中國銀行
BANK OF CHINA

中國銀行股份有限公司
# BANK OF CHINA LIMITED

*(a joint stock company incorporated in the People's Republic of China with limited liability)*
**(the "Bank")**
**(Stock Code: 3988 and 4601 (Preference Shares))**

# ANNOUNCEMENT
# Bank of China Limited Capital Adequacy Ratio Report of 2015

In accordance with the relevant requirements under the *Capital Rules for Commercial Banks (Provisional)* promulgated by the China Banking Regulatory Commission, the meeting of the Board of Directors of the Bank held on 30 March 2016 considered and approved *Bank of China Limited Capital Adequacy Ratio Report of 2015*. Set out below is a complete version of the report for reference only.

By Order of the Board
**Bank of China Limited**
**GENG Wei**
*Secretary to the Board of Directors and Company Secretary*

Beijing, PRC
30 March 2016

*As at the date of this announcement, the directors of the Bank are: Tian Guoli, Chen Siqing, Zhu Hexin, Zhang Xiangdong*, Zhang Qi*, Wang Yong*, Wang Wei*, Liu Xianghui*, Li Jucai*, Chow Man Yiu, Paul#, Jackson Tai#, Nout Wellink#, Lu Zhengfei# and Leung Cheuk Yan#.*

* *Non-Executive Directors*
\# *Independent Non-Executive Directors*

# Bank of China Limited

## Capital Adequacy Ratio Report of 2015

# Contents

# 1 Introduction

## 1.1 Bank Profile

Bank of China was established in February 1912, with the approval of Dr. Sun Yat-sen. From 1912 to 1949, the Bank served consecutively as the country's central bank, international exchange bank and specialised international trade bank. Fulfilling its commitment to serving the public and developing China's financial services sector, the Bank rose to a leading position in the Chinese financial industry and developed a good standing in the international financial community, despite experiencing hardships and setbacks. For a long period of time after 1949, the Bank, as the state-designated specialised foreign exchange and trade bank, was solely responsible for managing China's foreign exchange operations, including international trade settlement, overseas fund transfer and other non-trade foreign exchange businesses, in an effort to provide substantial support for the nation's foreign trade development and the construction of economic infrastructures. Since China's reform and opening up, the Bank has seized historic opportunities emerging from the government's initiative to capitalise on foreign capital and advanced technologies to boost economic development, and developed into China's key channel of attracting foreign capital by leveraging the long-term competitive advantages in foreign exchange business. In 1994, the Bank was transformed into a wholly state-owned commercial bank. In August 2004, Bank of China Limited was incorporated. The Bank was listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange in June and July 2006, respectively, becoming the first Chinese commercial bank to launch A-Share and H-Share initial public offerings and went public in both markets. In 2015, Bank of China was recognised again as a Global Systemically Important Bank (hereinafter referred as the "G-SIB"), becoming the only financial institution from emerging economies recognised for five consecutive years.

As China's most internationalised and diversified bank, the Bank provides a comprehensive range of financial services to customers across the Chinese mainland and 46 countries and regions. The Bank's core business is commercial banking, including corporate banking, personal banking and financial markets services. Bank of China International Holdings Limited, a wholly owned subsidiary, is the Bank's investment banking arm. Bank of China Group Insurance Company Limited and Bank of China Insurance Company Limited, both wholly owned subsidiaries, run the Bank's insurance business. Bank of China Group Investment Limited, a wholly owned subsidiary, undertakes the Bank's direct investment and investment management business. Bank of China Investment Management Co., Ltd., a controlled subsidiary, is engaged in the Bank's fund management business. BOC Aviation conducts the Bank's aircraft leasing business.

Bank of China has upheld the spirit of "pursuing excellence" throughout its hundred-year history. With adoration of the nation in its soul, integrity as its backbone, reform and innovation as its path forward and "people first" as its guiding principle, the Bank has built up an excellent brand image that is widely recognised within the industry and by its customers. Embracing new historic opportunities, the Bank is committed to fulfilling its social responsibilities, striving for excellence, and making further contributions to achieving the China Dream and the great rejuvenation of the Chinese nation.

## 1.2 Basis of Disclosure

China Banking Regulatory Commission (hereinafter referred as the "CBRC") promulgated the *Capital Rules for Commercial Banks (Provisional)* (hereinafter referred as the "*Capital Rules*") in June 2012. The Bank has started to disclose the report of capital adequacy ratios since 2013 as required by the *Capital Rules*. The CBRC approved the Bank's implementation of advanced capital measurement approaches in April 2014.

## 1.3 Scope of Consolidation

The calculation of the unconsolidated capital adequacy ratios covers all the domestic and overseas branches of the Bank (hereinafter referred as "the Bank"). The scope of the calculation of the consolidated capital adequacy ratios includes the Bank and the financial institutions invested by the Bank directly or indirectly (hereinafter referred as "the Group") in accordance with the requirements of the *Capital Rules*.

### *1.3.1 Difference in Scope of Consolidation for Accounting and Regulatory Capital Purposes*

When calculating the consolidated capital adequacy ratios, Bank of China Group Investment Limited, Bank of China Insurance Company Limited, Bank of China Group Insurance Company Limited and Bank of China Group Life Assurance Company Limited, which are consolidated for accounting purpose, are excluded from the scope of capital adequacy ratio.

The equity investments in Bank of China Group Investment Limited are calculated as risk-weighted assets. The equity investments in Bank of China Insurance Company Limited, Bank of China Group Insurance Company Limited and Bank of China Group Life Assurance Company Limited are deducted from the capital of the Group.

### *1.3.2 Profile of BOC-invested entities*

According to the requirements of the *Capital Rules*, the Group applies the following approaches to calculate consolidated capital adequacy ratios based on different types of the invested entities:

- Financial institutions (excluding insurance companies) whereby the Group has a majority or controlling interest are included in the scope of regulatory consolidation.

- Insurance companies, whereby the Group has a majority or controlling interest, are excluded from the scope of regulatory consolidation. The corresponding capital investments are deducted from the capital of the Group.

- Equity investments in commercial entities are calculated as risk-weighted assets, and are not included in the scope of regulatory consolidation.

- Non-significant minority capital investments in financial institutions are not included in the scope of regulatory consolidation. If the Group's aggregated capital investments exceed the prescribed materiality level, i.e. 10% of the Group's common equity tier 1 capital net of regulatory deductions, the portion of investments that exceeds the threshold is deducted from the respective tiers of capital of the Group. If the Group's aggregated investments do not exceed the materiality level as stated above, the investments are calculated as risk-weighted assets.

- Significant minority common equity tier 1 capital investments in financial institutions are not included in the scope of regulatory consolidation. If the Group's common equity tier 1 capital investments exceed the prescribed materiality level, i.e. 10% of the Group's common equity tier 1 capital net of regulatory deductions, the portion of investments that exceeds the threshold is deducted from the Group's common equity tier 1 capital. If the Group's common equity tier 1 capital investments do not exceed the materiality level as stated above, the investments are calculated as risk-weighted assets. Significant minority investments in additional tier 1 capital and tier 2 capital are deducted in full amount from the corresponding tiers of capital of the Group.

Non-significant minority investments refer to the investments in unconsolidated financial institutions (excluding insurance companies) where the Group owns less than 10% (not inclusive) of the paid-in capital (common shares and premiums) of this financial institution. Significant minority investments refer to the investments in unconsolidated financial institutions (excluding insurance companies) where the Group owns more than 10% (inclusive) of the paid-in capital (common shares and premiums) of this financial institution.

**Top 10 Invested Institutions Included into the Scope of Consolidated Capital Adequacy Ratio**

*Unit: RMB Million (except percentages)*

| S/N | Name of Invested Institution | Investment Balance | Shareholding Ratio | Place of Registration | Industry |
|---|---|---|---|---|---|
| 1 | BOC Hong Kong (Group) Limited | 36,915 | 100% | Hong Kong | Commercial Bank |
| 2 | BOC International Holdings Limited | 3,753 | 100% | Hong Kong | Investment Bank |
| 3 | Bank of China (UK) Limited | 3,223 | 100% | United Kingdom | Commercial Bank |
| 4 | Bank of China (Thai) Public Company Limited | 2,133 | 100% | Thailand | Commercial Bank |
| 5 | Bank of China (Luxemburg) S.A. | 1,717 | 100% | Luxembourg | Commercial Bank |
| 6 | Bank of China (Malaysia) Berhad | 1,541 | 100% | Malaysia | Commercial Bank |
| 7 | BANCO DA China Brazil S.A. | 718 | 100% | Brazil | Commercial Bank |
| 8 | Bank of China (Canada) | 662 | 100% | Canada | Commercial Bank |
| 9 | Bank of China (Russia) | 620 | 100% | Russia | Commercial Bank |
| 10 | Bank of China (Zambia) Limited | 560 | 100% | Zambia | Commercial Bank |
| **Total** | | **51,842** | | | |

**Investments in Invested Institutions Deducted from the Group's Capital**

*Unit: RMB Million (except percentages)*

| S/N | Name of Invested Institution | Investment Balance | Shareholding Ratio | Place of Registration | Industry |
|---|---|---|---|---|---|
| 1 | Bank of China Group Insurance Company Limited | 4,509 | 100% | Hong Kong | Insurance |
| 2 | Bank of China Insurance Company Limited | 3,498 | 100% | Beijing | Insurance |
| 3 | Bank of China Group Life Assurance Company Limited | 1,822 | 51% | Hong Kong | Insurance |
| **Total** | | **9,829** | | | |

### *1.3.3 Capital Shortfall and Intra-Group Capital Transfer*

The Group did not experience any capital shortfall nor any restrictions on transfer of regulatory capital within the Group during the reporting period.

# 2 Capital and Capital Adequacy Ratio

## 2.1 Internal Capital Adequacy Assessment Method and Process

The Group's framework for the internal capital adequacy assessment process (hereinafter referred as the "ICAAP") includes the governance structure, policies and systems, major risk assessment, capital planning, stress testing, capital adequacy ratio management plan, and monitoring and reporting system. Pursuant to the CBRC's latest requirements, the Bank established and refined the ICAAP framework and governance structure, defined the roles and responsibilities of the Board of Directors and Senior Management, as well as those of head offices and departments of all entities on the ICAAP. Aligned with the overall development strategies, the Bank aims at developing a package of feasible capital management policies and improving the internal management mechanisms. Policies and rules are primarily focused on capital adequacy ratio management, economic capital management and ICAAP management to standardise all capital management procedures, facilitate business development and respond to the changing regulation. As at the publishing date of this report, the Bank has accomplished the design and implementation of the ICAAP scheme. The ICAAP framework established meets the core requirements of CBRC on the ICAAP for commercial banks. It ensures that major risks are identified, measured or assessed, monitored and reported; ensures that the capital level is commensurate with major risk and risk management capacity; ensures that capital planning is in line with the status and trend of the bank's operation and risk profile, as well as the long-term development strategy.

## 2.2 Capital Planning and Capital Adequacy Ratio Management Plan

To execute the Group's strategic plan, further enhance capital management, and meet regulatory requirements, the Bank formulated *Bank of China Capital Management Plan for 2013–2016* in pursuant to the regulatory requirements and the Group's business development strategies. This plan specifies the objectives and principles in strengthening capital management and key measures for improving capital management. The plan has been comprehensively implemented upon approval by the general meeting of shareholders.

The Group determines annual capital adequacy ratio management objectives and capital budget breakdown scheme based on the medium and long-term capital planning, assigns the indicator breakdown to domestic and overseas entities through capital limit. The Group imbeds the breakdown of capital budge indicators into the performance assessment system, which is subject to periodical monitoring and assessment by the Head Office.

In 2015, the Bank further refined the mechanism of accumulating endogenous capital. To stimulate the entities to increase the capital efficiency and enhance the Group's endogenous capital accumulation capacity, the capital allocation leaned towards the domestic and overseas entities with higher profit growth rates and risk adjusted return on capital (RAROC). Judging from the implementation result, the capital budget has contributed to enhancing capital adequacy ratio management. On one hand, it gradually raised the awareness of capital constraint across all entities. On the other hand, it has significantly enhanced the Head Office's control over the Group's capital adequacy ratio indicators.

The Bank continued to step up external financing steadily and made another issuance of preference shares of RMB28.0 billion successfully in the domestic market on 13 March 2015, indicating that the Bank has completed the overall plan of issuing RMB100.0 billion preference share approved by the Board of Directors and the shareholders' meeting and boost the largest issuance of preference shares by a domestically listed company. In addition, the Bank seized the time window in capital market and redeemed convertible bonds of RMB40.0 billion to encourage investors to convert their debts to common shares, which was finally conducted at a convertible rate up to 99.94% and effectively replenished the common equity tier 1 capital. The replenishment substantially enhanced the Bank's capital base and quality and laid a solid foundation for the future development. The Bank will further improve capital management and promote the sustainable and sound development of the business to meet the shareholders' expectations on return.

