

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2018

In accordance with the relevant requirements under the *Capital Rules for Commercial Banks (Provisional)* promulgated by the China Banking and Insurance Regulatory Commission, the meeting of the Board of Directors of the Bank held on 29 March 2019 considered and approved *Bank of China Limited Capital Adequacy Ratio Report of 2018*. Set out below is a complete version of the report for reference only.

**The Board of Directors of
Bank of China Limited**

Beijing, PRC
29 March 2019

As at the date of this announcement, the directors of the Bank are: Chen Siqing, Liu Liange, Wu Fulin, Lin Jingzhen, Zhao Jie, Li Jucai*, Xiao Lihong*, Wang Xiaoya*, Liao Qiang*, Lu Zhengfei#, Leung Cheuk Yan#, Wang Changyun#, Angela Chao# and Jiang Guohua#.*

* Non-executive Directors

Independent Non-executive Directors



Bank of China Limited

Capital Adequacy Ratio Report of 2018

Contents

| | | |
|-----|--|----|
| 1 | Introduction | 4 |
| 1.1 | Bank Profile | 4 |
| 1.2 | Basis of Disclosure | 5 |
| 1.3 | Scope of Consolidation | 5 |
| 2 | Capital and Capital Adequacy Ratio | 8 |
| 2.1 | Internal Capital Adequacy Assessment Method and Process | 8 |
| 2.2 | Capital Planning and Capital Adequacy Ratio Management Plan | 8 |
| 2.3 | Capital Adequacy Ratio | 9 |
| 2.4 | Composition of Capital | 10 |
| 2.5 | Capital Deduction Limits and Excess Loan Loss Provisions | 11 |
| 2.6 | Material Capital Investments | 12 |
| 2.7 | Paid-in Capital | 12 |
| 3 | Risk Management | 13 |
| 3.1 | Risk Management Framework | 13 |
| 3.2 | Significant Changes to Risk Measurement Approaches | 15 |
| 3.3 | Risk-weighted Assets | 15 |
| 4 | Credit Risk | 16 |
| 4.1 | Credit Risk Management | 16 |
| 4.2 | Credit Risk Measurement | 16 |
| 4.3 | Credit Risk Mitigation | 22 |
| 4.4 | Overdue and Non-performing Loans | 24 |
| 4.5 | Allowance for Impairment Losses | 25 |
| 5 | Market Risk | 28 |
| 5.1 | Market Risk Management | 28 |
| 5.2 | Market Risk Measurement | 30 |
| 6 | Operational Risk | 31 |
| 6.1 | Operational Risk Management | 31 |
| 6.2 | Operational Risk Measurement | 31 |
| 7 | Other Risk | 32 |
| 7.1 | Asset Securitization | 32 |
| 7.2 | Counterparty Credit Risk | 34 |
| 7.3 | Interest Rate Risk in the Banking Book | 35 |
| 8 | Remuneration | 36 |
| 8.1 | Composition and Authority of the Remuneration Management Committee | 36 |
| 8.2 | Remuneration Policy | 36 |
| 8.3 | Disclosures of Senior Management Remuneration | 37 |
| | Annex 1: Composition of Capital | 38 |
| | Annex 2: Financial and Regulatory Consolidated Balance Sheet | 45 |
| | Annex 3: Reconciliation and Illustration of Balance Sheet Items | 47 |
| | Annex 4: Main Attributes of Capital Instruments | 49 |

1 Introduction

1.1 Bank Profile

Bank of China is the Bank with the longest continuous operation among Chinese banks. The Bank was formally established in February 1912 following 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 many hardships and setbacks. After 1949, drawing on its long history as the state-designated specialised foreign exchange and trade bank, the Bank became responsible for managing China's foreign exchange operations and provided vital support to the nation's foreign trade development and economic infrastructure through its offering of international trade settlement, overseas fund transfer and other non-trade foreign exchange services. During China's reform and opening up period, the Bank seized the historic opportunity presented by the government's strategy of capitalising on foreign funds and advanced technologies to boost economic development, and became the country's key foreign financing channel by building up its 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 the Shanghai Stock Exchange in June and July 2006 respectively, becoming the first Chinese commercial bank to launch an A-Share and H-Share initial public offering and achieve a dual listing in both markets. Having served the Beijing 2008 Olympic Games, the Bank became the official banking partner of the Beijing 2022 Olympic and Paralympic Winter Games in 2017, thus making it the only bank in China to serve two Olympic Games. In 2018, Bank of China was again designated as a Global Systemically Important Bank, thus becoming the sole financial institution from an emerging economy to be designated as a Global Systemically Important Bank for eight consecutive years.

As China's most globalised and integrated bank, Bank of China has a well-established global service network with institutions set up across the Chinese mainland as well as in 57 countries and regions. It has established an integrated service platform based on the pillars of its corporate banking, personal banking, financial markets and other commercial banking business, which covers investment banking, direct investment, securities, insurance, funds, aircraft leasing and other areas, thus providing its customers with a comprehensive range of financial services. In addition, BOCHK and the Macau Branch serve as local note-issuing banks in their respective markets.

Bank of China has upheld the spirit of "pursuing excellence" throughout its history of over one century. 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. In face of the period of historic opportunities for great achievements, as a large state-owned commercial bank, the Bank will follow Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, persistently enable advancement through technology, drive development through innovation, deliver performance through transformation and enhance strength through reform, in an effort to build BOC into a world-class bank in the new era. It will make a greater contribution to developing a modernised economy and to the efforts to realise the Chinese Dream of national rejuvenation and the aspirations of the people to live a better life.

1.2 Basis of Disclosure

China Banking and Insurance Regulatory Commission (hereinafter referred as the “CBIRC”) promulgated the *Capital Rules for Commercial Banks (Provisional)* (hereinafter referred as the “*Capital Rules*”) in June 2012. The Group has started to disclose the report of capital adequacy ratios since 2013 as required by the *Capital Rules*. The CBIRC approved the Group’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 Financial Asset Investment Co., Ltd. | 10,000 | 100% | Beijing | Non-Banking Financial Institution |
| 3 | BOC International Holdings Limited | 3,753 | 100% | Hong Kong | Investment Bank |
| 4 | Bank of China (UK) Limited | 3,223 | 100% | United Kingdom | Commercial Bank |
| 5 | Bank of China (Luxembourg) S.A. | 3,194 | 100% | Luxembourg | Commercial Bank |
| 6 | Bank of China (Canada) | 2,350 | 100% | Canada | Commercial Bank |
| 7 | BANK OF CHINA TURKEY A.S. | 2,084 | 100% | Turkey | Commercial Bank |
| 8 | BANK OF CHINA (Australia) Limited | 2,005 | 100% | Australia | Commercial Bank |
| 9 | Bank of China (New Zealand) Limited | 1,077 | 100% | New Zealand | Commercial Bank |
| 10 | BANCO DA CHINA BRASIL S.A. | 718 | 100% | Brasil | Commercial Bank |
| Total | | 65,319 | | | |

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 | 1,906 | 51% | Hong Kong | Insurance |
| Total | | 9,913 | | | |

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 CBIRC's latest requirements, the Group 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 departments of all entities on the ICAAP. Aligned with the overall development strategies, the Group 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 Group has accomplished the design and implementation of the ICAAP scheme. The ICAAP framework meets the core requirements of CBIRC 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 Group's operation and risk profile, as well as the long-term development strategy. In accordance with the regulatory policies and by reference to domestic and overseas industry experience and actual conditions, the Group actively explored the assessment of internal capital adequacy, completed *Internal Capital Adequacy Assessment Report of 2018*, and reported to the CBIRC after obtaining approval from the Board of Directors and management.

2.2 Capital Planning and Capital Adequacy Ratio Management Plan

To implement the strategic plan, further enhance the value creation capability, and meet the regulatory requirements, the Group finished formulating *Bank of China Capital Management Plan for 2017–2020* in pursuant to the Group's business strategies, *the Capital Rules* and other relevant regulations promulgated. The plan has been comprehensively implemented after approval by the general meeting of shareholders.

