中国建设银行(伦敦)有限公司
China Construction Bank (London) Limited

Pillar 3 Disclosures Report

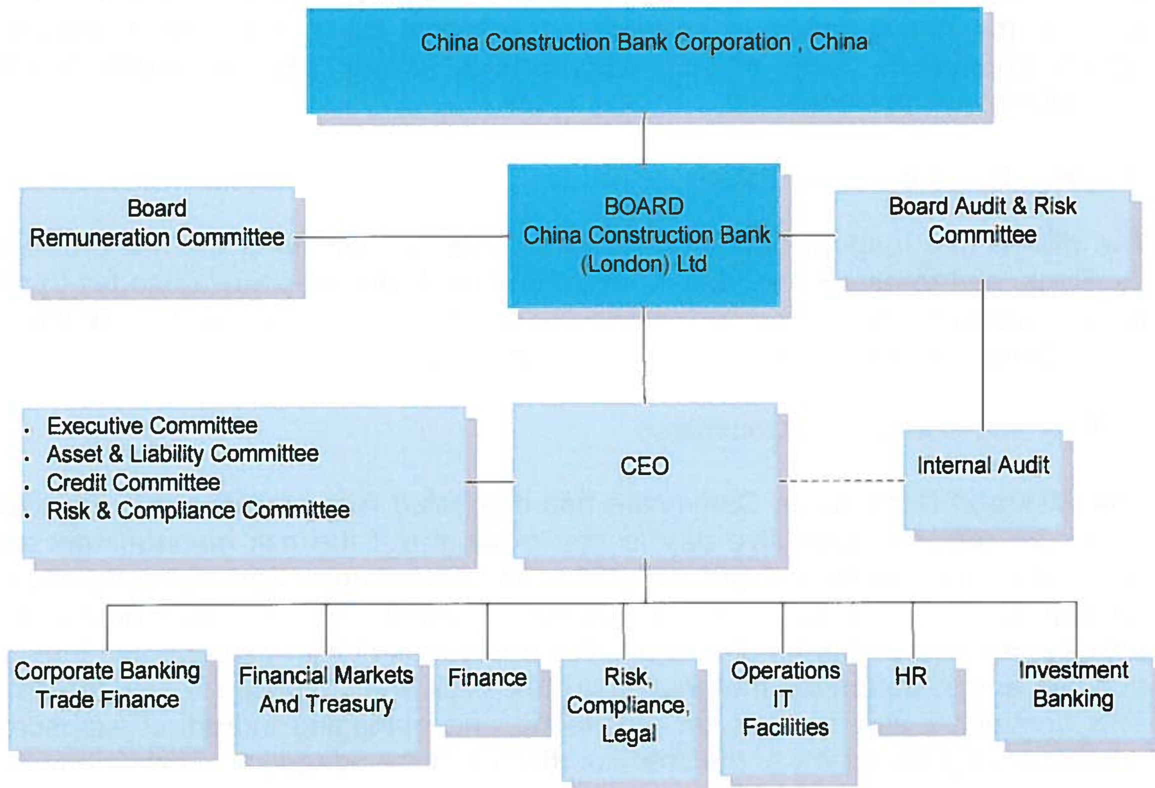
For Financial Year Ended 31st December 2013

1.3. Review

These disclosures have been approved by the Board, but have not been subject to external audit although the underlying positions they are based on have been. The Board, having taken into account the size and complexity of the Bank's operations, believe that an unaudited annual disclosure is appropriate. Future reviews will be published as soon as practicable after publishing the annual financial statements. More frequent disclosures may be made where considered necessary.

CCBL's accounting year end is 31st December and CCBL's Pillar 3 disclosures have been aligned with its financial reporting. The Pillar 3 disclosures for 31st December 2013 are available on the Bank's website: www.uk.ccb.com .

2.3 Structure and Organisation of Governance



2.3.1 The Board

The Board is responsible for strategic direction, overall control of the Bank and establishing a clearly defined governance and risk management structure. The Board has created a risk framework within the Bank's strategic objectives in accordance with CCB Group delegated authorities and UK compliance and legal authorities and has delegated risk approval powers to the Bank's CEO within that framework. The CEO can further delegate these powers and responsibilities as he sees fit.

2.3.2 Board Audit & Risk Committee

The Audit & Risk Committee provides oversight of the Bank's internal and external auditors and risk and compliance functions, thereby assisting the Board in providing an independent review of the effectiveness of processes and internal control systems of the Bank. It approves any proposed significant changes to risk authority levels, policies and product range as described above. Such approved changes will be reported to the full CCBL Board, and in appropriate circumstances will be discussed by the Board for final approval. The committee also informs the Board of any suspected abnormality which comes to its attention.

2.3.3 Board Remuneration Committee

3. Capital Resources

a) Capital

At the start of 2013, the Company's authorised share capital was US$200,000,000 divided into 200,000,000 shares of US$1. On 6th December 2013, a new class of shares denominated in Renminbi of 1,500,000,000 ordinary share of RM1 each was, authorised, allotted and fully paid by China Construction Bank Corporation.

At 31 December 2013 the issued and fully paid up share capital amounted to $446,599,000.

(b) Available-for-sale reserve

The available-for-sale reserve includes the cumulative net change in the fair value of available-for-sale investments, excluding impairment losses, until the investment is derecognised or impaired.