## 2.3 Capital Adequacy Ratio

The capital adequacy ratios calculated in accordance with the *Capital Rules, Regulation Governing Capital Adequacy of Commercial Banks* and other related regulations are set forth as follows:

*Unit: RMB Million (except percentages)*

| Item | As at 31 December 2015 | | As at 31 December 2014 | |
|---|---|---|---|---|
| | The Group | The Bank | The Group | The Bank |
| **Calculated in accordance with the *Capital Rules*** | | | | |
| Net common equity tier 1 capital | **1,182,300** | **1,042,396** | 1,054,389 | 929,096 |
| Net tier 1 capital | **1,285,459** | **1,142,110** | 1,127,312 | 1,000,841 |
| Net capital | **1,498,396** | **1,335,327** | 1,378,026 | 1,234,879 |
| Common equity tier 1 capital adequacy ratio | **11.10%** | **11.06%** | 10.61% | 10.48% |
| Tier 1 capital adequacy ratio | **12.07%** | **12.12%** | 11.35% | 11.29% |
| Capital adequacy ratio | **14.06%** | **14.17%** | 13.87% | 13.93% |
| **Calculated in accordance with the *Regulation Governing Capital Adequacy of Commercial Banks*** | | | | |
| Core capital adequacy ratio | **11.38%** | **11.56%** | 11.04% | 11.20% |
| Capital adequacy ratio | **14.45%** | **14.53%** | 14.38% | 14.45% |

### 2.4 Composition of Capital

The regulatory capital items calculated on a consolidated basis in accordance with the *Capital Rules* are set forth as follows:

*Unit: RMB Million*

| Item | As at 31 December 2015 | As at 31 December 2014 |
|---|---|---|
| **Common equity tier 1 capital** | **1,197,868** | 1,068,706 |
| Paid-in capital | **294,388** | 288,731 |
| Capital reserve | **139,572** | 130,116 |
| Surplus reserve | **111,207** | 95,630 |
| General reserve | **179,416** | 159,291 |
| Undistributed profits | **451,585** | 383,213 |
| Eligible portion of minority interests | **29,016** | 27,329 |
| Others | **(7,316)** | (15,604) |
| **Common equity tier 1 capital deductions** | **15,568** | 14,317 |
| Goodwill | **96** | 96 |
| Other intangible assets (except land use rights) | **5,369** | 4,554 |
| Gains on sales related to securitization transactions | **204** | 131 |
| Direct or indirect investments in own shares | **86** | 25 |
| Reserve related to the cash-flow hedge items that are not measured at fair value; positive amounts to be deducted and negative amounts to be added back | **(16)** | (10) |
| Investments in common equity tier 1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation | **9,829** | 9,521 |
| **Additional tier 1 capital** | **103,159** | 72,923 |
| Additional tier 1 capital instruments and premiums | **99,714** | 71,745 |
| Eligible portion of minority interests | **3,445** | 1,178 |
| **Tier 2 capital** | **212,937** | 250,714 |
| Tier 2 capital instruments issued and related premiums | **153,266** | 166,368 |
| Excess loan loss provision | **45,839** | 67,299 |
| Eligible portion of minority interests | **13,832** | 17,047 |
| **Net common equity tier 1 capital** | **1,182,300** | 1,054,389 |
| **Net tier 1 capital** | **1,285,459** | 1,127,312 |
| **Net capital** | **1,498,396** | 1,378,026 |

## 2.5 Capital Deduction Limits and Excess Loan Loss Provisions

As at 31 December 2015, the Group's balance of the capital investments and deferred tax assets did not excess the limits and were not required to be deducted from the Group capital. The limits are as follows:

*Unit: RMB Million*

| Item | As at 31 December 2015 | As at 31 December 2014 |
|---|---|---|
| **Non-significant minority investments to financial institutions that are outside the scope of regulatory consolidation** | **81,133** | 55,840 |
| Of which: Common equity tier 1 capital investment | **3,972** | 5,539 |
| Additional tier 1 capital investment | **2,274** | – |
| Tier 2 capital investment | **74,887** | 50,301 |
| Limit (10% of the Group's net common equity tier 1 capital) | **118,230** | 105,439 |
| Difference | **37,097** | 49,599 |
| **Significant minority common equity tier 1 capital investment to financial institutions that are outside the scope of regulatory consolidation** | **4,169** | 3,330 |
| Limit (10% of the Group's net common equity tier 1 capital) | **118,230** | 105,439 |
| Difference | **114,061** | 102,109 |
| **Deferred tax asset relying on the bank's future profitability** | **21,635** | 24,627 |
| Limit (10% of the Group's net common equity tier 1 capital) | **118,230** | 105,439 |
| Difference | **96,595** | 80,812 |
| **Significant minority common equity tier 1 capital investment to financial institutions that are outside the scope of regulatory consolidation and deferred tax asset relying on the bank's future profitability (non-deducted portion)** | **25,804** | 27,957 |
| Limit (15% of the Group's net common equity tier 1 capital) | **177,345** | 158,158 |
| Difference | **151,541** | 130,201 |

As at 31 December 2015, the excess loan loss provision qualifying for inclusion in tier 2 capital was RMB45,839 million, which was calculated in accordance with the CBRC regulations in the parallel run period: (i) Where the provision is less than 150% of non-performing loan coverage, all excess loan loss provision up to a maximum of 0.6% of credit risk-weighted assets shall be qualifying for inclusion in tier 2 capital; and (ii) Where the provision is more than 150% of non-performing loan coverage, all excess loan loss provision exceeding 150% of non-performing loan coverage shall all be qualifying for inclusion in tier 2 capital. The limits to relevant excess loan loss provisions are as follows:

*Unit: RMB Million*

| Item | As at 31 December 2015 | As at 31 December 2014 |
|---|---|---|
| **Covered by Internal Ratings-Based Approach** | | |
| Excess loan loss provisions under Internal Ratings-Based Approach | **73,651** | 82,026 |
| Limit of excess loan loss reserve attributable to tier 2 capital under the Internal Ratings-Based Approach irrespective of adjustment during the parallel run period | **37,918** | 36,139 |
| Amount of excess loan loss reserve attributable to tier 2 capital during the parallel run period | **40,464** | 67,299 |
| **Parts not covered by Internal Ratings-Based Approach** | | |
| Amount of excess loss reserve under the Regulatory Weighting Approach | **5,375** | – |
| Limit of excess loan loss reserve attributable to tier 2 capital under the Regulatory Weighting Approach | **42,633** | 37,309 |
| Amount of excess loan loss reserve attributable to tier 2 capital | **5,375** | – |

## 2.6 Material Capital Investments

Please refer to the "Significant Matters" of the Bank's 2015 Annual Report for more details about the material capital investments during the reporting period.

## 2.7 Paid-in Capital

As at the end of the reporting period, the Group's paid-in capital amounted to RMB294,388 million. Please refer to the "Changes in Share Capital and Shareholdings of Substantial Shareholders" of the Bank's 2015 Annual Report for more details about the changes in the share capital of the Bank.

Disclosures required in Annex 2 — *Notice on Enhancing Disclosure Requirements for Composition of Capital* of the *CBRC Notice on issuing regulatory documents on capital regulation for Commercial Banks* issued by the CBRC are attached in the annex of this report. The information disclosed includes: the composition of the capital, the balance sheets of the Group (prepared both on accounting and the regulatory consolidated basis), breakdown of items of each balance sheet, the reconciliation between the capital items and the balance sheet items, as well as the key terms and conditions of the capital instruments.

# 3 Risk Management

## 3.1 Risk Management Framework

The Group has established a three-level risk management framework comprising the Board of directors, senior management and departments.

The Board of Directors, as the highest decision-making body for risk management of the Group, is responsible for approving the high-level risk management strategy and risk appetite, approving or authorizing internal capital adequacy assessment policies, and overseeing the implementation of policies by senior management. The Board has set up a Risk Policy Committee, which is responsible for reviewing risk management strategies, major risk management policies/rules and risk management procedures, supervising the implementation by management, and making recommendations to the Board of Directors. The Committee also monitors the status of the Group's risk management, reviews major risk management activities, and exercises veto right over significant transactions. In addition, the Board of Directors has an Audit Committee, which is responsible for evaluating and supervising the adequacy and effectiveness of the risk management, internal capital adequacy assessment, internal control and governance procedures designed and implemented by senior management.

Senior management is responsible for approving specific risk management policies, organising the development and operation of capital adequacy assessment procedures, implementing risk management policies and procedures, undertaking and monitoring all risks arising from business operations. The Risk Management and Internal Control Committee, as the specialised committee under senior management, performs comprehensive risk management within the authority on behalf of senior management. Specifically, the Committee is responsible for implementing the overall risk strategy and risk appetite of the Bank as specified by the Board of Directors, establishing and improving risk management systems, guiding and supervising the bank-wide implementation of these systems, and maintaining the overall operation of the internal control system.

Risk management functional departments of the Group are responsible for daily risk management. They formulate risk management policies and rules, develop risk management techniques, take the lead in identifying, assessing, monitoring, reporting and controlling various risks, and perform overall management, inspection and supervision over risk management practices at branches, subsidiaries and business units. Risk Management Department, Credit Approval Department, and Credit Management Department lead the efforts to manage credit risk, market risk, counterparty credit risk and concentration risk. And Internal Control and Legal & Compliance Department leads the management of operational risk, compliance risk and money laundering risk. Financial Management Department is responsible for the management of strategic risk, liquidity risk and interest rate risk in the banking book; while the Executive Office takes charge of reputational risk management.

The Group applies vertical, window and board management modes to branches, business lines and subsidiaries respectively.

*(1) **Vertical management mode***

The risk management department of a branch performs risk management work of the branch and reports risk status to the risk management functional departments of the Group. The chief risk officer of a branch, subject to the "dual-line reporting system", reports to both the head of the branch and the risk management functions of the Group.

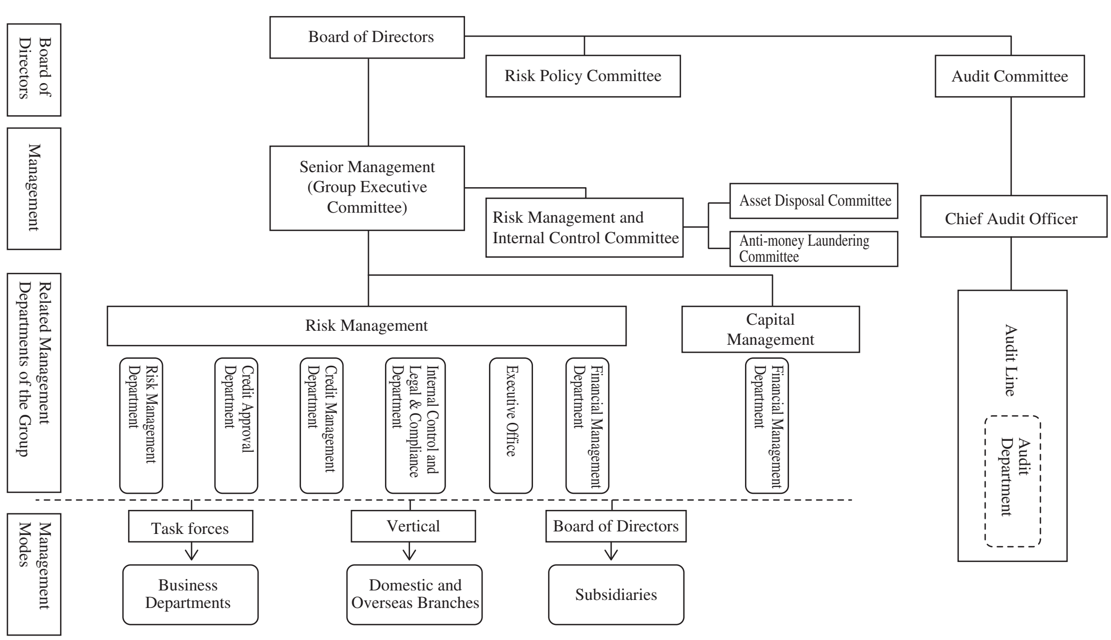
*(2) **Window management mode***

Each Business line sets up a risk management team or position to monitor the risk management of business departments down the reporting line.