The Group has continued to enhance its ability to accumulate internally generated capital. Based on the medium- and long-term capital plan, the Group continued to optimize the capital budget management mechanism, improve annual capital adequacy ratio management objectives and the capital budget allocation scheme, establish the compensation system linked to value creation, strengthen the capital return requirement and value creation awareness, and intensify the performance assessment management on capital to stimulate entities to increase the capital efficiency. The Group reinforced its capital management across business lines, continuously improved the business line performance assessment, and strengthened the capital management requirements for integrated management companies, and improved the awareness of value creation and strengthened high-quality development concepts of all business lines and units. The Group continued to replenish external capital in a prudent manner. It successfully issued a total of RMB80.0 billion qualified write-down tier-2 capital instruments, further enhancing its capital strength and improving the capital structure.

In 2018, these methods were effective. The awareness of capital returns at all units has increased, the capital efficiency has steadily improved, and the weight of risk-weighted asset (RWA) has continued to decrease. The Group's value creation capability has improved significantly, and the Group's capital adequacy ratio has improved substantially and maintained at a satisfactory level.

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:

| Item | The Group | | The Bank | |
|---|------------------------|------------------------|------------------------|------------------------|
| | As at 31 December 2018 | As at 31 December 2017 | As at 31 December 2018 | As at 31 December 2017 |
| Calculated in accordance with the <i>Capital Rules</i> | | | | |
| Net common equity tier 1 capital | 1,465,769 | 1,356,088 | 1,251,056 | 1,180,299 |
| Net tier 1 capital | 1,575,293 | 1,461,090 | 1,350,770 | 1,280,013 |
| Net capital | 1,922,350 | 1,725,330 | 1,683,893 | 1,526,537 |
| Common equity tier 1 capital adequacy ratio | 11.41% | 11.15% | 11.08% | 10.85% |
| Tier 1 capital adequacy ratio | 12.27% | 12.02% | 11.96% | 11.77% |
| Capital adequacy ratio | 14.97% | 14.19% | 14.92% | 14.04% |
| Calculated in accordance with the <i>Regulation Governing Capital Adequacy of Commercial Banks</i> | | | | |
| Core capital adequacy ratio | 11.63% | 11.69% | 10.96% | 11.39% |
| Capital adequacy ratio | 15.01% | 14.56% | 14.53% | 14.36% |

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:

| Item | As at 31 December 2018 | As at 31 December 2017 |
|---|------------------------------|------------------------------|
| Common equity tier 1 capital | 1,488,010 | 1,377,408 |
| Paid-in capital | 294,388 | 294,388 |
| Capital reserve | 140,422 | 140,176 |
| Surplus reserve | 156,711 | 140,692 |
| General reserve | 231,416 | 207,693 |
| Undistributed profits | 637,609 | 606,765 |
| Eligible portion of minority interests | 28,229 | 26,280 |
| Others | (765) | (38,586) |
| Common equity tier 1 capital deductions | 22,241 | 21,320 |
| Goodwill | 182 | 138 |
| Other intangible assets (except land use rights) | 12,078 | 11,259 |
| Direct or indirect investments in own shares | 68 | 102 |
| 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 | - | (4) |
| Investments in common equity tier 1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation | 9,913 | 9,825 |
| Additional tier 1 capital | 109,524 | 105,002 |
| Additional tier 1 capital instruments and premiums | 99,714 | 99,714 |
| Eligible portion of minority interests | 9,810 | 5,288 |
| Tier 2 capital | 347,473 | 264,652 |
| Tier 2 capital instruments issued and related premiums | 256,189 | 191,596 |
| Excess loan loss provision | 82,093 | 63,672 |
| Eligible portion of minority interests | 9,191 | 9,384 |
| Regulatory deductions | 416 | 412 |
| Significant minority capital investment in tier 2 capital of financial institutions that are outside of the scope of regulatory consolidation | 416 | 412 |
| Net common equity tier 1 capital | 1,465,769 | 1,356,088 |
| Net tier 1 capital | 1,575,293 | 1,461,090 |
| Net capital | 1,922,350 | 1,725,330 |

2.5 Capital Deduction Limits and Excess Loan Loss Provisions

As at 31 December 2018, the Group's balance of the capital investments and deferred tax assets did not exceed 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 2018 | As at 31 December 2017 |
|---|------------------------------|------------------------------|
| Non-significant minority investments to financial institutions that are outside the scope of regulatory consolidation | 89,253 | 77,949 |
| Of which: Common equity tier 1 capital investment | 7,564 | 4,912 |
| Additional tier 1 capital investment | 4,180 | 3,449 |
| Tier 2 capital investment | 77,509 | 69,588 |
| Limit (10% of the Group's net common equity tier 1 capital) | 146,577 | 135,609 |
| Difference | 57,324 | 57,660 |
| Significant minority common equity tier 1 capital investment to financial institutions that are outside the scope of regulatory consolidation | 5,436 | 4,878 |
| Limit (10% of the Group's net common equity tier 1 capital) | 146,577 | 135,609 |
| Difference | 141,141 | 130,731 |
| Deferred tax asset relying on the bank's future profitability | 36,974 | 45,591 |
| Limit (10% of the Group's net common equity tier 1 capital) | 146,577 | 135,609 |
| Difference | 109,603 | 90,018 |
| 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) | 42,410 | 50,469 |
| Limit (15% of the Group's net common equity tier 1 capital) | 219,865 | 203,413 |
| Difference | 177,455 | 152,944 |

As at 31 December 2018, the excess loan loss provision qualifying for inclusion in tier 2 capital was RMB82,093 million, which was calculated in accordance with the CBIRC 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:

| Item | As at 31 December 2018 | As at 31 December 2017 |
|--|------------------------------|------------------------------|
| Covered by Internal Ratings-Based Approach | | |
| Excess loan loss provisions under Internal Ratings-Based Approach | 55,748 | 61,039 |
| 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 | 43,608 | 42,474 |
| Amount of excess loan loss reserve attributable to tier 2 capital during the parallel run period | 55,748 | 46,277 |
| Parts not covered by Internal Ratings-Based Approach | | |
| Amount of excess loss reserve under the Regulatory Weighting Approach | 26,345 | 17,395 |
| Limit of excess loan loss reserve attributable to tier 2 capital under the Regulatory Weighting Approach | 57,081 | 51,257 |
| Amount of excess loan loss reserve attributable to tier 2 capital | 26,345 | 17,395 |

2.6 Material Capital Investments

Please refer to the “Significant Matters” of the Bank’s 2018 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 Bank’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 2018 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 CBIRC Notice on Issuing Regulatory Documents on Capital Regulation for Commercial Banks issued by the CBIRC 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, 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 senior 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 set up 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 (CCR) 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. And IT Department leads the management of information technology risk.

The Group applies vertical, task forces and Board of Directors management modes to branches, business departments 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.

