18	x
Including: Valid portion to tier 2 capital	72	y

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS

S/N	Main features of regulatory capital instrument	Ordinary share (A Share)	Ordinary share (H Share)	Tier 2 capital instrument	Tier 2 capital instrument
1	Issuer	ICBC	ICBC	ICBC (Asia)	ICBC (Asia)
2	Unique identifier	601398	1398	ISIN: HK0000091832 BBGID:BBG0027DX770	ISIN: XS0976879279 BBGID:BBG005CMF4N6
3	Governing law(s) of the instrument	Securities Law of the People's Republic of China/China	Securities and Futures Ordinance of Hong Kong/ Hong Kong, China	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with English law, except that the provision of the Notes relating to Subordination shall be governed by, and construed in accordance with, the laws of Hong Kong	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with English law, except that the provision of the Notes relating to Subordination shall be governed by, and construed in accordance with, the laws of Hong Kong
	Regulatory treatment				
4	Including: Transition arrangement of Regulation Governing Capital of Commercial Banks (Provisional)	Core tier 1 capital	Core tier 1 capital	Tier 2 capital	Tier 2 capital
5	Including: Post-transition arrangement of Regulation Governing Capital of Commercial Banks (Provisional)	Core tier 1 capital	Core tier 1 capital	Tier 2 capital	Tier 2 capital
6	Including: Eligible to the parent company/group level	Parent company/ Group	Parent company/ Group	Group	Group
7	Instrument type	Ordinary share	Ordinary share	Tier 2 capital instrument	Tier 2 capital instrument
8	Amount recognized in regulatory capital (in millions, as at the latest reporting date)	RMB320,770	RMB169,200	RMB1,500	RMB equivalent 3,031
9	Par value of instrument (in millions)	RMB264,595	RMB86,795	RMB1,500	USD500

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS (CONTINUED)

S/N	Main features of regulatory capital instrument	Ordinary share (A Share)	Ordinary share (H Share)	Tier 2 capital instrument	Tier 2 capital instrument
10	Accounting treatment	Share capital, Capital reserve	Share capital, Capital reserve	Debt securities issued	Debt securities issued
11	Original date of issuance	19 October 2006	19 October 2006	4 November 2011	10 October 2013
12	Perpetual or dated	Perpetual	Perpetual	Dated	Dated
13	Including: Original maturity date	No maturity date	No maturity date	4 November 2021	10 October 2023
14	Issuer call (subject to prior supervisory approval)	No	No	Yes	Yes
15	Including: Optional call date, contingent call dates and redemption amount	N/A	N/A	5 November 2016, in full amount	10 October 2018, in full amount
16	Including: Subsequent call dates, if applicable	N/A	N/A	N/A	N/A
	Coupons/dividends				
17	Including: Fixed or floating dividend / coupon	Floating	Floating	Fixed	Fixed
18	Including: Coupon rate and any related index	N/A	N/A	6.00%	4.50%
19	Including: Existence of a dividend stopper	N/A	N/A	No	No
20	Including: Fully discretionary, partially discretionary or mandatory cancellation of coupons / dividends	Fully discretionary	Fully discretionary	Mandatory	Mandatory
21	Including: Redemption incentive mechanism	No	No	No	No
22	Including: Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	No	No	No	No
24	Including: If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A
25	Including: If convertible, fully or partially	N/A	N/A	N/A	N/A
26	Including: If convertible, conversion rate	N/A	N/A	N/A	N/A
27	Including: If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A
28	Including: If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A
29	Including: If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A

MAIN FEATURES OF ELIGIBLE CAPITAL INSTRUMENTS (CONTINUED)

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

Definitions

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

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

ICBC

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