*(3) **Board management mode***

The Board of Directors and senior management of each subsidiary are responsible for its risk management. The Group assigns directors to the board or members to the risk management committee in these subsidiaries, to participate in the significant decision-making and articulate the Group's risk appetite through the board of directors or risk management committee.

The organisation of the Group's risk management system is illustrated below:



### 3.2 Significant Changes to Risk Measurement Approaches

There were no significant changes to risk measurement approaches of the Bank in 2015.

### 3.3 Risk-weighted Assets

The Group's risk-weighted assets are as follows:

*Unit: RMB Million*

| Item | As at 31 December 2015 | As at 31 December 2014 |
|---|---|---|
| Credit risk-weighted assets | **9,735,604** | 9,007,917 |
| Market risk-weighted assets | **102,322** | 82,706 |
| Operational risk-weighted assets | **778,533** | 722,984 |
| Risk-weighted assets increment required to reach capital floor | **37,622** | 120,498 |
| **Total risk-weighted assets** | **10,654,081** | 9,934,105 |

*Note:* The Group calculates capital requirements and corresponding risk-weighted assets in accordance with capital floor requirement as stipulated by Annex 14 of the *Capital Rules,* when calculating capital adequacy ratio under the advanced capital measurement approaches. The capital floor adjustment coefficient in 2015 was 95%.

# 4 Credit Risk

## 4.1 Credit Risk Management

The objective of the Bank's credit risk management is to optimise capital allocation within the acceptable level of risk-taking and to maximise the return for shareholders to meet the requirements of regulators, customers and other stakeholders on the Bank's operation.

The Bank has established the risk management policies and systems by hierarchical management in accordance with the bank-wide risk management strategy and risk appetite to guide and govern credit risk management practices. The Group's credit risk management policies include industrial policy, regional policy, customer policy, product policy and other credit policies.

The Bank's credit risk management covers risk management across all processes, including risk identification, risk assessment, risk monitoring and reporting, and risk control.

## 4.2 Credit Risk Measurement

### *4.2.1 Measurement Methods and Internal Rating System*

The Group applied the Internal Ratings-Based (IRB) Approach for credit risk in the following entities and used the methods as below:

<table>
<tr><th>Entity</th><th>Category of risk</th><th>Sub-category of risk</th><th>Methods</th></tr>
<tr><td rowspan="7">Head Office, domestic branches and BOCHK</td><td rowspan="3">Corporate exposures</td><td>General corporates</td><td rowspan="2">Foundation IRB</td></tr>
<tr><td>SMEs</td></tr>
<tr><td>Specialised lending</td><td>Supervisory slotting criteria approach</td></tr>
<tr><td rowspan="3">Retail exposures</td><td>Residential mortgage exposures</td><td rowspan="3">IRB</td></tr>
<tr><td>Qualifying revolving retail exposures</td></tr>
<tr><td>Other retail exposures</td></tr>
<tr><td>Other exposures</td><td></td><td>Regulatory Weighting Approach</td></tr>
<tr><td>Other consolidated entities</td><td>All risk exposures</td><td></td><td>Regulatory Weighting Approach</td></tr>
</table>

*Governance structure of internal rating system*

The Board of Directors is responsible for reviewing and approving basic policies on internal rating, regularly receiving the internal rating reports from the Senior Management and supervising the effective operation of internal rating system. The Senior Management is responsible for designing, developing, validating and using the internal rating system, formulating internal rating management policy, and submitting internal rating operation reports, validation reports and audit reports to the Board of Directors at least once a year. The risk management departments are responsible for designing, developing and maintaining the smooth operation of the internal rating system, drafting and reporting internal rating policies to the Board of Directors and the Senior Management for approval, and submitting internal operation reports and validation reports to the Board of Directors and the Senior Management regularly. The audit departments are responsible for regularly performing comprehensive audit of the development, validation and use of the internal rating system, and submitting internal rating system audit reports to the Board of Directors. The information technology departments are responsible for developing, maintaining and upgrading the information systems supporting internal rating, and ensuring the safe operation of such systems.

*The structure of internal rating*

The Bank classifies customers into class A, B, C and D by credit rating, and divides credit ratings into 15 grades: AAA, AA, A, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B-, CCC, CC, C and D. Grade D is defined as default, and the others are non-default.

*Risk parameter definition, data and basic approaches to risk measurement*

The Bank's risk parameters include probability of default (PD), loss given default (LGD), exposure at default (EAD) and maturity. PD refers to the probability that the debtor defaults within a certain period (generally one year); LGD refers to the proportion of the loss on debt default in the exposure to the debt; EAD refers to the total expected amount of risk exposures of the on- and off-balance sheet items when a debtor defaults. With reference to historic experience on default, the Bank adopts the statistical default model technique to estimate risk parameters based on its internal data, in order to ensure the accuracy and prudence of risk parameter estimation. The non-retail risk exposure applies the foundation IRB approach and the PD is calculated by the Bank independently. The retail risk exposure applies the IRB approach, and the PD, LGD and EAD are estimated by the Bank independently.

*Application of rating results*

Since the implementation of New Basel Capital Accord, the Bank has made great efforts to promote the application of internal rating results to its business. Internal rating parameters have been widely applied to areas such as credit approval, risk monitoring, limit setting, credit policy and risk reporting. The Bank also actively promotes the application of rating results to economic capital, risk appetite strategy, provision for loss, loan pricing and performance assessment.

### *4.2.2 Credit Risk Exposures*

The Group's EAD distributed by calculation method is as follows:

*Unit: RMB Million (except percentages)*

| | As at 31 December 2015 | | | | |
|---|---|---|---|---|---|
| | **On-balance sheet credit risk** | **Off-balance sheet credit risk** | **Counterparty credit risk** | **Total** | **Average risk weight** |
| Exposures covered by IRB | **7,521,709** | **1,301,808** | **17,759** | **8,841,276** | **71.5%** |
| Corporate exposures | **5,151,687** | **1,150,189** | **17,759** | **6,319,635** | **81.2%** |
| Retail exposures | **2,370,022** | **151,619** | **–** | **2,521,641** | **47.1%** |
| Exposures not covered by IRB | **9,118,682** | **328,579** | **170,097** | **9,617,358** | **35.5%** |
| **Total** | **16,640,391** | **1,630,387** | **187,856** | **18,458,634** | **52.7%** |

*Unit: RMB Million (except percentages)*

| | As at 31 December 2014 | | | | |
|---|---|---|---|---|---|
| | **On-balance sheet credit risk** | **Off-balance sheet credit risk** | **Counterparty credit risk** | **Total** | **Average risk weight** |
| Exposures covered by IRB | 6,984,988 | 1,341,550 | 16,754 | 8,343,292 | 72.2% |
| Corporate exposures | 4,900,513 | 1,200,052 | 16,754 | 6,117,319 | 80.9% |
| Retail exposures | 2,084,475 | 141,498 | – | 2,225,973 | 48.3% |
| Exposures not covered by IRB | 8,159,439 | 535,488 | 136,057 | 8,830,984 | 33.8% |
| **Total** | 15,144,427 | 1,877,038 | 152,811 | 17,174,276 | 52.5% |

### *4.2.3 Exposures Covered by IRB*

4.2.3.1 *Corporate exposures (excluding specialised lending and counterparty credit risk)*

The Group's EAD of corporate exposures covered by IRB distributed by credit rating is as follows:

*Unit: RMB Million (except percentages)*

| Rating | As at 31 December 2015 | | | As at 31 December 2014 | | |
|---|---|---|---|---|---|---|
| | EAD | Weighted average PD | Weighted average LGD | EAD | Weighted average PD | Weighted average LGD |
| A | **3,523,345** | **0.8%** | **41.3%** | 3,404,716 | 0.8% | 41.0% |
| B | **2,644,531** | **2.9%** | **40.3%** | 2,599,770 | 2.8% | 39.7% |
| C | **36,129** | **23.7%** | **39.0%** | 26,210 | 18.8% | 39.7% |
| D | **97,057** | **100.0%** | **43.6%** | 68,651 | 100.0% | 43.0% |
| **Total** | **6,301,062** | **7.2%** | **40.9%** | 6,099,347 | 5.4% | 40.4% |

*Note:* The average PD of corporate risk exposures is calculated as the arithmetic mean of each customer's PD (including defaulted customers). The LGD is the weighted average of each customer's LGD weighted by EAD.

4.2.3.2 *Specialised lending risk exposures*

The EAD of the Group's specialised lending by regulatory rating is as follows:

*Unit: RMB Million*

| Supervisory rating | As at 31 December 2015 | As at 31 December 2014 |
|---|---|---|
| Strong | **372** | 399 |
| Good | **442** | 246 |
| Satisfactory | **–** | 573 |
| Weak | **–** | – |
| Default | **–** | – |
| **Total** | **814** | 1,218 |

#### 4.2.3.3 *Retail exposures*

The Group's EAD of retail exposures covered by IRB distributed by product is as follows:

*Unit: RMB Million (except percentages)*

| Item | As at 31 December 2015 | | | As at 31 December 2014 | | |
|---|---|---|---|---|---|---|
| | **EAD** | **Weighted Average PD** | **Weighted average LGD** | **EAD** | **Weighted average PD** | **Weighted average LGD** |
| Residential mortgage exposures | **1,966,001** | **1.2%** | **25.0%** | 1,608,602 | 1.1% | 24.6% |
| Qualifying revolving retail exposures | **222,627** | **2.8%** | **49.9%** | 219,369 | 4.0% | 47.5% |
| Other retail exposures | **333,013** | **4.3%** | **37.4%** | 398,002 | 4.2% | 37.6% |
| **Total** | **2,521,641** | **2.6%** | **28.8%** | 2,225,973 | 3.6% | 29.2% |

*Note:* The average PD of retail risk exposures is calculated as the arithmetic mean of PD of each debt (including defaulted debts). The LGD is the weighted average of each debt, weighted by EAD.

### *4.2.4 Exposures not Covered by IRB*

#### 4.2.4.1 *Risk weight determination method*

The Group determines the risk weights of risk exposure not covered by IRB in strict compliance with the *Capital Rules*; and for the claims covered by eligible mitigation instruments, the Group adopts the risk weights applicable to the corresponding mitigation instruments.

### 4.2.4.2 *Credit risk exposures not covered by IRB (excluding counterparty credit risk)*

The Group's credit risk exposures not covered by IRB are distributed by customer as follows:

*Unit: RMB Million*

| | As at 31 December 2015 | As at 31 December 2014 |
|---|---|---|
| **On-balance sheet assets** | **9,118,682** | 8,159,439 |
| Cash | **2,000,290** | 2,187,598 |
| Claims on central governments and central banks | **1,715,664** | 1,664,116 |
| Claims on public sector entities | **709,086** | 105,921 |
| Claims on domestically incorporated financial institutions | **2,140,317** | 1,770,562 |
| Claims on financial institutions incorporated in other jurisdictions | **401,153** | 344,520 |
| Claims on general corporates | **1,351,734** | 1,361,929 |
| Claims on qualified micro-and small enterprises | **10,369** | 20,605 |
| Claims on retail customers | **432,135** | 361,000 |
| Residual value of leased assets | **–** | – |
| Equity investment | **46,650** | 41,896 |
| Non-own-use real estate | **1,951** | 2,037 |
| Risk exposure incurred in the course of clearing securities, commodity and foreign exchange transactions | **–** | – |
| Asset securitization | **28,905** | 17,636 |
| Other assets | **280,428** | 281,619 |
| **Off-balance sheet assets** | **328,579** | 535,488 |

Risk exposures of capital instruments at various tiers issued by other commercial banks held by the Group, equity investments in commercial enterprises and financial institutions as well as non-own-use real estate are disclosed as follows:

*Unit: RMB Million*

| | **As at 31 December 2015** | **As at 31 December 2014** |
|---|---:|---:|
| Capital instruments at various tiers issued by other financial institutions held by the Group | **49,972** | 29,940 |
| Of which: Common equity tier 1 capital | **3,253** | 2,572 |
| Additional tier 1 capital | **–** | – |
| Tier 2 capital | **46,719** | 27,368 |
| Equity investments in commercial enterprises | **33,892** | 30,558 |
| Equity investments in financial institutions | **12,758** | 11,338 |
| Non-own-use real estate | **1,951** | 2,037 |

## 4.3 Credit Risk Mitigation

***Risk mitigation policies***

The Bank transfers or reduces credit risk by utilizing risk mitigation instruments such as collateral and guarantee. The Bank's credit risk mitigation management mainly includes the management of mitigation instruments, risk measurement and information monitoring. A credit risk mitigation and management policy framework has been established, including basic policies, management measures and implementation rules. Overall principles and requirements are specified in the basic polices, and the management measures standardise and unify the management requirements for various risk mitigation instruments, while the implementation rules address the day-to-day management and operation of these mitigation instruments.