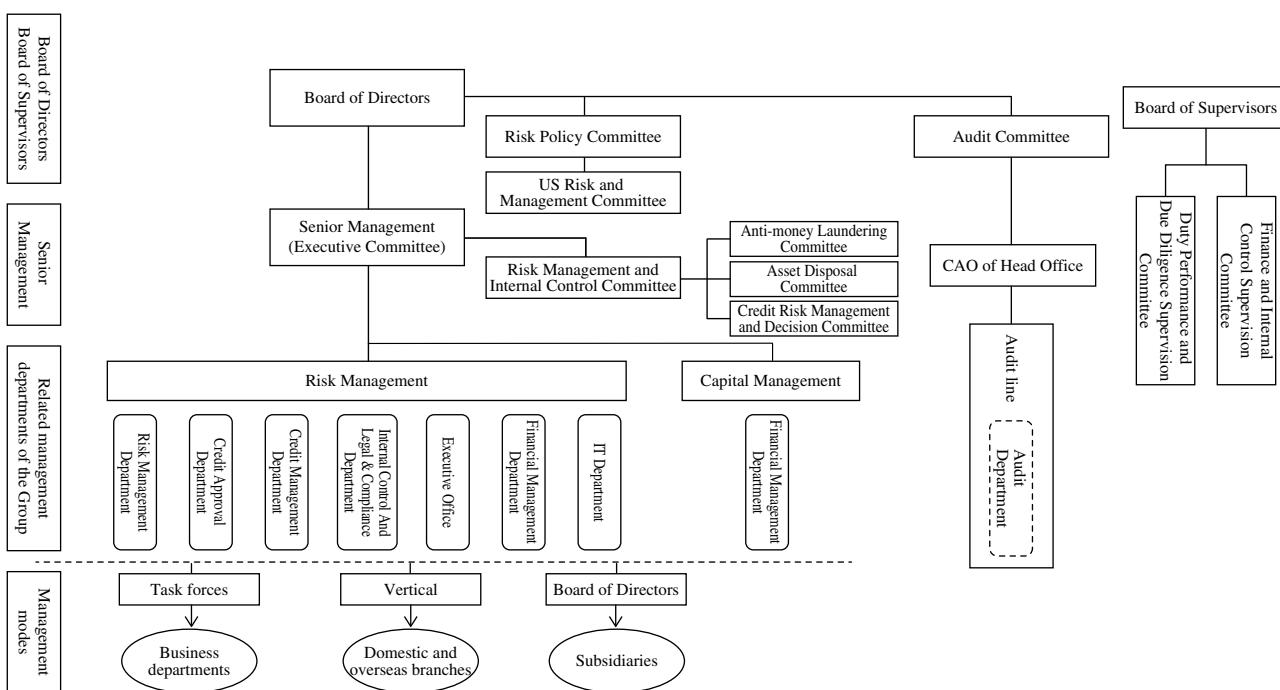
(2) Task force management mode

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

(3) Board of Directors 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 organization 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 2018.

3.3 Risk-weighted Assets

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

| <i>Unit: RMB Million</i> | | |
|--|---------------------------------------|---------------------------------------|
| Item | As at 31 December 2018 | As at 31 December 2017 |
| Credit risk-weighted assets | 11,860,829 | 11,196,926 |
| Market risk-weighted assets | 145,325 | 137,659 |
| Operational risk-weighted assets | 835,372 | 823,186 |
| Risk-weighted assets increment required to reach capital floor | — | — |
| Total risk-weighted assets | 12,841,526 | 12,157,771 |

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 2018 was 80%.

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:

| Entity | Category of risk | Sub-category of risk | Methods |
|--|---------------------|---------------------------------------|--|
| Head Office, domestic branches and BOCHK | Corporate exposures | General corporates | Foundation IRB |
| | | SMEs | |
| | | Specialised lending | Supervisory slotting criteria approach |
| | Retail exposures | Residential mortgage exposures | IRB |
| | | Qualifying revolving retail exposures | |
| | | Other retail exposures | |
| | Other exposures | | Regulatory Weighting Approach |
| Other consolidated entities | All risk exposures | | Regulatory Weighting Approach |

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 corporate 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 internal 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

| | As at 31 December 2018 | | | |
|-------------------------------|------------------------------|-------------------------------|--------------------------|-------------------|
| | On-balance sheet credit risk | Off-balance sheet credit risk | Counterparty credit risk | Total |
| Exposures covered by IRB | 9,330,516 | 1,189,441 | 19,252 | 10,539,209 |
| Of which: Corporate exposures | 5,684,673 | 975,629 | 19,252 | 6,679,554 |
| Retail exposures | 3,645,843 | 213,812 | – | 3,859,655 |
| Exposures not covered by IRB | 11,512,512 | 445,669 | 390,117 | 12,348,298 |
| Total | 20,843,028 | 1,635,110 | 409,369 | 22,887,507 |

| | As at 31 December 2017 | | | |
|-------------------------------|------------------------------|-------------------------------|--------------------------|-------------------|
| | On-balance sheet credit risk | Off-balance sheet credit risk | Counterparty credit risk | Total |
| Exposures covered by IRB | 8,935,327 | 1,280,376 | 20,583 | 10,236,286 |
| Of which: Corporate exposures | 5,682,585 | 1,063,354 | 20,583 | 6,766,522 |
| Retail exposures | 3,252,742 | 217,022 | – | 3,469,764 |
| Exposures not covered by IRB | 10,179,033 | 374,424 | 289,408 | 10,842,865 |
| Total | 19,114,360 | 1,654,800 | 309,991 | 21,079,151 |

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 2018 | | | | |
|--------------|------------------------|---------------------|----------------------|----------------------|---------------------|
| | EAD | Weighted average PD | Weighted average LGD | Risk-weighted assets | Average risk weight |
| A | 3,873,001 | 0.71% | 42.77% | 2,272,263 | 58.67% |
| B | 2,566,773 | 3.12% | 41.28% | 2,602,538 | 101.39% |
| C | 81,570 | 38.40% | 39.66% | 121,652 | 149.14% |
| D | 137,242 | 100.00% | 42.80% | 11,311 | 8.24% |
| Total | 6,658,586 | 7.46% | 42.16% | 5,007,764 | 75.21% |

| Rating | As at 31 December 2017 | | | | |
|--------------|------------------------|---------------------|----------------------|----------------------|---------------------|
| | EAD | Weighted average PD | Weighted average LGD | Risk-weighted assets | Average risk weight |
| A | 3,575,715 | 0.70% | 41.68% | 2,115,072 | 59.15% |
| B | 2,943,065 | 3.25% | 40.41% | 2,987,229 | 101.50% |
| C | 80,950 | 38.42% | 29.53% | 93,829 | 115.91% |
| D | 146,209 | 100.00% | 42.68% | 2,378 | 1.63% |
| Total | 6,745,939 | 8.94% | 41.00% | 5,198,508 | 77.06% |

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 Exposure

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

Unit: RMB Million

| Supervisory rating | As at 31 December 2018 |
|--------------------|------------------------|
| Strong | — |
| Good | 1,716 |
| Satisfactory | — |
| Weak | — |
| Default | — |
| Total | 1,716 |

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 2018 | | | | |
|---------------------------------------|------------------------|---------------------|----------------------|----------------------|---------------------|
| | EAD | Weighted average PD | Weighted average LGD | Risk-weighted assets | Average risk weight |
| Residential mortgage exposures | 3,350,629 | 1.15% | 25.41% | 477,169 | 14.24% |
| Qualifying revolving retail exposures | 271,608 | 0.82% | 72.13% | 62,411 | 22.98% |
| Other retail exposures | 237,418 | 3.63% | 27.95% | 46,684 | 19.66% |
| Total | 3,859,655 | 1.02% | 28.86% | 586,264 | 15.19% |

| Item | As at 31 December 2017 | | | | |
|---------------------------------------|------------------------|---------------------|----------------------|----------------------|---------------------|
| | EAD | Weighted average PD | Weighted average LGD | Risk-weighted assets | Average risk weight |
| Residential mortgage exposures | 2,932,292 | 1.30% | 25.34% | 659,083 | 22.48% |
| Qualifying revolving retail exposures | 269,327 | 0.87% | 71.48% | 61,422 | 22.81% |
| Other retail exposures | 268,145 | 4.42% | 37.80% | 118,031 | 44.02% |
| Total | 3,469,764 | 1.12% | 29.88% | 838,536 | 24.17% |

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 2018 | As at 31 December 2017 |
|------------------------|------------------------------|------------------------------|
| Corporate | 1,628,904 | 1,362,981 |
| Sovereign | 5,751,785 | 5,367,613 |
| Financial institutions | 3,029,839 | 2,414,320 |
| Retail | 961,984 | 785,198 |
| Equity | 70,779 | 50,885 |
| Asset securitization | 36,680 | 8,204 |
| Others | 478,210 | 564,256 |
| Total | 11,958,181 | 10,553,457 |

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

Unit: RMB Million

| Risk weight | As at 31 December 2018 | As at 31 December 2017 |
|--------------|------------------------------|------------------------------|
| 0% | 4,814,450 | 4,746,498 |
| 20% | 2,107,912 | 1,845,914 |
| 25% | 969,054 | 875,205 |
| 50% | 196,100 | 168,282 |
| 75% | 824,728 | 619,532 |
| 100% | 2,926,616 | 2,196,103 |
| 150% | 1,451 | 695 |
| 250% | 54,154 | 61,172 |
| 350% | — | — |
| 400% | 15,702 | 857 |
| 1250% | 48,014 | 39,199 |
| Total | 11,958,181 | 10,553,457 |