***Risk mitigation instruments management process***

The Bank's Risk Management Department is responsible for formulating the Bank's risk mitigation management policies, review and approval of polices and capital measurements, while the related business departments implement day-to-day management of various mitigation instruments within their respective functions. Risk mitigation instruments management involves pre-lending, lending and post-lending processes. The processes include inspection and review, evaluation/assessment, collateral verification, implementation of legal procedures, collateral guarantee, collateral transfer and custody, inspection and review, risk monitoring, re-evaluation, modification and release, collateral disposal etc. Various functions involved in collateral management are responsible for various processes in accordance with the Bank's rules and regulations on collateral management.

### *Main types of collateral*

The Bank's collateral primarily includes financial collateral, receivables, commercial and residential property, as well as other collateral. Financial collateral include CDs, deposits, precious metals, bonds and bills. Land use rights and property are classified into commercial and residential property. Construction-in-progress, vehicles, machinery and equipment, inventory, mining rights and prospecting rights belong to the category of other collateral.

### *Valuation policies and procedures*

The Bank valuates collateral effectively in accordance with policies such as administrative measures on internal assessment of collateral and policies on post-lending revaluation of credit collateral. Collateral valuation management is a dynamic and ongoing process, including evaluation at pre-lending business origination and approval process, credit risk time horizon and collateral re-evaluation at the disposal of assets. At pre-lending phase, the Bank can entrust a professional evaluation agency to evaluate collateral and issue evaluation report. The evaluation conclusion or opinion can be used as reference in credit decision making. During time horizon of credit, the Bank continues to monitor the value of collateral. For the value management of post-lending collateral, the Bank combines regular and irregular re-evaluation. The Bank select evaluation methods, determines evaluation parameters and implements evaluation procedures based on the types and characteristics of collateral. The Bank adjusts the evaluation frequency for collateral with high volatility in market value.

The Bank adheres to the principle of independence, objectivity, rational approach and prudence on the valuation of collateral, and market value is given preferential weighting in the determination of fair value of collateral. Basic asset valuation methods include the market method, cost method and equity method. Based on the valuation object, value type and information collection conditions, one of the above valuation methods will be selected, and other methods will be used to verify valuation results to draw reasonable conclusions.

### *Main types of guarantors*

A guarantor refers to a legal person or other organisation, credit guarantee agency or natural person with legal capacity under civil law, which is able to repay debts on behalf of the debtor. The Bank regulates the qualification of guarantor, assessment of guarantee capacity, monitoring and debt recovery by means of related policies and rules including guarantee management measures, to effectively control and reduce credit risk. As required by the Bank, a guarantor's credit rating should meet relevant requirements. For a guarantor without credit rating, the Bank will assess its capability of risk mitigation on a prudential basis.

*Capital measurement*

By embedding credit risk mitigation instruments' eligibility assessment function and regulatory capital measurement rules in the risk-weighted asset engine (RWA system), the Bank has been able to automatically collect risk mitigation information from the front-end systems, perform eligibility assessment, mapping and allocation of mitigation instruments, and finally automatically calculate the risk mitigation for regulatory capital calculation purpose. The Bank has not yet accepted accounts receivables, other collaterals, netting clearance and credit derivatives as qualifying risk mitigation in its capital measurement.

The EAD covered by each category of qualified risk mitigation instruments of the Group under IRB is as follows:

*Unit: RMB Million*

| Exposure type | As at 31 December 2015 | | | As at 31 December 2014 | | |
|---|---|---|---|---|---|---|
| | Guarantee | Financial collateral | Commercial and residential real estate | Guarantee | Financial collateral | Commercial and residential real estate |
| Corporate exposures | **466,903** | **390,735** | **701,445** | 428,412 | 447,134 | 676,171 |
| Retail exposures | **–** | **–** | **1,768,365** | – | – | 1,436,363 |

## 4.4 Overdue and Non-performing Loans

A loan will be regarded as overdue when the borrower fails to repay it to the lender within the period specified in the loan contract. The total overdue loan at the group level amounted to RMB179,027 million at 2015 year-end.

In accordance with the *Guideline for Loan Credit Risk Classification* issued by the CBRC, loans are classified into five categories: pass performing, special-mention, substandard, doubtful and loss, among which the last three are regarded as non-performing. Where the borrower of a non-performing loan is not able to repay the principal and interest of the loan in full, certain loss might be incurred even when the security interest is claimed. The total non-performing loan at the group level was RMB130,897 million at 2015 year-end.

### 4.5 Allowance for Impairment Losses

To determine whether impairment loss should be recorded in the income statement, the Group assesses impairment allowances to loans individually or collectively.

The Group assesses whether objective evidence of impairment exists individually for loans that are individually significant. If there is objective evidence of impairment, the impairment loss is recognised in the income statement, and the carrying amount of the corresponding financial assets will be written down to the present value of estimated future cash flows (excluding future credit losses not yet incurred) discounted at the financial asset's original effective interest rate. Factors affecting the estimation of future cash flows include but not limited to the granularity of financial information related to specific borrowers, the availability of industry competitors' information and the relevance of sector trends to the future performance of individual borrowers.

The Group performs assessments on all other loans which are not individually significant or on loans for which impairment has not yet been identified by including the loans in a group of loans with similar credit risk characteristics and collectively assesses the impairment. The future cash flows of those loans are estimated on the basis of historical loss experience. The calculation of collectively assessed impairment allowances relies on judgment to a large extent. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the historical loss experience and to remove the effects of conditions in the historical period that do not currently exist.

The Group regularly reviews the methodology and assumptions used for estimating both the amount and timing of future cash flows with reference to the impact from changes and uncertainty in the macro-economic environments in which the Group operates, to reduce differences between loss estimates and actual loss.

Allowance for impairment losses balance and movement in the reporting period:

*Unit: RMB Million*

| Impairment allowances to loans | 2015 | 2014 |
|---|---|---|
| Opening balance | **188,531** | 168,049 |
| Additions | **103,777** | 84,054 |
| Decrease | | |
| Including: reversal | **(47,905)** | (37,448) |
| write-off and transfer out | **(45,204)** | (25,856) |
| Exchange differences | **1,466** | (268) |
| **Closing balance** | **200,665** | 188,531 |

# 5 Market Risk

## 5.1 Market Risk Management

Market risk is defined as the risk of incurring a loss from on-balance sheet and off-balance sheet operations due to adverse changes in market prices (interest rate, exchange rate, stock price, and bulk commodity prices). Measurement of market risk capital shall capture the interest rate risk and stock risk arising from the Bank's trading book, as well as all exchange rate risk and commodity risk, excluding the exposure to structured exchange rate risk.

The objective of the Bank's market risk management is to effectively manage market risk and improve market risk capital allocation through limit management and other mechanisms in light of the overall risk appetite determined by the Board of Directors, and control the market risk within a reasonable level acceptable to the Bank, and achieve a reasonable balance between risk and return, thereby promoting business development and maximising the shareholders' value.

Under the Bank's market risk governance system, the Board of Directors shall assume the ultimate responsibility for market risk management, including determining overall risk appetite and authorising the Risk Policy Committee to review the matters relating to the group risk responsibilities of the Board, and overseeing the implementation of risk management strategy and policy by the Senior Management; the Board of Supervisors is responsible for overseeing the performance of market risk management responsibilities by the Board of Directors and the Senior Management; the Senior Management is responsible for drafting and overseeing the implementation of market risk management policy and procedures, bearing and managing the Group's market risk within the risk appetite determined by the Board of Directors, and coordinating the matching of aggregate risks to business return targets, and the Risk Management and Internal Control Committee under the Senior Management shall implement the Bank's overall risk strategy and risk appetite determined by the Board of Directors; Risk Management Department leads the developing and managing the Bank's market risk internal model system, drafting market risk management policies and rules, assuming market risk responsibilities, and conducting valuation model verification and market risk stress testing. The Bank has established and is continuously improving its market risk reporting system. The Internal Audit Department of the Head Office is responsible for performing the internal audit of market risk internal model approach system.

In 2006, the Bank established the market risk management policy system, monitoring system and reporting system, so as to ensure risk governance system can be applied to day-to-day risk management. So far the Bank has developed sound market risk management system and the system of using internal model approach to measure market risk capital. The systems include market risk governance, policy process, internal model measurement, internal model verification and back-testing, internal model information system, stress testing, file management, internal model application for market risk, and internal audit of market risk management. All relevant policies, methodologies and management methods have been directly applied to such fields as market risk monitoring, measurement, management and reporting.

In 2015, the Bank revised the market risk management policies in response to the changes of market environment, business development and management requirements, continuously improving the responsiveness and adaptability of the Group's market risk management framework. It actively responded to changes in business risk characteristics, reinforced the prevention and control of contagion risks, and established integrated management of counterparty credit risk. In addition, the Bank carried forward its programme of integrating the front, middle and back offices of its financial market businesses, thus supporting its overseas business development. The Bank remained committed to managing market risk of the Group's trading book in a proactive manner. It realised full coverage of market risk limits for all institutions' transactions. It also optimised the dynamic adjustment mechanism of limits so as to provide reasonable risk resources for business growth. In order to strengthen the integrated management of on- and off-balance sheet exposures in bond investments, the Bank established a Group integrated risk warning mechanism for credit-related bonds.

## 5.2 Market Risk Measurement

### *5.2.1 Capital Requirements on Market Risk*

The Group adopts Internal Model Approach and Standardized Approach to measure market risk regulatory capital, mainly including interest rate risk, equity risk, foreign exchange risk and commodity risk. The table below lists the major capital requirements on various types of market risk of the Group.

*Unit: RMB Million*

| | **As at 31 December 2015** | **As at 31 December 2014** |
|---|---|---|
| Covered by Internal Model Approach | **6,296** | 3,830 |
| Not covered by Internal Model Approach | **1,890** | 2,786 |
| Interest rate risk | **1,273** | 2,255 |
| Equity risk | **187** | 361 |
| Foreign exchange risk | **–** | – |
| Commodity risk | **430** | 170 |
| **Total** | **8,186** | 6,616 |

### *5.2.2 VaR*

The following table sets forth the information related to the VaR and stress value at risk of market risks calculated under Internal Model Approach.

*Unit: RMB Million*

| | **For the year ended 31 December** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2015** | | | | **2014** | | | |
| | **Average** | **Maximum** | **Minimum** | **Year-end** | **Average** | **Maximum** | **Minimum** | **Year-end** |
| VaR | **324** | **716** | **166** | **340** | 370 | 573 | 143 | 228 |
| Stress VaR | **1,260** | **1,997** | **724** | **1,353** | 697 | 1,118 | 321 | 801 |

The Group calculates VaR and Stress VaR and conducts back testing according to regulatory requirements. In the reporting period, the Group's market risk measurement model can detect financial market fluctuation timely and reflect the market risks faced by the Group objectively.

# 6 Operational Risk

## 6.1 Operational Risk Management

The Group manages operational risk to aim at reducing the loss resulting from it to an acceptable extent (namely, reduce the loss to the extent within the risk appetite).

The Group has established a three-dimension policy regime, namely, from top to bottom, the policy framework, the administrative measures for operational risk management tools, and the operating guidelines. The policy framework, namely *the Operational Risk Management Policy of Bank of China Limited on Operational Risk Management* published with the approval of the Risk Policy Committee under the Board of Directors of the Bank, which, as the fundamental policy governing the Bank's operational risk management, defines the basic principles, requirements and management framework for the Bank's operational risk management and sets the keynote and direction for the Bank's implementation of operational risk management. The administrative measures and operating guidelines for each and every operational risk management tool from the perspective of managing the operational risk in a loop of risk identification, assessment, monitoring and control/mitigation developed by the group are designed to define underlying principles, roles and responsibilities, methodologies, procedures and steps relating to the implementation of these tools, and effectively addressed operational issues in the implementation process.

To improve operational risk identification, assessment, monitoring, control or mitigation and reporting, the Group has established major operational risk management processes, such as Risk and Control Assessment procedures, Operational Risk Loss Data Collection Procedures, Key Risk Indicator Monitoring Procedures, Business Continuity Management Procedures, Internal Control Inspection and Confirmation Procedures, Internal Control Remediation and Status Tracking Procedures, as well as Operational Risk Reporting Procedures.

The Group measures the regulatory capital for operational risk under the Standardized Approach. Pursuant to the Standardized Approach rules set out in the New Basel Capital Accord, the operational risk capital shall cover the overall business scale and corresponding operational risk exposures of the Bank.

## 6.2 Operational Risk Measurement

During the reporting period, the Group applied the Standardized Approach to measure the consolidated operational risk capital requirement, which amounted to RMB62,283 million.

# 7 Other Risk

## 7.1 Asset Securitization

### *7.1.1 Business Objective*

The Group initiates asset securitization business with an aim to optimize asset portfolios, improve asset-liability structure, expand scale, enhance capital adequacy ratio and improve the Bank's asset liquidity structure management according to the bank-level credit structure adjustment scheme.

As the originator, the Group's risk exposure is mainly due to the potential future loss absorbed by the security which regulations require the Group to retain while other risks are all transferred to other entities through securitization.

### *7.1.2 Business Overview*

Acting as the originating party and loan servicing party of the asset securitization business, the Group participates in the overall project design, coordination, underlying assets selection, due diligence, transaction structure design, securities rating, filing for approval, issuance and disclosure, as well as provides services including managing the asset pool, receiving, transferring and collecting loan principal and interest.

On 19$^{th}$ June, 10$^{th}$ November and 20$^{th}$ November 2015, the Bank successfully originated three credit asset-backed securities in the interbank market. Zhong Yin 2015-1 and Zhong Ying 2015-1 with enterprise loans as underlying assets are totalling RMB3,929 million and RMB4,464 million, respectively. Zhong Ying 2015-2 with personal mortgages as underlying assets is amount to RMB4,498 million. The Bank held 5%of the securities in each tranches to achieve the regulatory requirements for risk retention, which was RMB198 million, RMB223 million and RMB225 million, respectively.

As an investor in the asset-backed security market, the Group purchases and hold asset-backed securities to gain return on investment, expand portfolio and assume relevant credit risk, market risk and liquidity risk. The Group determines investment amount and maturity structure on the basis of annual investment strategy and returns of security risk exposure.

### *7.1.3 Accounting Policies for Asset Securitization*

The Group shall derecognize the credit assets when the Group has transferred substantially all the risks and rewards on the ownership of the assets to the transferee; or the Group has neither transferred nor retained virtually all the risks and rewards on the ownership of the assets, and the Group does not retain control of the credit assets. In determining whether the Group has retained control of the assets or not, the Group focuses on the practical ability of the transferee to sell the credit assets. The Group has not retained control of the assets if the transferee has the practical ability to sell the credit assets in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

If the Group neither transfers nor retains virtually all the risks and rewards of ownership of the credit assets, and retains control of the credit assets, the Group continues to recognize the transferred assets to the extent of its continuing involvement, and also recognizes the associated liability. The transfer of risks and rewards is evaluated by comparing the risk exposure for the Group, with the variability in the amounts and timing of the net cash flows of the transferred asset before and after the transfer.

If the Group retains virtually all the risks and rewards of the ownership of the credit assets, the Group continues to recognize the assets.

Where the Group controls the special purpose entity, the entity should be consolidated in the financial statements. The Group controls an entity (including corporates, divisible portions of associates and joint ventures, and structured entities controlled by corporates) when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity, and accordingly the entity is a subsidiary of the Group, and shall be consolidated at Group level. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

### *7.1.4 External Rating Agencies*

Asset securitization products denominated in RMB are all simultaneously rated by two agencies. For the issuances in 2015, Zhong Yin 2015-1 and Zhong Ying 2015-2 were rated by CCXI and China Bond Rating, while Zhong Ying 2015-1 was rated by China Lianhe Credit Rating and China Bond Rating.

### *7.1.5 Risk Exposure and Capital Requirements*

The Group measures asset securitization risk exposure and capital requirements by using Standardized Approach in accordance with the *Capital Rules*, and determines risk weights according to the credit ratings of eligible rating institutions recognized by the Bank and the corresponding table of credit ratings and risk weights stipulated in the *Capital Rules*. As at the end of 2015, the Group's exposures to asset securitization were RMB28,905 million, and capital requirements were RMB1,412 million.

*Unit: RMB Million*

| Item | As at 31 December 2015 | | As at 31 December 2014 | |
|---|---|---|---|---|
| | Traditional asset securitization risk exposures | Synthetic asset securitization risk exposures | Traditional asset securitization risk exposures | Synthetic asset securitization risk exposures |
| As originating institution | | | | |
| Asset-backed securities | **862** | **–** | 558 | – |
| As investing institution | | **–** | | – |
| Asset-backed securities | **26,187** | **–** | 14,694 | – |
| Mortgage-backed securities | **1,856** | **–** | 2,384 | – |
| **Total** | **28,905** | **–** | 17,636 | – |

## 7.2 Counterparty Credit Risk

### *7.2.1 Counterparty credit risks covered by IRB Approach*

At the end of 2015, the Group's counterparty credit risk exposures covered by IRB Approach amounted to RMB17,759 million, which all arose from transactions with corporates.

### *7.2.2 Counterparty credit risks not covered by IRB Approach*

*Unit: RMB Million*

| Counterparty | As at 31 December 2015 | As at 31 December 2014 |
|---|---|---|
| Central counterparty | **9,370** | 8,359 |
| Others | **160,727** | 127,698 |
| **Total** | **170,097** | 136,057 |

## 7.3 Interest Rate Risk in the Banking Book

### *7.3.1 Management of interest rate risk in the banking book*

Interest rate risk in banking book refers to adverse changes in interest rate level, term structure and other elements leading to losses in overall profits and economic value in banking book. It mainly comes from gaps in re-pricing terms between assets and liabilities in the banking book, and differences in changes in benchmarking interest rates for assets and liabilities. Relative to the trading book, the banking book records the Group's on- and off-balance sheet businesses that are not recorded in trading book, including but not limited to loans, due to customers, non-dealing bond investment, bonds issued, interbank business and placement with the central bank.

The Group adheres to prudence principle in the management of interest rate risk in banking book. The Group aims to control the adverse impacts from changes in interest rates on overall profits and economic value within an acceptable range by implementing effective management under the overall business development strategy and risk appetite so as to promote the Group's sustainable profit growth. The Group measures interest rate risk in banking book on a monthly basis, and timely adjusts structure of assets and liabilities or hedge the risk based on market change to control the interest rate risk at an acceptable range.

The Group measures interest rate risk mainly by making gap analysis of interest rate re-pricing, on which the sensitivity analysis is based. See below for the results from 2015 sensitivity analysis. In the above-mentioned sensitivity analysis, it was assumed that all interest rates changed with identical magnitude and structure of assets and liabilities remained unchanged. Re-pricing periods of loans and fixed-term deposits are determined by contractual cash flows, and re-pricing periods of current deposits and other perpetuity deposits are set as overnight.

### *7.3.2 Interest rate sensitivity analysis*

*Unit: RMB Million*

| **Interest rate basis points move** | **(Decrease)/increase in net interest income** | |
|---|---|---|
| | **As at 31 December 2015** | **As at 31 December 2014** |
| +25 basis points | **(2,570)** | (1,180) |
| –25 basis points | **2,570** | 1,180 |

# 8 Remuneration

## 8.1 Composition and Authority of the Remuneration Management Committee

The Personnel and Remuneration Committee comprises five members, including two non-executive directors and three independent non-executive directors. Chairman of the committee is assumed by an independent non-executive director. The committee is mainly responsible for assisting the Board of Directors in reviewing the Bank's human resources and remuneration strategies and overseeing their implementations; reviewing and monitoring the remuneration and incentive policies of the Bank; considering and examining the remuneration plan for directors and senior management members, and making recommendations to the Board of Directors; setting the performance appraisal standards for the senior management of the Bank, evaluating the performance of the directors and members of the senior management, and making recommendations to the Board of Directors, etc.

## 8.2 Remuneration Policy

***Overview***

Remuneration policies of the Bank are established according to corporate governance requirements, operation and development strategy, market positioning and talent competition strategy. The Bank adopts "post-driven and performance-based" remuneration distribution mechanism. Basic remuneration level is determined by position value and duty performance ability of the employee, and performance-based remuneration by performance appraisal results of the Group, the employee's institution or department and the employee. Remuneration policies apply to all employees signing employment contract with the Bank. In accordance with relevant national and regulatory guidance, the Bank has not adopted any medium- and long-term incentives including granting equity shares or other equity-related incentives. Remuneration of employees is paid in cash.

***Remuneration policies of employees in risk and compliance functions***

Remuneration of employees in risk and compliance functions is determined based on their value contribution, duty performance ability, performance, etc., not directly linked to business lines under their supervision and independent from other business areas.

***Relation between remuneration policies and present and future risk***

Remuneration policies of the Bank are aligned with the risk management system of the Bank and matched with institution size, business nature, complexity, etc.

Total remuneration distribution to branches is linked with completion of comprehensive performance target. The Bank also considers risk factors during remuneration allocation, to create risk-adjusted value orientation across the Bank and promote long-term results.

Remuneration distribution to employees is linked with responsibilities and risks assumed by each position. Different remuneration structures apply to employees taking different roles and responsibilities. Results of comprehensive performance appraisal covering performance, risks, internal control and capability are also considered, in order to prevent risk-taking and short-term behaviours by employees and promote a balanced and healthy risk management culture.

More than 40% of performance-related remuneration of employees assuming major risks and assuming major risk management responsibility is paid in a deferred manner. For senior management members, deferred payment accounts for more than 50% of the total performance-related remuneration, generally with deferred payment period of no less than 3 years. For employees subject to deferred payment, if extraordinary risk loss exposure occurs during his/her term of office, the Bank can reclaim part or all performance-related remuneration of corresponding periods and stop the payment of the unpaid remuneration.

***Relation between remuneration and the Bank's performance***

Total remuneration of the Bank is linked with the Group's realization of performance target and total remuneration to branches is allocated based on comprehensive performance and development of key businesses of each branch. Branches are encouraged to increase value contribution. Remuneration of employees is linked with the performance of the Group, the employee's institution or department and the employee according to characteristics of position responsibilities. Remuneration is aligned with performance results to encourage performance improvement and value creation of employees.

## 8.3 Disclosures of Senior Management Remuneration

For basic information and remuneration of the senior management members of the Bank, members and remuneration of the Remuneration Committee members under the Board of Directors, please refer to 2015 Annual Report.

# Annex 1: Composition of Capital

*Unit: RMB Million (except percentages)*

| | | As at 31 December 2015 | As at 31 December 2014 | Code |
|---|---|---|---|---|
| **Common equity tier 1 capital** | | | | |
| 1 | Paid-in capital | **294,388** | 288,731 | **j** |
| 2 | Retained earnings | **742,208** | 638,134 | |
| 2a | Surplus reserve | **111,207** | 95,630 | **q** |
| 2b | General reserve | **179,416** | 159,291 | **r** |
| 2c | Undistributed profits | **451,585** | 383,213 | **s** |
| 3 | Accumulated other comprehensive income (and other reserves) | **132,256** | 114,512 | |
| 3a | Capital reserve | **139,572** | 130,116 | **l** |
| 3b | Currency translation differences | **(19,890)** | (21,447) | **p** |
| 3c | Others | **12,574** | 5,843 | **n-p** |
| 4 | Amount attributable to common equity tier 1 capital in transitional period | **–** | – | |
| 5 | Eligible portion of minority interests | **29,016** | 27,329 | **u** |
| 6 | **Common equity tier 1 capital before regulatory adjustment** | **1,197,868** | 1,068,706 | |
| **Common equity tier 1 capital: regulatory adjustment** | | | | |
| 7 | Prudential valuation adjustment | **–** | – | |
| 8 | Goodwill, net of related deferred tax liability | **(96)** | (96) | **-h** |
| 9 | Other intangible assets (excluding land use rights) (net of deferred tax liabilities deduction) | **(5,369)** | (4,554) | **g-f** |
| 10 | Net deferred tax assets incurred due to operating losses, relying on the bank's future profitability to be realized | **–** | – | |
| 11 | Reserve relating to cash-flow hedge items not measured at fair value | **16** | 10 | **-o** |
| 12 | Shortfall of provisions to loan losses | **–** | – | |
| 13 | Gains on sale of securitization | **(204)** | (131) | **-t** |
| 14 | Unrealized gains and losses that have resulted from changes in the fair value of liabilities due to changes in own credit risk | **–** | – | |
| 15 | Net pension assets with fixed yield (net of deferred tax liabilities deduction) | **–** | – | |
| 16 | Direct or indirect investments in own shares | **(86)** | (25) | **m** |