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 2018 | As at 31 December 2017 |
|---|------------------------------|------------------------------|
| Capital instruments at various tiers issued by other financial institutions held by the Group | 64,209 | 59,548 |
| Of which: Common equity tier 1 capital | 5,466 | 4,165 |
| Additional tier 1 capital | — | — |
| Tier 2 capital | 58,743 | 55,383 |
| Equity investments in commercial enterprises | 53,599 | 35,304 |
| Equity investments in financial institutions | 17,180 | 15,581 |
| Non-own-use real estate | 2,002 | 2,025 |

4.3 Credit Risk Mitigation

Risk mitigation policies

The Bank transfers or reduces credit risk by utilizing risk mitigation instruments such as eligible collateral, netting, guarantee and derivative. The Bank's credit risk mitigation management mainly includes the management of mitigation instruments and phase on risk measurement and information monitoring associated with risk mitigation. A credit risk mitigation and management policy framework has been established, including basic policies, management measures and implementation rules. Overall principles and internal requirements are specified in the basic policies, 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 policies 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, title of goods, resource assets and intellectual property rights belong to the category of other collateral.

Valuation policies and procedures

The Bank evaluates 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 organization, 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 access to credit customer. 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 RWA engine, 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 2018 | | | As at 31 December 2017 | | |
|---------------------|------------------------|----------------------|--|------------------------|----------------------|--|
| | Guarantee | Financial collateral | Commercial and residential real estate | Guarantee | Financial collateral | Commercial and residential real estate |
| Corporate exposures | 646,055 | 279,102 | 504,256 | 622,092 | 474,257 | 567,831 |

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 RMB219,951 million at 2018 year-end.

In accordance with the *Guideline for Loan Credit Risk Classification*, 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 RMB166,941 million at 2018 year-end.

4.5 Allowance for Impairment Losses

The Group uses the expected credit loss (ECL) model to measure the impairment of loans. The ECL is a weighted average of credit losses on financial instruments weighted at the risk of default. Credit loss is the difference between all receivable contractual cash flows according to the contract and all cash flows expected to be received by the Group discounted to present value at the original effective interest rate, i.e. the present value of all cash shortfalls.

According to the changes of credit risk of financial instruments since the initial recognition, the Group calculates the ECL by three stages:

- Stage 1: The financial instruments without significant increases in credit risk after initial recognition are included in Stage 1 to calculate their impairment allowance at an amount equivalent to the ECL of the financial instrument for the next 12 months;
- Stage 2: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment are included in Stage 2, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments;
- Stage 3: Financial assets with objective evidence of impairment at the balance sheet date are included in Stage 3, with their impairment allowance measured at the amount equivalent to the ECL for the lifetime of the financial instruments.

When measuring ECL, an entity need not necessarily identify every possible scenario. However, the Group shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

The Group conducted an assessment of ECL according to forward-looking information and used models and assumptions in its expected measurement of credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower's creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Group adopts judgement, assumptions and estimation techniques in order to measure ECL according to the requirements of accounting standards such as criteria for judging significant increases in credit risk, definition of credit-impaired financial asset, parameters for measuring ECL, forward-looking information and modification of contractual cash flows.

Reconciliation of allowance for impairment losses in the year of 2018:

(1) Allowance for impairment losses measured at amortised cost:

Unit: RMB Million

| | Year ended 31 December 2018 | | | |
|---|-----------------------------|-----------------|-----------------|-----------------|
| | 12-month ECL | Lifetime ECL | | Total |
| | Stage 1 | Stage 2 | Stage 3 | |
| As at 1 January | 87,094 | 76,050 | 117,419 | 280,563 |
| Impairment losses for the period | 44,537 | 36,901 | 45,952 | 127,390 |
| Reversal | (39,519) | (20,181) | (13,102) | (72,802) |
| Transfers to Stage 1 | 10,301 | (9,636) | (665) | – |
| Transfers to Stage 2 | (1,481) | 1,929 | (448) | – |
| Transfers to Stage 3 | (350) | (25,985) | 26,335 | – |
| Impact on period end ECL of exposures transferred between stages during the period | (9,674) | 17,487 | 41,136 | 48,949 |
| Changes to contractual cash flows due to modifications not resulting in derecognition | (29) | 2,018 | (587) | 1,402 |
| Model/risk parameters adjustment | 3,929 | (199) | – | 3,730 |
| Write-off and transfer out | (192) | (1,969) | (89,497) | (91,658) |
| Recovery of loans and advances written off | – | – | 5,413 | 5,413 |
| Unwinding of discount on allowance | – | – | (1,652) | (1,652) |
| Acquisition of subsidiaries | 359 | 29 | 296 | 684 |
| Exchange differences and others | 814 | 159 | 516 | 1,489 |
| As at 31 December | 95,789 | 76,603 | 131,116 | 303,508 |

(2) Allowance for impairment losses measured at fair value through other comprehensive income:

Unit: RMB Million

| | Year ended 31 December 2018 | | | Total | |
|----------------------------------|-----------------------------|---------------------|----------------|----------------|--|
| | 12-month ECL | Lifetime ECL | | | |
| | Stage 1 | Stage 2 | Stage 3 | | |
| As at 1 January | 829 | 204 | — | 1,033 | |
| Impairment losses for the period | 255 | 39 | — | 294 | |
| Reversal | (854) | (204) | — | (1,058) | |
| Exchange differences and others | 4 | — | — | 4 | |
| As at 31 December | 234 | 39 | — | 273 | |

Reconciliation of allowance for impairment losses in the year of 2017:

Unit: RMB Million

| Year ended 31 December 2017 | |
|--|----------|
| As at 1 January | 237,716 |
| Impairment losses for the year | 126,683 |
| Reversal | (42,658) |
| Write-off and transfer out | (70,344) |
| Transfer in | |
| — Recovery of loans and advances written off | 3,546 |
| — Unwind of discount on allowance | (1,989) |
| — Exchange differences | (1,518) |
| Acquisition of subsidiaries | 818 |
| As at 31 December | 252,254 |

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 Audit Department of the Head Office is responsible for performing the internal audit of Internal Model Approach for market risk.

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 response to changes in the market environment, the Bank continued to refine its market risk management system in order to strictly control market risk.

The Bank actively adapted to the changes in business environment by improving its market risk appetite setting and transmission mechanism and refining its model for the market risk limit management of the Group. To improve its risk warning and mitigation capabilities, the Bank optimized the procedure and mechanism of CCR management and conducted forward-looking research and judgement regarding market risks and cross-financial risks. The Bank continuously advanced the building of a market risk data mart and management system and studied and applied advanced risk measurement approaches, so as to enhance the accuracy of risk measurement and improve its risk quantitative management ability.

The Bank strengthened risk management of bond investment business of the Group by closely tracking changes in market volatility and regulatory policies. According to market and business needs, the Bank improved risk response efficiency, timely adjusted and improved investment policies. In response to the high incidence of default in the bond market, the Bank improved the effectiveness of investigations, moved forward risk threshold, and strengthened risk management and control in key areas.

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 2018 | As at 31 December 2017 |
|--|------------------------------|------------------------------|
| Covered by Internal Model Approach | 6,430 | 7,149 |
| Not covered by Internal Model Approach | 5,196 | 3,864 |
| Interest rate risk | 4,695 | 3,200 |
| Equity risk | 146 | 521 |
| Foreign exchange risk | — | — |
| Commodity risk | 355 | 143 |
| Total | 11,626 | 11,013 |

5.2.2 Value at Risk (VaR)

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

Unit: RMB Million

| | For the year ended 31 December | | | | | | | |
|------------|--------------------------------|---------|---------|----------|---------|---------|---------|----------|
| | 2018 | | | | 2017 | | | |
| | Average | Maximum | Minimum | Year-end | Average | Maximum | Minimum | Year-end |
| VaR | 672 | 1,215 | 327 | 631 | 443 | 657 | 244 | 462 |
| Stress VaR | 1,504 | 2,557 | 923 | 1,472 | 1,619 | 2,055 | 1,297 | 1,999 |

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 goal of the Group's operational risk management is to reduce the losses from operational risk to an acceptable level (that is, within the risk preference).