# Annex 1: Composition of Capital (Continued)

| | | As at 31 December 2015 | As at 31 December 2014 | Code |
|---|---|---|---|---|
| 17 | Reciprocal cross holdings in common equity of banks or other financial institutions based on agreement | **–** | – | |
| 18 | Non-significants minority investments in common equity tier 1 capital of financial institutions that are outside the scope of regulatory consolidation (deductible part) | **–** | – | |
| 19 | Significant minority investments in common equity tier 1 capital of financial institutions that are outside the scope of regulatory consolidation (deductible part) | **–** | – | |
| 20 | Collateralized loan service rights | **Not applicable** | Not applicable | |
| 21 | Deductible amount of other net deferred tax assets relying on the bank's future profitability | **–** | – | |
| 22 | Deductible amount of non-deducted part of common equity tier 1 capital of significant minority investments in financial institutions that are outside the scope of regulatory consolidation and other net deferred tax assets relying on the bank's future profitability in excess of 15% of common equity tier 1 capital | **–** | – | |
| 23 | Of which: Amount deductible out of significant minority investments in financial institutions | **–** | – | |
| 24 | Of which: Amount deductible out of collateralized loan service rights | **Not applicable** | Not applicable | |
| 25 | Of which: Amount deductible out of other net deferred tax assets relying on the bank's future profitability | **–** | – | |
| 26a | Investment in common equity tier 1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation | **(9,829)** | (9,521) | **-e** |
| 26b | Gap of common equity tier 1 capital of controlled but unconsolidated financial institutions | **–** | – | |

## Annex 1: Composition of Capital (Continued)

| | | As at 31 December 2015 | As at 31 December 2014 | Code |
|---|---|---|---|---|
| 26c | Total of other items deductible out of common equity tier 1 capital | **–** | – | |
| 27 | Non-deducted gap deductible out of additional tier 1 capital and tier 2 capital | **–** | – | |
| 28 | **Total regulatory adjustment of common equity tier 1 capital** | **(15,568)** | (14,317) | |
| 29 | **Net common equity tier 1 capital** | **1,182,300** | 1,054,389 | |
| **Additional tier 1 capital** | | | | |
| 30 | Additional tier 1 capital instruments and related premiums | **99,714** | 71,745 | |
| 31 | Of which: Equity part | **99,714** | 71,745 | **k** |
| 32 | Of which: Liability part | **–** | – | |
| 33 | Instruments non-attributable to additional tier 1 capital after transitional period | **–** | – | |
| 34 | Eligible portion of minority interests | **3,445** | 1,178 | **v** |
| 35 | Of which: Part of instruments non-attributable to additional tier 1 capital after transitional period | **–** | – | |
| 36 | **Additional tier 1 capital before regulatory adjustment** | **103,159** | 72,923 | |
| **Additional tier 1 capital: Regulatory adjustment** | | | | |
| 37 | Direct or indirect investments in additional tier 1 capital of own banks | **–** | – | |
| 38 | Additional tier 1 capital cross-held between banks or between the bank and other financial institutions based on agreement | **–** | – | |
| 39 | Non-significant minority investments in additional tier 1 capital of unconsolidated financial institutions (deductible part) | **–** | – | |
| 40 | Significant minority investments in additional tier 1 capital of financial institutions that are outside the scope of regulatory consolidation | **–** | – | |
| 41a | Investment in additional tier 1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation | **–** | – | |

## Annex 1: Composition of Capital (Continued)

| | | As at 31 December 2015 | As at 31 December 2014 | Code |
|---|---|---|---|---|
| 41b | Gap of additional tier 1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation | **–** | – | |
| 41c | Other items deductible out of additional tier 1 capital | **–** | – | |
| 42 | Non-deducted gaps deductible out of tier 2 capital | **–** | – | |
| 43 | **Total regulatory adjustment of additional tier 1 capital** | **–** | – | |
| 44 | **Net additional tier 1 capital** | **103,159** | 72,923 | |
| 45 | **Net tier 1 capital (net common equity tier 1 capital + net additional tier 1 capital)** | **1,285,459** | 1,127,312 | |
| **Tier 2 capital** | | | | |
| 46 | Tier 2 capital instruments issued and related premiums | **153,266** | 166,368 | |
| 47 | Of which: Part of instruments non-attributable to tier 2 capital after transitional period | **103,930** | 118,163 | **i** |
| 48 | Eligible portion of minority interests | **13,832** | 17,047 | |
| 49 | Of which: Part of minority interests non-attributable to tier 2 capital after transitional period | **4,309** | 6,793 | |
| 50 | Excess provision included in tier 2 capital | **45,839** | 67,299 | **-b-d** |
| 51 | **Tier 2 capital before regulatory adjustment** | **212,937** | 250,714 | |
| **Tier 2 capital: Regulatory adjustment** | | | | |
| 52 | Tier 2 capital of the bank held directly or indirectly | **–** | – | |
| 53 | Tier 2 capital cross-held between banks or between the bank and other financial institutions based on agreement | **–** | – | |
| 54 | Non-significant minority investments in tier 2 capital of financial institutions that are outside the scope of regulatory consolidation (deductible part) | **–** | – | |

## Annex 1: Composition of Capital (Continued)

| | | As at 31 December 2015 | As at 31 December 2014 | Code |
|---|---|---|---|---|
| 55 | Significant minority investments in tier 2 capital of financial institutions that are outside the scope of regulatory consolidation | **–** | – | |
| 56a | Investment in tier 2 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation | **–** | – | |
| 56b | Gap of tier 2 capital of controlled but unconsolidated financial institutions | **–** | – | |
| 56c | Other items deductible out of tier 2 capital | **–** | – | |
| 57 | **Total regulatory adjustment of tier 2 capital** | **–** | – | |
| 58 | **Net tier 2 capital** | **212,937** | 250,714 | |
| 59 | **Total net capital (net tier 1 capital + net tier 2 capital)** | **1,498,396** | 1,378,026 | |
| 60 | **Total risk-weighted assets** | **10,654,081** | 9,934,105 | |
| **Capital adequacy ratio and reserve capital requirement** | | | | |
| 61 | Common equity tier 1 capital adequacy ratio | **11.10%** | 10.61% | |
| 62 | Tier 1 capital adequacy ratio | **12.07%** | 11.35% | |
| 63 | Capital adequacy ratio | **14.06%** | 13.87% | |
| 64 | Institution-specific capital requirement | **3.50%** | 3.50% | |
| 65 | Of which: Capital reserve requirement | **2.50%** | 2.50% | |
| 66 | Of which: Countercyclical reserve requirement | **–** | – | |
| 67 | Of which: Additional capital requirement of G-SIBs | **1.00%** | 1.00% | |
| 68 | Ratio of common equity tier 1 capital meeting buffer area to risk-weighted assets | **6.10%** | 5.61% | |
| **Domestic minimum regulatory capital requirement** | | | | |
| 69 | Common equity tier 1 capital adequacy ratio | **5.00%** | 5.00% | |
| 70 | Tier 1 capital adequacy ratio | **6.00%** | 6.00% | |
| 71 | Capital adequacy ratio | **8.00%** | 8.00% | |

## Annex 1: Composition of Capital (Continued)

| | | As at 31 December 2015 | As at 31 December 2014 | Code |
|---|---|---|---|---|
| **Non-deducted part of threshold deductibles** | | | | |
| 72 | Non-significant minority investments of financial institutions that are outside the scope of regulatory consolidation (non-deductible part) | **81,133** | 55,840 | |
| 73 | Significant minority investments of financial institutions that are outside the scope of regulatory consolidation (non-deductible part) | **4,169** | 3,330 | |
| 74 | Collateralized loan service rights (net of deferred tax liabilities deduction) | **Not applicable** | Not applicable | |
| 75 | Other net deferred tax assets relying on the bank's future profitability (net of deferred tax liabilities deduction) | **21,635** | 24,627 | |
| **Limit of excess loan loss reserve attributable to tier 2 capital** | | | | |
| 76 | Actual accrued loan loss reserve amount under the Regulatory Weighting Approach | **11,855** | 14,934 | **-a** |
| 77 | Amount of excess loan loss reserve attributable to tier 2 capital under the Regulatory Weighting Approach | **5,375** | – | **-b** |
| 78 | Actual accrued excess loan loss reserve amount under the Internal Ratings-based Approach | **73,651** | 82,026 | **-c** |
| 79 | Amount of excess loan loss reserve attributable to tier 2 capital under the Internal Ratings-based Approach | **40,464** | 67,299 | **-d** |
| **Capital instruments meeting exit arrangement** | | | | |
| 80 | Amount attributable to common equity tier 1 capital of the current period derived from transitional period arrangement | **–** | – | |
| 81 | Amount non-attributable to common equity tier 1 capital derived from transitional period arrangement | **–** | – | |
| 82 | Amount attributable to additional tier 1 capital of the current period derived from transitional period arrangement | **–** | – | |

## Annex 1: Composition of Capital (Continued)

| | | As at 31 December 2015 | As at 31 December 2014 | Code |
|---|---|---|---|---|
| 83 | Amount non-attributable to additional tier 1 capital derived from transitional period arrangement | **–** | – | |
| 84 | Amount attributable to tier 2 capital of the current period derived from transitional period arrangement | **103,930** | 118,163 | **i** |
| 85 | Amount non-attributable to tier 2 capital of the current period derived from transitional period arrangement | **–** | – | |

## Annex 2: Financial and Regulatory Consolidated Balance Sheet

*Unit: RMB Million*

| | As at 31 December 2015 | | As at 31 December 2014 | |
|---|---|---|---|---|
| | Financial Consolidated | Regulatory Consolidated | Financial Consolidated | Regulatory Consolidated |
| **ASSETS** | | | | |
| Cash and balances with central banks | **2,269,434** | **2,269,433** | 2,391,211 | 2,391,211 |
| Due from banks and other financial institutions | **581,007** | **576,892** | 727,931 | 724,930 |
| Precious metals | **176,753** | **176,753** | 194,531 | 194,531 |
| Placements with and loans to banks and other financial institutions | **350,218** | **349,406** | 299,111 | 297,324 |
| Financial assets at fair value through profit or loss | **119,062** | **94,336** | 104,528 | 89,627 |
| Derivative financial assets | **82,236** | **81,819** | 47,967 | 47,715 |
| Reverse repurchase transactions | **76,630** | **76,621** | 103,169 | 103,165 |
| Interest receivable | **77,354** | **76,585** | 76,814 | 76,138 |
| Loans and advances to customers | **8,935,195** | **8,934,811** | 8,294,744 | 8,294,675 |
| Financial investments — available for sale | **1,078,533** | **1,026,613** | 750,685 | 703,541 |
| Financial investments — held to maturity | **1,790,790** | **1,776,709** | 1,424,463 | 1,411,555 |
| Financial investments — loans and receivables | **606,710** | **603,205** | 430,699 | 430,529 |
| Long term equity investment | **10,843** | **43,790** | 14,379 | 42,632 |
| Investment properties | **23,281** | **11,284** | 18,653 | 10,630 |
| Property and equipment | **182,031** | **99,433** | 172,197 | 99,604 |
| Intangible assets | **13,854** | **12,689** | 13,217 | 12,307 |
| Goodwill | **2,449** | **96** | 1,953 | 96 |
| Deferred income tax assets | **22,246** | **21,635** | 25,043 | 24,627 |
| Assets held for sale | **237,937** | **237,937** | – | – |
| Other assets | **179,034** | **147,146** | 160,087 | 131,228 |
| **Total assets** | **16,815,597** | **16,617,193** | 15,251,382 | 15,086,065 |

# Annex 2: Financial and Regulatory Consolidated Balance Sheet (Continued)

| | As at 31 December 2015 | | As at 31 December 2014 | |
|---|---|---|---|---|
| | **Financial Consolidated** | **Regulatory Consolidated** | **Financial Consolidated** | **Regulatory Consolidated** |
| **LIABILITIES** | | | | |
| Due to central banks | **415,709** | **415,709** | 348,271 | 348,271 |
| Due to banks and other financial institutions | **1,764,320** | **1,764,320** | 1,780,247 | 1,780,247 |
| Placements from banks and other financial institutions | **264,446** | **262,814** | 188,269 | 186,316 |
| Financial liabilities at fair value through profit or loss | **8,629** | **8,629** | 13,000 | 13,000 |
| Derivative financial liabilities | **69,160** | **68,101** | 40,734 | 40,143 |
| Repurchase transactions | **183,498** | **183,498** | 37,061 | 37,061 |
| Due to customers | **11,729,171** | **11,730,916** | 10,885,223 | 10,888,016 |
| Benefits payable | **30,966** | **30,486** | 30,724 | 30,323 |
| Tax payable | **37,982** | **37,490** | 41,636 | 41,161 |
| Interest payable | **174,256** | **174,256** | 163,228 | 163,210 |
| Contingent liabilities | **3,362** | **3,362** | 2,616 | 2,616 |
| Bonds issued | **282,929** | **255,953** | 278,045 | 257,449 |
| Deferred income tax liabilities | **4,291** | **430** | 4,287 | 1,280 |
| Liabilities classified as held for sale | **196,850** | **196,850** | – | – |
| Other liabilities | **292,423** | **164,037** | 254,613 | 141,201 |
| **Total liabilities** | **15,457,992** | **15,296,851** | 14,067,954 | 13,930,294 |
| **EQUITY** | | | | |
| Share capital | **294,388** | **294,388** | 288,731 | 288,731 |
| Other equity instruments | **99,714** | **99,714** | 71,745 | 71,745 |
| Capital reserve | **140,098** | **139,572** | 130,797 | 130,116 |
| Less: Treasury shares | **(86)** | **(86)** | (25) | (25) |
| Other comprehensive income | **(2,345)** | **(7,316)** | (13,671) | (15,604) |
| Surplus reserve | **111,511** | **111,207** | 96,105 | 95,630 |
| General reserve | **179,485** | **179,416** | 159,341 | 159,291 |
| Undistributed profits | **482,181** | **451,585** | 407,836 | 383,213 |
| Capital and reserves attributable to equity holders of the Bank | **1,304,946** | **1,268,480** | 1,140,859 | 1,113,097 |
| Non-controlling interests | **52,659** | **51,862** | 42,569 | 42,674 |
| **Total equity** | **1,357,605** | **1,320,342** | 1,183,428 | 1,155,771 |
| **Total equity and liabilities** | **16,815,597** | **16,617,193** | 15,251,382 | 15,086,065 |

## Annex 3: Reconciliation and Illustration of Balance Sheet Items

*Unit: RMB Million*

| | As at 31 December 2015 | As at 31 December 2014 | Code |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with central banks | **2,269,433** | 2,391,211 | |
| Due from banks and other financial institutions | **576,892** | 724,930 | |
| Precious metals | **176,753** | 194,531 | |
| Placements with and loans to banks and other financial institutions | **349,406** | 297,324 | |
| Financial assets at fair value through profit or loss | **94,336** | 89,627 | |
| Derivative financial assets | **81,819** | 47,715 | |
| Reverse repurchase transactions | **76,621** | 103,165 | |
| Interest receivable | **76,585** | 76,138 | |
| Loans and advances to customers | **8,934,811** | 8,294,675 | |
| Of which: Actual accrued loan loss reserve amount under the Regulatory Weighting Approach | **(11,855)** | (14,934) | **a** |
| Of which: Amount of excess loan loss reserve attributable to tier 2 capital under the Regulatory Weighting Approach | **(5,375)** | – | **b** |
| Of which: Actual accrued excess loan loss reserve amount under the Internal Ratings-based Approach | **(73,651)** | (82,026) | **c** |
| Of which: Amount of excess loan loss reserve attributable to tier 2 capital under the Internal Ratings-based Approach | **(40,464)** | (67,299) | **d** |
| Financial investments — available for sale | **1,026,613** | 703,541 | |
| Financial investments — held to maturity | **1,776,709** | 1,411,555 | |
| Financial investments — loans and receivables | **603,205** | 430,529 | |
| Long term equity investment | **43,790** | 42,632 | |
| Of which: Investment in common equity tier 1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation | **9,829** | 9,521 | **e** |
| Investment properties | **11,284** | 10,630 | |
| Property and equipment | **99,433** | 99,604 | |
| Intangible assets | **12,689** | 12,307 | **f** |
| Of which: Land use rights | **7,320** | 7,753 | **g** |
| Goodwill | **96** | 96 | **h** |
| Deferred income tax assets | **21,635** | 24,627 | |
| Assets held for sale | **237,937** | – | |
| Other assets | **147,146** | 131,228 | |
| **Total assets** | **16,617,193** | 15,086,065 | |

## Annex 3: Reconciliation and Illustration of Balance Sheet Items (Continued)

| | As at 31 December 2015 | As at 31 December 2014 | Code |
|---|---|---|---|
| **LIABILITIES** | | | |
| Due to central banks | **415,709** | 348,271 | |
| Due to banks and other financial institutions | **1,764,320** | 1,780,247 | |
| Placements from banks and other financial institutions | **262,814** | 186,316 | |
| Financial liabilities at fair value through profit or loss | **8,629** | 13,000 | |
| Derivative financial liabilities | **68,101** | 40,143 | |
| Repurchase transactions | **183,498** | 37,061 | |
| Customer deposits | **11,730,916** | 10,888,016 | |
| Benefits payable | **30,486** | 30,323 | |
| Tax payable | **37,490** | 41,161 | |
| Interest payable | **174,256** | 163,210 | |
| Contingent liabilities | **3,362** | 2,616 | |
| Bonds issued | **255,953** | 257,449 | |
| Of which: Amount attributable to tier 2 capital of the current period derived from transitional period arrangement | **103,930** | 118,163 | **i** |
| Deferred income tax liabilities | **430** | 1,280 | |
| Liabilities classified as held for sale | **196,850** | – | |
| Other liabilities | **164,037** | 141,201 | |
| **Total liabilities** | **15,296,851** | 13,930,294 | |
| **EQUITY** | | | |
| Share capital | **294,388** | 288,731 | **j** |
| Other equity instruments | **99,714** | 71,745 | **k** |
| Capital reserve | **139,572** | 130,116 | **l** |
| Less: Treasury shares | **(86)** | (25) | **m** |
| Other cumulative comprehensive earnings and disclosed reserves | **(7,316)** | (15,604) | **n** |
| Of which: Reserve relating to cash-flow hedge items not measured at fair value | **(16)** | (10) | **o** |
| Of which: Currency translation differences | **(19,890)** | (21,447) | **p** |
| Surplus reserve | **111,207** | 95,630 | **q** |
| General reserve | **179,416** | 159,291 | **r** |
| Undistributed profits | **451,585** | 383,213 | **s** |
| Of which: Gain on sale of securitization | **204** | 131 | **t** |
| Capital and reserves attributable to equity holders of the Bank | **1,268,480** | 1,113,097 | |
| Non-controlling interests | **51,862** | 42,674 | |
| Of which: Amount attributable to common equity tier 1 capital | **29,016** | 27,329 | **u** |
| Of which: Amount attributable to additional tier 1 capital | **3,445** | 1,178 | **v** |
| **Total equity** | **1,320,342** | 1,155,771 | |
| **Total equity and liabilities** | **16,617,193** | 15,086,065 | |

# Annex 4: Main Attributes of Capital Instruments

*Amount in millions of Reminbi, unless otherwise stated*

| No. | Main characters of the regulatory capital instruments | Common share (A share) | Common share (H share) | Preference shares (A share) | Preference shares (H share) | Preference shares (A share) |
|---|---|---|---|---|---|---|
| 1 | Issuer | Bank of China Limited | Bank of China Limited | Bank of China Limited | Bank of China Limited | Bank of China Limited |
| 2 | Identification code | 601988.SH | 3988.HK | 360002.SH | 4601.HK | 360010.SH |
| 3 | Applicable law | PRC law | Hong Kong SAR law | PRC law | Hong Kong SAR law | PRC law |
| **Regulatory processing** | | | | | | |
| 4 | Of which: Applicable to transitional period rules specified by *Capital Rules for Commercial Banks (Provisional)* | Common equity tier 1 capital | Common equity tier 1 capital | Tier 1 capital | Tier 1 capital | Tier 1 capital |
| 5 | Of which: Applicable to the rules after expiration of the transitional period specified by *Capital Rules for Commercial Banks (Provisional)* | Common equity tier 1 capital | Common equity tier 1 capital | Tier 1 capital | Tier 1 capital | Tier 1 capital |
| 6 | Of which: Applicable to bank/group level | Bank and group level | Bank and group level | Bank and group level | Bank and group level | Bank and group level |
| 7 | Instrument type | Common shares | Common shares | Preference shares | Preference shares | Preference shares |
| 8 | Amount attributable to regulatory capital (the last reporting day) | 282,501 | 151,808 | 31,963 | 39,782 | 27,969 |
| 9 | Par value of instrument | 210,766 | 83,622 | 32,000 | 39,940 | 28,000 |
| 10 | Accounting treatment | Share capital and capital reserve | Share capital and capital reserve | Other equity instrument | Other equity instrument | Other equity instrument |
| 11 | Initial issuing date | 2006/6/29 | 2006/6/1<br>2006/6/9 | 2014/11/21 | 2014/10/23 | 2015/3/13 |
| 12 | Term (term or perpetual) | Perpetual | Perpetual | Perpetual | Perpetual | Perpetual |
| 13 | Of which: Original maturity date | No maturity date | No maturity date | No maturity date | No maturity date | No maturity date |
| 14 | Issuer's redemption (subject to regulatory approval) | No | No | Yes | Yes | Yes |
| 15 | Of which: Redemption date (or have redemption date) and amount | Not applicable | Not applicable | Subject to approval by the CBRC, the Bank has the right to redeem all or part of the Preference Shares after 5 years from the date of issuance and at every Dividend Payment Date thereafter | Subject to approval by the CBRC, the Bank has the right to redeem all or part of the Preference Shares after 5 years from the date of issuance and at every Dividend Payment Date thereafter | Subject to approval by the CBRC, the Bank has the right to redeem all or part of the Preference Shares after 5 years from the date of issuance and at every Dividend Payment Date thereafter |

# Annex 4: Main Attributes of Capital Instruments (Continued)

| No. | Main characters of the regulatory capital instruments | Common share (A share) | Common share (H share) | Preference shares (A share) | Preference shares (H share) | Preference shares (A share) |
|---|---|---|---|---|---|---|
| 16 | Of which: Subsequent redemption date (if any) | Not applicable | Not applicable | Subject to approval by the CBRC, the Bank has the right to redeem all or part of the Preference Shares after 5 years from the date of issuance and at every Dividend Payment Date thereafter | Subject to approval by the CBRC, the Bank has the right to redeem all or part of the Preference Shares after 5 years from the date of issuance and at every Dividend Payment Date thereafter | Subject to approval by the CBRC, the Bank has the right to redeem all or part of the Preference Shares after 5 years from the date of issuance and at every Dividend Payment Date thereafter |
| **Dividend or interest payment** | | | | | | |
| 17 | Of which: Fixed or floating dividend or interest payment | Floating | Floating | Fixed | Fixed | Fixed |
| 18 | Of which: Coupon rate and relevant indicators | Not applicable | Not applicable | 6% (dividend yield, before tax) | 6.75% (dividend yield, after tax) | 5.50% (dividend yield, before tax) |
| 19 | Of which: Existence of dividend brake mechanism | Not applicable | Not applicable | Yes | Yes | Yes |
| 20 | Of which: Discretion to cancel dividend or interest payment | Full discretion | Full discretion | Full discretion | Full discretion | Full discretion |
| 21 | Of which: Existence of redemption incentive mechanism | No | No | No | No | No |
| 22 | Of which: Cumulative or noncumulative | Noncumulative | Noncumulative | Noncumulative | Noncumulative | Noncumulative |
| 23 | Conversion into shares | Not applicable | Not applicable | Yes | Yes | Yes |