The Group has established an operational management policy regime in three levels, which is composed of, from top to bottom, the policy framework, the management policies and the operational guidelines for operational risk management tools. The policy framework, which refers to *Operational Risk Management Policies of Bank of China Limited* published with the approval of the Risk Policy Committee under the Board of Directors. The policy framework, as the fundamental system, defines the basic principles, requirements and management framework, and sets the keynote and direction for the Group's operational risk management. According to the closed loop of risk identification, assessment, control or mitigation, monitoring and reporting, the group developed the management policies and operational guidelines for operational risk management tools in order to define principles, roles and responsibilities, methodologies, procedures and steps relating to the employment of management tools, and clearly address the specific operational issues during the implementation of management processes.

To effectively identify, assess, control or mitigate, monitor, and report operational risk, the Group has established several main 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, and Operational Risk Reporting Procedures.

The Group employs the Standardized Approach to measure the regulatory capital for operational risk. Pursuant to the Standardized Approach rules set by the New Basel Capital Accord, the operational risk capital should cover the overall business scale and the corresponding operational risk exposures.

6.2 Operational Risk Measurement

During the reporting period, the operational risk capital requirement of the Group on a consolidated basis under the Standardized Approach amounted to RMB66,830 million.

7 Other Risk

7.1 Asset Securitization

7.1.1 Business Objective

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

As the originator, the Group's risk exposure is mainly the potential default risks by the security which the Group retained under the regulations. Besides that, all remaining risks are 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 coordination of the overall project design, underlying assets selection, due diligence, transaction structure design, regulatory submission, issuance, and disclosure. The Group is also in charge of managing the asset pool, as well as receiving, transferring and collecting loan principals and interests.

On 2 Mar, 12 Jun, 9 Jul, 7 Dec and 14 Dec 2018, the Bank successfully issued five credit asset-backed securities in the interbank market. Zhong Ying 2018-1, Zhong Ying 2018-2, Zhong Ying Wan Jia 2018-1 and Zhong Ying Wan Jia 2018-2 RMBS totalled RMB10,506 million, RMB8,300 million, RMB9,424 million and RMB9,720 million, respectively. Zhong Yu 2018-1 with non-performing loans as underlying assets totalled RMB162 million.

To comply with the regulatory requirements on risk retention, the Bank held 5% of the securities in each of the tranches of the 2018-1 securitization project with non-performing loans as underlying assets, amounting to RMB8 million. In 2018, the Bank held all subordinated tranches of the four RMBS, which was RMB1,356 million, RMB1,161 million, RMB1,434 million and RMB1,630 million, respectively.

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 issued in the interbank market are all simultaneously rated by two rating agencies. For the issuances in 2018, Zhong Ying 2018-1 was rated by China Lianhe Credit Rating and China Bond Rating; Zhong Ying 2018-2, Zhong Yu 2018-1 and Zhong Ying Wan Jia 2018-1 were rated by CCXI and China Bond Rating; Zhong Ying Wan Jia 2018-2 was rated by Golden Credit Rating International 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 2018, the Group's exposures to asset securitization were RMB36,680 million, and capital requirements were RMB3,018 million.

Unit: RMB Million

| Item | As at 31 December 2018 | | As at 31 December 2017 | |
|----------------------------|---|---|---|---|
| | 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 | 15 | – | 76 | – |
| Mortgage-backed securities | 7,775 | – | 2,791 | – |
| As investing institution | | | | |
| Asset-backed securities | 11,484 | – | 4,928 | – |
| Mortgage-backed securities | 17,406 | – | 409 | – |
| Total | 36,680 | – | 8,204 | – |

7.2 Counterparty Credit Risk

7.2.1 Counterparty credit risks covered by IRB Approach

To achieve group-wide policy coverage at the Group's institutional and operational levels, in recent years, the Group has developed group counterparty credit risk control standards, methods, processes and significant risk early warning mechanisms and reporting requirements which are appropriate to regulatory requirements and business development. In 2018, the Group adapted to business development requirement, furtherly perfected management methods, improved the credit risk management requirements of non-corporate products and overseas central centralized clearing counterparties, and optimized the entry standards for commercial collateral in financial market.

At the end of 2018, the Group's counterparty credit risk exposures covered by IRB Approach amounted to RMB19,252 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 2018 | As at 31 December 2017 |
|----------------------|---------------------------|---------------------------|
| Central counterparty | 82,908 | 14,579 |
| Others | 307,209 | 274,829 |
| Total | 390,117 | 289,408 |

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 2018 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 2018 | As at 31 December 2017 |
| +25 basis points | (4,136) | (4,200) |
| -25 basis points | 4,136 | 4,200 |

8 Remuneration

8.1 Composition and Authority of the Remuneration Management Committee

The Personnel and Remuneration Committee comprises six members, including two non-executive directors and four 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, 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 2018 Annual Report.

Annex 1: Composition of Capital

Unit: RMB Million (except percentages)

| | | As at 31 December 2018 | As at 31 December 2017 | Code |
|--|--|------------------------------|------------------------------|------------|
| Common equity tier 1 capital | | | | |
| 1 | Paid-in capital | 294,388 | 294,388 | j |
| 2 | Retained earnings | 1,025,736 | 955,150 | |
| 2a | Surplus reserve | 156,711 | 140,692 | q |
| 2b | General reserve | 231,416 | 207,693 | r |
| 2c | Undistributed profits | 637,609 | 606,765 | s |
| 3 | Accumulated other comprehensive income (and other reserves) | 139,657 | 101,590 | |
| 3a | Capital reserve | 140,422 | 140,176 | l |
| 3b | Currency translation differences | (13,502) | (18,974) | p |
| 3c | Others | 12,737 | (19,612) | n-p |
| 4 | Amount attributable to common equity tier 1 capital in transitional period | — | — | |
| 5 | Eligible portion of minority interests | 28,229 | 26,280 | t |
| 6 | Common equity tier 1 capital before regulatory adjustment | 1,488,010 | 1,377,408 | |
| Common equity tier 1 capital: regulatory adjustment | | | | |
| 7 | Prudential valuation adjustment | — | — | |
| 8 | Goodwill (net of deferred tax liabilities deduction) | (182) | (138) | -h |
| 9 | Other intangible assets (excluding land use rights) (net of deferred tax liabilities deduction) | (12,078) | (11,259) | 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 | — | 4 | -o |
| 12 | Shortfall of provisions to loan losses | — | — | |
| 13 | Gains on sale of securitization | — | — | |
| 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) | — | — | |

Annex 1: Composition of Capital (Continued)