# Annex 4: Main Attributes of Capital Instruments (Continued)

| No. | Main characters of the regulatory capital instruments | Common share (A share) | Common share (H share) | Preference shares (A share) | Preference shares (H share) | Preference shares (A share) |
|---|---|---|---|---|---|---|
| 24 | Of which: Please specify the trigger condition for share conversion, if allowed | Not applicable | Not applicable | (1) Upon the occurrence of any Additional Tier 1 Capital Instrument Trigger Event, that is, the CET 1 CAR drops to 5.125% or below, the Domestic Preference Shares shall be wholly or partly converted into A Shares so as to restore the CET1 CAR above the trigger point; (2) Upon the occurrence of any Tier 2 Capital Instrument Trigger Event, all of the Domestic Preference Shares shall be converted into A Shares. "Tier 2 Capital Instrument Trigger Event" means either of the following circumstances (whichever is earlier):<br><br>(i) the CBRC having concluded that a conversion or write-off is necessary without which the Bank would become non-viable; or<br>(ii) the relevant authorities having concluded that a public sector injection of capital or equivalent support is necessary without which the Bank would become non-viable | (1) Upon the occurrence of any Additional Tier 1 Capital Instrument Trigger Event, that is, the CET 1 CAR drops to 5.125% or below, the Offshore Preference Shares shall be wholly or partly converted into H Shares so as to restore the CET1 CAR above the trigger point; (2) Upon the occurrence of any Tier 2 Capital Instrument Trigger Event, all of the Offshore Preference Shares shall be converted into H Shares. "Tier 2 Capital Instrument Trigger Event" means either of the following circumstances (whichever is earlier):<br><br>(i) the CBRC having concluded that a conversion or write-off is necessary without which the Bank would become non-viable; or<br>(ii) the relevant authorities having concluded that a public sector injection of capital or equivalent support is necessary without which the Bank would become non-viable | (1) Upon the occurrence of any Additional Tier 1 Capital Instrument Trigger Event, that is, the CET 1 CAR drops to 5.125% or below, the Domestic Preference Shares shall be wholly or partly converted into A Shares so as to restore the CET1 CAR above the trigger point; (2) Upon the occurrence of any Tier 2 Capital Instrument Trigger Event, all of the Domestic Preference Shares shall be converted into A Shares. "Tier 2 Capital Instrument Trigger Event" means either of the following circumstances (whichever is earlier):<br><br>(i) the CBRC having concluded that a conversion or write-off is necessary without which the Bank would become non-viable; or<br>(ii) the relevant authorities having concluded that a public sector injection of capital or equivalent support is necessary without which the Bank would become non-viable |

# Annex 4: Main Attributes of Capital Instruments (Continued)

| No. | Main characters of the regulatory capital instruments | Common share (A share) | Common share (H share) | Preference shares (A share) | Preference shares (H share) | Preference shares (A share) |
|---|---|---|---|---|---|---|
| 25 | Of which: Please specify share conversion in whole or in part, if allowed | Not applicable | Not applicable | Whole/part | Whole/part | Whole/part |
| 26 | Of which: Please specify the method to determine the conversion price, if share conversion is allowed | Not applicable | Not applicable | The initial compulsory conversion price of the Domestic Preference Shares is the average trading price of A Shares of the Bank in the 20 trading days prior to the announcement date of the Board resolution on the Preference Shares issuance, equivalent to RMB2.62 per A Share. After the issuance of the Preference Shares, in the event of any distribution of bonus shares, recapitalization, issuance of new shares at a price lower than the market price (excluding any increase of share capital due to conversion of financing instruments convertible to ordinary shares issued by the Bank (e.g., preference shares, convertible bonds etc.)), or rights issue for A Shares, the Bank | The initial conversion price of the Offshore Preference Shares is the average trading price of H Shares of the Bank in the 20 trading days prior to the announcement date (i.e.2014/5/13) of the Board resolution on the Offshore Preference Shares issuance, equivalent to HKD3.44 per H Share, which has been approved by General Meeting. The conversion price will be subject to adjustment in the following events: (a) if the Bank shall issue any H Shares credited as fully paid to holders of H Shares by way of a distribution of bonus shares or a capitalization issue; (b) if the Bank shall issue any H Shares by way of a rights issue; (c) if the Bank shall issue (otherwise than rights issue) any H Shares (other than H Shares | The initial compulsory conversion price of the Domestic Preference Shares is the average trading price of A Shares of the Bank in the 20 trading days prior to the announcement date of the Board resolution on the Preference Shares issuance, equivalent to RMB2.62 per A Share. After the issuance of the Preference Shares, in the event of any distribution of bonus shares, recapitalization, issuance of new shares at a price lower than the market price (excluding any increase of share capital due to conversion of financing instruments convertible to ordinary shares issued by the Bank (e.g., preference shares, convertible bonds etc.)), or rights |

## Annex 4: Main Attributes of Capital Instruments (Continued)

| No. | Main characters of the regulatory capital instruments | Common share (A share) | Common share (H share) | Preference shares (A share) | Preference shares (H share) | Preference shares (A share) |
|---|---|---|---|---|---|---|
| | | | | will make an adjustment to the compulsory conversion price to reflect each of such events on a cumulative basis in the order of the occurrence of the events above, but the Bank will not make an adjustment to the compulsory conversion price to reflect distribution of cash dividends for ordinary share | issued on the compulsory conversion of the Offshore Preference Shares or on the exercise of any other rights of conversion into, or exchange or subscription for H Shares), at a price per H Share which is less than the Current Market Price per H Share on the date of the announcement of the terms of such issue or grant; (d) if the Bank repurchases any of its Ordinary Shares, or is subject to a merger, division or any other circumstances that may lead to any change in the Bank's share classes, number and/or shareholders' equity and thereby affect the rights and interests of the Offshore Preference Shareholders, the Bank is entitled to adjust the compulsory conversion price in a fair, just and equitable manner in order to protect the rights and interests of the Offshore Preference Shareholders | issue for A Shares, the Bank will make an adjustment to the compulsory conversion price to reflect each of such events on a cumulative basis in the order of the occurrence of the events above, but the Bank will not make an adjustment to the compulsory conversion price to reflect distribution of cash dividends for ordinary share |

# Annex 4: Main Attributes of Capital Instruments (Continued)

| No. | Main characters of the regulatory capital instruments | Common share (A share) | Common share (H share) | Preference shares (A share) | Preference shares (H share) | Preference shares (A share) |
|---|---|---|---|---|---|---|
| 27 | Of which: Please specify share conversion is mandatory or not, if it is allowed | Not applicable | Not applicable | Yes | Yes | Yes |
| 28 | Of which: Please specify the instrument type after conversion, if allowed | Not applicable | Not applicable | A common share | H common share | A common share |
| 29 | Of which: Please specify the issuer of the instrument type after conversion, if allowed | Not applicable | Not applicable | Bank of China Limited | Bank of China Limited | Bank of China Limited |
| 30 | Write-down feature | Not applicable | Not applicable | No | No | No |
| 31 | Of which: Please specify the trigger point of write-down, if allowed | Not applicable | Not applicable | Not applicable | Not applicable | Not applicable |
| 32 | Of which: Please specify write down in whole or in part, if write-down is allowed | Not applicable | Not applicable | Not applicable | Not applicable | Not applicable |
| 33 | Of which: Please specify the write-down is perpetual or temporary, if write-down is allowed | Not applicable | Not applicable | Not applicable | Not applicable | Not applicable |
| 34 | Of which: Please specify the book-entry value recovery mechanism, if temporary write-down | Not applicable | Not applicable | Not applicable | Not applicable | Not applicable |
| 35 | Hierarchy of claims (please specify instrument types enjoying higher priorities) | The lowest priority of all claims | The lowest priority of all claims | The lower priority behind the deposit, general debt, and subordinated debt (including tier 2 capital bond) | The lower priority behind the deposit, general debt, and subordinated debt (including tier 2 capital bond) | The lower priority behind the deposit, general debt, and subordinated debt (including tier 2 capital bond) |
| 36 | Does the instrument contain temporary illegible attribute? | No | No | No | No | No |
| | Of which: If yes, please specify such attribute | Not applicable | Not applicable | Not applicable | Not applicable | Not applicable |

## Annex 4: Main Attributes of Capital Instruments (Continued)

| No. | Main characters of the regulatory capital instruments | Tier 2 capital instrument | Tier 2 capital instrument |
|---|---|---|---|
| 1 | Issuer | Bank of China Limited | Bank of China Limited |
| 2 | Identification code | 1428010.IB | 5828.HK |
| 3 | Applicable law | PRC law | English law (Provisions relating to subordination shall be governed by PRC law) |
| **Regulatory processing** | | | |
| 4 | Of which: Applicable to transitional period rules specified by *Capital Rules for Commercial Banks (Provisional)* | Tier 2 capital | Tier 2 capital |
| 5 | Of which: Applicable to the rules after expiration of the transitional period specified by *Capital Rules for Commercial Banks (Provisional)* | Tier 2 capital | Tier 2 capital |
| 6 | Of which: Applicable to bank/group level | Bank and group level | Bank and group level |
| 7 | Instrument type | Eligible tier 2 capital bond | Eligible tier 2 capital bond |
| 8 | Amount attributable to regulatory capital (the last reporting day) | 29,971 | 19,365 |
| 9 | Par value of instrument | 30,000 | USD3.0 billion |
| 10 | Accounting treatment | Bonds Issued | Bonds Issued |
| 11 | Initial issuing date | 2014/8/8 | 2014/11/13 |
| 12 | Term (term or perpetual) | Term | Term |
| 13 | Of which: Original maturity date | 2024/8/11 | 2024/11/13 |
| 14 | Issuer's redemption (subject to regulatory approval) | Yes | Yes |

# Annex 4: Main Attributes of Capital Instruments (Continued)

| No. | Main characters of the regulatory capital instruments | Tier 2 capital instrument | Tier 2 capital instrument |
|---|---|---|---|
| 15 | Of which: Redemption date (or have redemption date) and amount | Subject to approval by the CBRC, the Bank has the right to redeem all or part of the bond after 5 years from the date of issuance (i.e. 2019/8/11) | Not applicable |
| 16 | Of which: Subsequent redemption date (if any) | Subject to the Redemption Conditions, the Notes are redeemable at the option of the Issuer at their outstanding principal amount, together with accrued but unpaid interest, if a change in the related regulations occurs at any time so long as the Notes are outstanding which has the effect that the Notes, after having qualified as such, will fully be disqualified from the Tier 2 Capital of the Issuer under the related regulations provided that the Issuer shall obtain the prior written consent and satisfy certain other conditions | Subject to the Redemption Conditions, the Notes are redeemable at the option of the Issuer at their outstanding principal amount, together with accrued but unpaid interest, if a change in the related regulations occurs at any time so long as the Notes are outstanding which has the effect that the Notes, after having qualified as such, will fully be disqualified from the Tier 2 Capital of the Issuer under the related regulations provided that the Issuer shall obtain the prior written consent and satisfy certain other conditions |
| **Dividend or interest payment** | | | |
| 17 | Of which: Fixed or floating dividend or interest payment | Fixed | Fixed |
| 18 | Of which: Coupon rate and relevant indicators | 5.80% | 5% |
| 19 | Of which: Existence of dividend brake mechanism | No | No |
| 20 | Of which: Discretion to cancel dividend or interest payment | Not applicable | Not applicable |
| 21 | Of which: Existence of redemption incentive mechanism | No | No |

## Annex 4: Main Attributes of Capital Instruments (Continued)

| No. | Main characters of the regulatory capital instruments | Tier 2 capital instrument | Tier 2 capital instrument |
|---|---|---|---|
| 22 | Of which: Cumulative or noncumulative | Noncumulative | Noncumulative |
| 23 | Conversion into shares | No | No |
| 24 | Of which: Please specify the trigger condition for share conversion, if allowed | Not applicable | Not applicable |
| 25 | Of which: Please specify share conversion in whole or in part, if allowed | Not applicable | Not applicable |
| 26 | Of which: Please specify the method to determine the conversion price, if share conversion is allowed | Not applicable | Not applicable |
| 27 | Of which: Please specify share conversion is mandatory or not, if it is allowed | Not applicable | Not applicable |
| 28 | Of which: Please specify the instrument type after conversion, if allowed | Not applicable | Not applicable |
| 29 | Of which: Please specify the issuer of the instrument type after conversion, if allowed | Not applicable | Not applicable |
| 30 | Write-down feature | Yes | Yes |

## Annex 4: Main Attributes of Capital Instruments (Continued)

| No. | Main characters of the regulatory capital instruments | Tier 2 capital instrument | Tier 2 capital instrument |
|---|---|---|---|
| 31 | Of which: Please specify the trigger point of write-down, if allowed | "Non-Viability Event" means the occurrence of the earlier of either:(i) the CBRC having decided that a write-off is necessary, without which the Issuer would become non-viable; or (ii) any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable | "Non-Viability Event" means the occurrence of the earlier of either:(i) the CBRC having decided that a write-off is necessary, without which the Issuer would become non-viable; or (ii) any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable |
| 32 | Of which: Please specify write down in whole or in part, if write-down is allowed | Write-down in whole | Write-down in whole |
| 33 | Of which: Please specify the write-down is perpetual or temporary, if write-down is allowed | Perpetual write-down | Perpetual write-down |
| 34 | Of which: Please specify the book-entry value recovery mechanism, if temporary write-down | Not applicable | Not applicable |
| 35 | Hierarchy of claims (please specify instrument types enjoying higher priorities) | The lower priority behind the depositor and general creditor | The lower priority behind the depositor and general creditor |
| 36 | Does the instrument contain temporary illegible attribute? | No | No |
| | Of which: If yes, please specify such attribute | Not applicable | Not applicable |