| | | As at 31 December 2018 | As at 31 December 2017 | Code |
|-----|---|------------------------------|------------------------------|-----------|
| 16 | Direct or indirect investments in own shares | (68) | (102) | m |
| 17 | Reciprocal cross holdings in common equity of banks or other financial institutions based on agreement | — | — | |
| 18 | Non-significant 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 | (9,913) | (9,825) | -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 2018 | As at 31 December 2017 | 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 | (22,241) | (21,320) | |
| 29 | Net common equity tier 1 capital | 1,465,769 | 1,356,088 | |
| Additional tier 1 capital | | | | |
| 30 | Additional tier 1 capital instruments and related premiums | 99,714 | 99,714 | |
| 31 | Of which: Equity part | 99,714 | 99,714 | k |
| 32 | Of which: Liability part | – | – | |
| 33 | Instruments non-attributable to additional tier 1 capital after transitional period | – | – | |
| 34 | Eligible portion of minority interests | 9,810 | 5,288 | u |
| 35 | Of which: Part of instruments non-attributable to additional tier 1 capital after transitional period | – | – | |
| 36 | Additional tier 1 capital before regulatory adjustment | 109,524 | 105,002 | |
| 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 2018 | As at 31 December 2017 | Code |
|--|---|------------------------------|------------------------------|------|
| 41b | Gap of additional tier 1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation | – | – | |
| 41c | Other deductions from additional tier 1 capital | – | – | |
| 42 | Non-deducted gaps deductible from tier 2 capital | – | – | |
| 43 | Total regulatory adjustment of additional tier 1 capital | – | – | |
| 44 | Net additional tier 1 capital | 109,524 | 105,002 | |
| 45 | Net tier 1 capital (net common equity tier 1 capital + net additional tier 1 capital) | 1,575,293 | 1,461,090 | |
| Tier 2 capital | | | | |
| 46 | Tier 2 capital instruments issued and related premiums | 256,189 | 191,596 | |
| 47 | Of which: Part of instruments non-attributable to tier 2 capital after transitional period | 65,823 | 82,279 | i |
| 48 | Eligible portion of minority interests | 9,191 | 9,384 | |
| 49 | Of which: Part of minority interests non-attributable to tier 2 capital after transitional period | – | – | |
| 50 | Excess provision included in tier 2 capital | 82,093 | 63,672 | -b-d |
| 51 | Tier 2 capital before regulatory adjustment | 347,473 | 264,652 | |
| 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 2018 | As at 31 December 2017 | Code |
|---|---|------------------------------|------------------------------|------|
| 55 | Significant minority investments in tier 2 capital of financial institutions that are outside the scope of regulatory consolidation | (416) | (412) | |
| 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 deductions from tier 2 capital | — | — | |
| 57 | Total regulatory adjustment of tier 2 capital | (416) | (412) | |
| 58 | Net tier 2 capital | 347,057 | 264,240 | |
| 59 | Total net capital (net tier 1 capital + net tier 2 capital) | 1,922,350 | 1,725,330 | |
| 60 | Total risk-weighted assets | 12,841,526 | 12,157,771 | |
| Capital adequacy ratio and reserve capital requirement | | | | |
| 61 | Common equity tier 1 capital adequacy ratio | 11.41% | 11.15% | |
| 62 | Tier 1 capital adequacy ratio | 12.27% | 12.02% | |
| 63 | Capital adequacy ratio | 14.97% | 14.19% | |
| 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 | 6.41% | 6.15% | |
| 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 2018 | As at 31 December 2017 | 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) | 89,253 | 77,949 | |
| 73 | Significant minority investments of financial institutions that are outside the scope of regulatory consolidation (non-deductible part) | 5,436 | 4,878 | |
| 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) | 36,974 | 45,591 | |
| Limit of excess loan loss reserve attributable to tier 2 capital | | | | |
| 76 | Actual accrued loan loss reserve amount under the Regulatory Weighting Approach | 41,465 | 30,690 | -a |
| 77 | Amount of excess loan loss reserve attributable to tier 2 capital under the Regulatory Weighting Approach | 26,345 | 17,395 | -b |
| 78 | Actual accrued excess loan loss reserve amount under the Internal Ratings-based Approach | 55,748 | 61,039 | -c |
| 79 | Amount of excess loan loss reserve attributable to tier 2 capital under the Internal Ratings-based Approach | 55,748 | 46,277 | -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 2018 | As at 31 December 2017 | 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 | 65,823 | 82,279 | i |
| 85 | Amount non-attributable to tier 2 capital of the current period derived from transitional period arrangement | 33,107 | 16,651 | |

Annex 2: Financial and Regulatory Consolidated Balance Sheet

Unit: RMB Million

| | As at 31 December 2018 | | As at 31 December 2017 | |
|---|------------------------|-------------------------|------------------------|-------------------------|
| | Financial Consolidated | Regulatory Consolidated | Financial Consolidated | Regulatory Consolidated |
| ASSETS | | | | |
| Cash and balances with central banks | 2,407,808 | 2,407,807 | 2,303,020 | 2,303,018 |
| Due from banks and other financial institutions | 363,176 | 357,897 | 485,057 | 480,888 |
| Precious metals | 181,203 | 181,203 | 172,763 | 172,763 |
| Placements with and loans to banks and other financial institutions | 781,761 | 780,151 | 486,559 | 485,649 |
| Derivative financial assets | 124,126 | 123,986 | 94,912 | 94,734 |
| Reverse repurchase transactions | 260,597 | 260,207 | 88,840 | 87,990 |
| Loans and advances to customers | 11,515,764 | 11,514,470 | 10,644,304 | 10,642,844 |
| Financial investments | 5,054,551 | 4,897,328 | 4,554,722 | 4,416,880 |
| — financial assets at fair value through profit or loss | 370,491 | 275,470 | 193,611 | 155,732 |
| — financial assets at fair value through other comprehensive income | 1,879,759 | 1,858,107 | Not applicable | Not applicable |
| — financial assets at amortised cost | 2,804,301 | 2,763,751 | Not applicable | Not applicable |
| — available for sale | Not applicable | Not applicable | 1,857,222 | 1,779,950 |
| — held to maturity | Not applicable | Not applicable | 2,089,864 | 2,072,491 |
| — loans and receivables | Not applicable | Not applicable | 414,025 | 408,707 |
| Long term equity investment | 23,369 | 52,048 | 17,180 | 44,551 |
| Investment properties | 22,086 | 15,373 | 21,026 | 14,884 |
| Property and equipment | 227,394 | 97,623 | 205,614 | 96,663 |
| Intangible assets | 19,452 | 18,366 | 18,835 | 17,772 |
| Goodwill | 2,620 | 182 | 2,481 | 138 |
| Deferred income tax assets | 38,204 | 36,974 | 46,487 | 45,591 |
| Other assets | 245,164 | 196,762 | 325,624 | 281,106 |
| Total assets | 21,267,275 | 20,940,377 | 19,467,424 | 19,185,471 |

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

| | As at 31 December 2018 | | As at 31 December 2017 | |
|---|---------------------------|----------------------------|---------------------------|----------------------------|
| | Financial Consolidated | Regulatory Consolidated | Financial Consolidated | Regulatory Consolidated |
| LIABILITIES | | | | |
| Due to central banks | 907,521 | 907,521 | 1,035,797 | 1,035,797 |
| Due to banks and other financial institutions | 1,731,209 | 1,731,209 | 1,425,262 | 1,425,262 |
| Placements from banks and other financial institutions | 327,249 | 316,968 | 241,692 | 233,679 |
| Trading financial liabilities | 14,327 | 14,327 | 20,372 | 20,372 |
| Derivative financial liabilities | 99,254 | 98,284 | 111,095 | 110,273 |
| Repurchase transactions | 285,018 | 284,861 | 258,400 | 258,400 |
| Due to customers | 14,883,596 | 14,884,503 | 13,657,924 | 13,659,117 |
| Employee benefits payable | 33,822 | 32,366 | 31,910 | 31,280 |
| Current tax liabilities | 27,894 | 27,451 | 34,521 | 33,695 |
| Contingent liabilities | 22,010 | 22,010 | 2,941 | 2,941 |
| Bonds issued | 782,127 | 727,493 | 499,128 | 458,313 |
| Deferred income tax liabilities | 4,548 | 367 | 4,018 | 351 |
| Other liabilities | 423,303 | 230,432 | 567,685 | 392,673 |
| Total liabilities | 19,541,878 | 19,277,792 | 17,890,745 | 17,662,153 |
| EQUITY | | | | |
| Share capital | 294,388 | 294,388 | 294,388 | 294,388 |
| Other equity instruments | 99,714 | 99,714 | 99,714 | 99,714 |
| Of which: Preference shares | 99,714 | 99,714 | 99,714 | 99,714 |
| Capital reserve | 142,135 | 140,422 | 141,880 | 140,176 |
| Less: Treasury shares | (68) | (68) | (102) | (102) |
| Other comprehensive income | 1,417 | (765) | (35,573) | (38,586) |
| Surplus reserve | 157,464 | 156,711 | 141,334 | 140,692 |
| General reserve | 231,525 | 231,416 | 207,817 | 207,693 |
| Undistributed profits | 686,405 | 637,609 | 646,558 | 606,765 |
| Capital and reserves attributable to equity holders of the Bank | 1,612,980 | 1,559,427 | 1,496,016 | 1,450,740 |
| Non-controlling interests | 112,417 | 103,158 | 80,663 | 72,578 |
| Total equity | 1,725,397 | 1,662,585 | 1,576,679 | 1,523,318 |
| Total equity and liabilities | 21,267,275 | 20,940,377 | 19,467,424 | 19,185,471 |

Annex 3: Reconciliation and Illustration of Balance Sheet Items

Unit: RMB Million

| | As at 31 December 2018 | As at 31 December 2017 | Code |
|---|------------------------------|------------------------------|----------|
| ASSETS | | | |
| Cash and balances with central banks | 2,407,807 | 2,303,018 | |
| Due from banks and other financial institutions | 357,897 | 480,888 | |
| Precious metals | 181,203 | 172,763 | |
| Placements with and loans to banks and other financial institutions | 780,151 | 485,649 | |
| Derivative financial assets | 123,986 | 94,734 | |
| Reverse repurchase transactions | 260,207 | 87,990 | |
| Loans and advances to customers | 11,514,470 | 10,642,844 | |
| Of which: Actual accrued loan loss reserve amount under the Regulatory Weighting Approach | (41,465) | (30,690) | a |
| Of which: Amount of excess loan loss reserve attributable to tier 2 capital under the Regulatory Weighting Approach | (26,345) | (17,395) | b |
| Of which: Actual accrued excess loan loss reserve amount under the Internal Ratings-based Approach | (55,748) | (61,039) | c |
| Of which: Amount of excess loan loss reserve attributable to tier 2 capital under the Internal Ratings-based Approach | (55,748) | (46,277) | d |
| Financial investments | 4,897,328 | 4,416,880 | |
| — financial assets at fair value through profit or loss | 275,470 | 155,732 | |
| — financial assets at fair value through other comprehensive income | 1,858,107 | Not applicable | |
| — financial assets at amortised cost | 2,763,751 | Not applicable | |
| — available for sale | Not applicable | 1,779,950 | |
| — held to maturity | Not applicable | 2,072,491 | |
| — loans and receivables | Not applicable | 408,707 | |
| Long term equity investment | 52,048 | 44,551 | |
| Of which: Investment in common equity tier 1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation | 9,913 | 9,825 | e |
| Investment properties | 15,373 | 14,884 | |
| Property and equipment | 97,623 | 96,663 | |
| Intangible assets | 18,366 | 17,772 | f |
| Of which: Land use rights | 6,288 | 6,513 | g |
| Goodwill | 182 | 138 | h |
| Deferred income tax assets | 36,974 | 45,591 | |
| Other assets | 196,762 | 281,106 | |
| Total assets | 20,940,377 | 19,185,471 | |

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

| | As at 31 December 2018 | As at 31 December 2017 | Code |
|--|------------------------------|------------------------------|----------|
| LIABILITIES | | | |
| Due to central banks | 907,521 | 1,035,797 | |
| Due to banks and other financial institutions | 1,731,209 | 1,425,262 | |
| Placements from banks and other financial institutions | 316,968 | 233,679 | |
| Financial liabilities at fair value through profit or loss | 14,327 | 20,372 | |
| Derivative financial liabilities | 98,284 | 110,273 | |
| Repurchase transactions | 284,861 | 258,400 | |
| Due to customers | 14,884,503 | 13,659,117 | |
| Employee benefits payable | 32,366 | 31,280 | |
| Current tax liabilities | 27,451 | 33,695 | |
| Contingent liabilities | 22,010 | 2,941 | |
| Bonds issued | 727,493 | 458,313 | |
| Of which: Amount attributable to tier 2 capital of the current period derived from transitional period arrangement | 65,823 | 82,279 | i |
| Deferred income tax liabilities | 367 | 351 | |
| Other liabilities | 230,432 | 392,673 | |
| Total liabilities | 19,277,792 | 17,662,153 | |
| EQUITY | | | |
| Share capital | 294,388 | 294,388 | j |
| Other equity instruments | 99,714 | 99,714 | |
| Of which: Preference shares | 99,714 | 99,714 | k |
| Capital reserve | 140,422 | 140,176 | l |
| Less: Treasury shares | (68) | (102) | m |
| Other comprehensive income | (765) | (38,586) | n |
| Of which: Reserve relating to cash-flow hedge items not measured at fair value | - | (4) | o |
| Of which: Currency translation differences | (13,502) | (18,974) | p |
| Surplus reserve | 156,711 | 140,692 | q |
| General reserve | 231,416 | 207,693 | r |
| Undistributed profits | 637,609 | 606,765 | s |
| Capital and reserves attributable to equity holders of the Bank | 1,559,427 | 1,450,740 | |
| Non-controlling interests | 103,158 | 72,578 | |
| Of which: Amount attributable to common equity tier 1 capital | 28,229 | 26,280 | t |
| Of which: Amount attributable to additional tier 1 capital | 9,810 | 5,288 | u |
| Total equity | 1,662,585 | 1,523,318 | |
| Total equity and liabilities | 20,940,377 | 19,185,471 | |

Annex 4: Main Attributes of Capital Instruments

Unit: RMB Million (unless otherwise stated)

| No. | Item | Common shares (A share) | Common shares (H share) | Preference shares (Domestic) | Preference shares (Offshore) | Preference shares (Domestic) |
|------------------------------|---|--------------------------------------|--------------------------------------|--|--|--|
| 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 <i>Capital Rules for Commercial Banks (Provisional)</i> | Common equity tier 1 capital | Common equity tier 1 capital | Additional tier 1 capital | Additional tier 1 capital | Additional tier 1 capital |
| 5 | Of which: Applicable to the rules after expiration of the transitional period specified by <i>Capital Rules for Commercial Banks (Provisional)</i> | Common equity tier 1 capital | Common equity tier 1 capital | Additional tier 1 capital | Additional tier 1 capital | Additional 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 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 CBIRC, 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 CBIRC, 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 CBIRC, 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. | Item | Common shares (A share) | Common shares (H share) | Preference shares (Domestic) | Preference shares (Offshore) | Preference shares (Domestic) |
|--|---|----------------------------|----------------------------|---|--|---|
| Regulatory processing (Continued) | | | | | | |
| 16 | Of which: Subsequent redemption date (if any) | Not applicable | Not applicable | Subject to approval by the CBIRC, 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 CBIRC, 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 CBIRC, 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) | The dividend yield fixed at 6.75% (after tax) for the first five years, is reset based on the five-year U.S. treasury rate plus a fixed interest spread at the dividend reset date every five years, and the dividend yield during each reset period remains unchanged | 5.5% (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. | Item | Common shares (A share) | Common shares (H share) | Preference shares (Domestic) | Preference shares (Offshore) | Preference shares (Domestic) |
|---|---|----------------------------|----------------------------|---|---|---|
| Dividend or interest payment (Continued) | | | | | | |
| 24 | Of which: Please specify the trigger condition for share conversion, if allowed | Not applicable | Not applicable | <p>(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):</p> <p>(i) the CBIRC having concluded that a conversion or write-off is necessary without which the Bank would become non-viable; or</p> <p>(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</p> | <p>(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):</p> <p>(i) the CBIRC having concluded that a conversion or write-off is necessary without which the Bank would become non-viable; or</p> <p>(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</p> | <p>(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):</p> <p>(i) the CBIRC having concluded that a conversion or write-off is necessary without which the Bank would become non-viable; or</p> <p>(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</p> |

Annex 4: Main Attributes of Capital Instruments (Continued)

| No. | Item | Common shares (A share) | Common shares (H share) | Preference shares (Domestic) | Preference shares (Offshore) | Preference shares (Domestic) |
|---|---|----------------------------|----------------------------|--|---|---|
| Dividend or interest payment (Continued) | | | | | | |
| 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 issued | 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 |

Annex 4: Main Attributes of Capital Instruments (Continued)

| No. | Item | Common shares (A share) | Common shares (H share) | Preference shares (Domestic) | Preference shares (Offshore) | Preference shares (Domestic) |
|---|------|----------------------------|----------------------------|---|---|--|
| Dividend or interest payment (Continued) | | | | | | |
| | | | | <p>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</p> | <p>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</p> | <p>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</p> |

Annex 4: Main Attributes of Capital Instruments (Continued)

| No. | Item | Common shares (A share) | Common shares (H share) | Preference shares (Domestic) | Preference shares (Offshore) | Preference shares (Domestic) |
|---|---|-----------------------------------|-----------------------------------|--|--|--|
| Dividend or interest payment (Continued) | | | | | | |
| 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. | Item | Tier 2 capital instrument | Tier 2 capital instrument | Tier 2 capital instrument | Tier 2 capital instrument |
|------------------------------|--|------------------------------|---|------------------------------|------------------------------|
| 1 | Issuer | Bank of China Limited | Bank of China Limited | Bank of China Limited | Bank of China Limited |
| 2 | Identification code | 1428010.IB | 5828.HK | 1728017.IB | 1728020.IB |
| 3 | Applicable law | PRC law | English law (Provisions relating to subordination shall be governed by PRC law) | PRC law | PRC law |
| Regulatory processing | | | | | |
| 4 | Of which: Applicable to transitional period rules specified by <i>Capital Rules for Commercial Banks (Provisional)</i> | Tier 2 capital | Tier 2 capital | Tier 2 capital | Tier 2 capital |
| 5 | Of which: Applicable to the rules after expiration of the transitional period specified by <i>Capital Rules for Commercial Banks (Provisional)</i> | Tier 2 capital | Tier 2 capital | Tier 2 capital | Tier 2 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 |
| 7 | Instrument type | Eligible tier 2 capital bond | Eligible tier 2 capital bond | Eligible tier 2 capital bond | Eligible tier 2 capital bond |
| 8 | Amount attributable to regulatory capital (the last reporting day) | 29,972 | 20,502 | 29,962 | 29,964 |
| 9 | Par value of instrument | 30,000 | USD3.0 billion | 30,000 | 30,000 |
| 10 | Accounting treatment | Bonds Issued | Bonds Issued | Bonds Issued | Bonds Issued |
| 11 | Initial issuing date | 2014/8/8 | 2014/11/13 | 2017/9/26 | 2017/10/31 |
| 12 | Term (term or perpetual) | Term | Term | Term | Term |
| 13 | Of which: Original maturity date | 2024/8/11 | 2024/11/13 | 2027/9/28 | 2027/11/2 |
| 14 | Issuer's redemption (subject to regulatory approval) | Yes | Yes | Yes | Yes |

Annex 4: Main Attributes of Capital Instruments (Continued)

| No. | Item | Tier 2 capital instrument |
|--|--|--|--|--|--|
| Regulatory processing (Continued) | | | | | |
| 15 | Of which: Redemption date (or have redemption date) and amount | Subject to approval by the CBIRC, 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 | Subject to approval by the CBIRC, the Bank has the right to redeem all or part of the bond after 5 years from the date of issuance (i.e. 2022/9/28) | Subject to approval by the CBIRC, the Bank has the right to redeem all or part of the bond after 5 years from the date of issuance (i.e. 2022/11/2) |
| 16 | Of which: Subsequent redemption date (if any) | Subject to the Redemption Conditions, the bonds 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 bonds are outstanding which has the effect that the bonds, 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 bonds 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 bonds are outstanding which has the effect that the bonds, 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 bonds 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 bonds are outstanding which has the effect that the bonds, 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 bonds 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 bonds are outstanding which has the effect that the bonds, 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 |

Annex 4: Main Attributes of Capital Instruments (Continued)

| No. | Item | Tier 2 capital instrument |
|-------------------------------------|---|---------------------------|---------------------------|---------------------------|---------------------------|
| Dividend or interest payment | | | | | |
| 17 | Of which: Fixed or floating dividend or interest payment | Fixed | Fixed | Fixed | Fixed |
| 18 | Of which: Coupon rate and relevant indicators | 5.80% | 5.00% | 4.45% | 4.45% |
| 19 | Of which: Existence of dividend brake mechanism | No | No | No | No |
| 20 | Of which: Discretion to cancel dividend or interest payment | Not applicable | Not applicable | Not applicable | Not applicable |
| 21 | Of which: Existence of redemption incentive mechanism | No | No | No | No |
| 22 | Of which: Cumulative or noncumulative | Noncumulative | Noncumulative | Noncumulative | Noncumulative |
| 23 | Conversion into shares | No | No | No | No |
| 24 | Of which: Please specify the trigger condition for share conversion, if allowed | Not applicable | Not applicable | Not applicable | Not applicable |
| 25 | Of which: Please specify share conversion in whole or in part, if allowed | Not applicable | Not applicable | 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 | Not applicable | Not applicable |
| 27 | Of which: Please specify share conversion is mandatory or not, if it is allowed | Not applicable | Not applicable | Not applicable | Not applicable |
| 28 | Of which: Please specify the instrument type after conversion, if allowed | Not applicable | Not applicable | Not applicable | Not applicable |
| 29 | Of which: Please specify the issuer of the instrument type after conversion, if allowed | Not applicable | Not applicable | Not applicable | Not applicable |
| 30 | Write-down feature | Yes | Yes | Yes | Yes |

Annex 4: Main Attributes of Capital Instruments (Continued)

| No. | Item | Tier 2 capital instrument |
|---|---|--|--|--|--|
| Dividend or interest payment (Continued) | | | | | |
| 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 CBIRC 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 CBIRC 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 CBIRC 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 CBIRC 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 | 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 | 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 | 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 | 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 | No | No |
| | Of which: If yes, please specify such attribute | Not applicable | Not applicable | Not applicable | Not applicable |

Annex 4: Main Attributes of Capital Instruments (Continued)

| No. | Item | Tier 2 capital instrument | Tier 2 capital instrument |
|------------------------------|--|--|--|
| 1 | Issuer | Bank of China Limited | Bank of China Limited |
| 2 | Identification code | 1828006.IB | 1828011.IB |
| 3 | Applicable law | PRC law | PRC law |
| Regulatory processing | | | |
| 4 | Of which: Applicable to transitional period rules specified by <i>Capital Rules for Commercial Banks (Provisional)</i> | Tier 2 capital | Tier 2 capital |
| 5 | Of which: Applicable to the rules after expiration of the transitional period specified by <i>Capital Rules for Commercial Banks (Provisional)</i> | 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) | 39,982 | 39,984 |
| 9 | Par value of instrument | 40,000 | 40,000 |
| 10 | Accounting treatment | Bonds Issued | Bonds Issued |
| 11 | Initial issuing date | 2018/9/3 | 2018/10/9 |
| 12 | Term (term or perpetual) | Term | Term |
| 13 | Of which: Original maturity date | 2028/9/5 | 2028/10/11 |
| 14 | Issuer's redemption (subject to regulatory approval) | Yes | Yes |
| 15 | Of which: Redemption date (or have redemption date) and amount | Subject to approval by the CBIRC, the Bank has the right to redeem all or part of the bond after 5 years from the date of issuance (i.e. 2023/9/5) | Subject to approval by the CBIRC, the Bank has the right to redeem all or part of the bond after 5 years from the date of issuance (i.e. 2023/10/11) |

Annex 4: Main Attributes of Capital Instruments (Continued)

| No. | Item | Tier 2 capital instrument | Tier 2 capital instrument |
|--|---|--|--|
| Regulatory processing (Continued) | | | |
| 16 | Of which: Subsequent redemption date (if any) | Subject to the Redemption Conditions, the bonds 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 bonds are outstanding which has the effect that the bonds, 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 bonds 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 bonds are outstanding which has the effect that the bonds, 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 |

Annex 4: Main Attributes of Capital Instruments (Continued)

| No. | Item | Tier 2 capital instrument | Tier 2 capital instrument |
|-------------------------------------|---|---|---|
| Dividend or interest payment | | | |
| 17 | Of which: Fixed or floating dividend or interest payment | Fixed | Fixed |
| 18 | Of which: Coupon rate and relevant indicators | 4.86% | 4.84% |
| 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 |
| 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 |
| 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 CBIRC 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 CBIRC 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 |

Annex 4: Main Attributes of Capital Instruments (Continued)

| No. | Item | Tier 2 capital instrument | Tier 2 capital instrument |
|---|---|--|--|
| Dividend or interest payment (Continued) | | | |
| 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 |