(USD000s)	As at 31/12/2013	As at 31/12/2012
Core tier 1 Capital		
Called up share capital	446,599	200,000
Share premium account	-	
Retained earnings and other reserves	7,262	4,146
Externally verified profits		
Preference shares		
Perpetual non-cumulative preference shares	-	-
Deductions from tier 1 capital		
Intangible assets	-	-
Net losses on securities held in the available for sale financial assets category	(539)	(13)
Tier 1 capital after deductions	453,322	204,133
Innovative tier 1 instruments	-	-
Tier 2 capital		
Subordinated debt	-	-
Collective provisions	-	-
Deductions from tier 2 capital		
Expected losses	-	-
Tier 2 capital after deductions	-	-
Deductions from total of tier 1 and tier 2 capital	-	-
Total capital resources	453,322	204,133

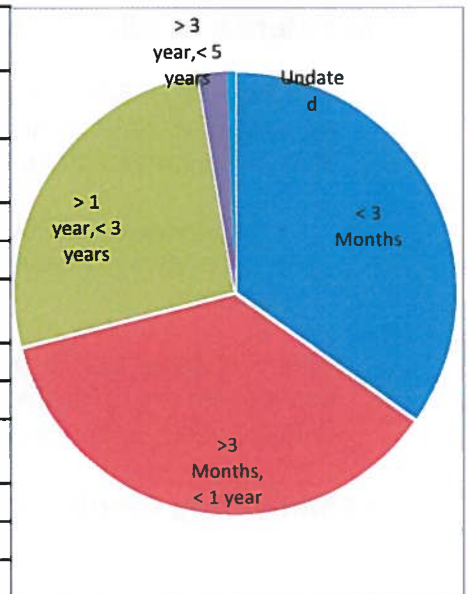
The following table shows exposure values associated with each credit quality step for credit exposures in accordance with the PRA's credit quality assessment scale under the Standardised Approach as at 31/12/2013.

	External credit Risk	Credit Quality Step	Risk Weight	Exposure 31/12/2013	Exposure 31/12/2012
				$000	$000
Central governments or central banks	AAA to AA-	1	0%	2,388,711	50,158
Multilateral development banks	AAA to AA-	1	0%	-	-
Institutions with a residual maturity less than 3 months	AAA to AA-	1	20%	9,144	6,650
	A+ to A-	2	20%	1,939,162	273,526
	BBB+ to BBB-	3	100%	-	16,370
	BB+ to BB- and unrated	4	100%	12,019	12,019
Institutions with a residual maturity greater than 3 months	A to A-	2	50%	1,034,187	249,619
	BBB+ to BBB-	3	100%	-	-
	BB+ to BB- and unrated	4	100%	28,068	25,000
Corporates	A+ to A-	2	50%	-	-
	BBB+ to BBB-	3	100%	-	-
	BB+ to BB- and unrated	4	100%	632,686	166,394
	B+ to B- and unrated	5	150%	10,900	
Other				131,321	59,984
Total Exposure				6,185,388	859,720

A specific provision of $9,570,000 in respect of loan and advances to customer was made at the year ended 31 December 2013 (2012: None).

The following tables show the credit exposures as at 31/12/2013 by geography, industry sector and residual maturity of the exposure.

Residual maturity of Exposure		31-Dec-13	31-Dec-12
		$000	$000
Up to and including 3 months	–		
	Corporates	203,219	144,761
	Institutions	1,930,324	308,566
	Central governments or central banks	20,021	-
Between 3 months & 1 year	Corporates	281,244	21,632
	Institutions	855,616	88,577
	Central governments or central banks	1,104,854	-
Between 1 year and 3 years	Corporates	124,131	-
	Institutions	236,641	186,042
	Central governments or central banks	1,263,836	50,158
Between 3 years and 5 years	Corporates	34,181	-
Undated	Other	131,321	59,984
		6,185,388	**859,720**



5. Counterparty Credit Risk for Derivative Transactions.

Counterparty credit risk ("CCR") is the risk that the counterparty to a derivative transaction could default before the final settlement of the transaction's cash flows.

The Bank measures the exposure value on counterparty credit exposures under the CCR mark to market method. This exposure value is derived by adding the gross positive fair value of the contract (replacement cost) to the contracts potential future credit exposure, which is derived by applying a multiple based on the contracts residual maturity to the notional value of the contract in accordance with BIPRU 13.4.5 .

Table of Potential Future Credit Exposure Percentages in accordance with BIPRU 13.4.5					
Residual maturity	Interest-rate contracts	Contracts concerning foreign currency rates and gold	Contracts concerning equities	Contracts concerning precious metals except gold	Contracts concerning commodities other than precious metals
One year or less	0%	1%	6%	7%	10%
Over one year, not exceeding five years	0.5%	5%	8%	7%	12%
Over five years	1.5%	7.5%	10%	8%	15%

The following table shows the counterparty risk and its relevant capital components as at 31/12/2013 and 31/12/2012

	31 December 2013($000's)		31 December 2012($000's)	
	Gross positive fair value	Counterparty Risk Capital Component	Gross positive fair value	Counterparty Risk Capital Component
Forward Foreign Exchange contracts	127,371	2,007	56,949	783
Interest rate swaps	-	-	11	-
	127,371	2,007	56,960	783

CCBL has approved a Trading Book Policy Statement. As at 31st December 2013, FX Trading is the only permitted trading activity.

6.3 Monitoring Market Risk

The following are monitored on a daily basis:

- Mark-to-market of profit and loss;
- Value at risk (calculated on a one day horizon with a 99% confidence interval); the 99% daily VaR limit represents 0.5% of capital and there were no breaches of the limit during 2013
- Sensitivity to adverse moves in interest rates and foreign exchange.

6.4 Mitigating Market Risk

CCBL manages its market risk by:

- Placing a limit on the sensitivity to interest rates. In particular, a maximum DV01 (the gain or loss suffered from a 0.01% parallel movement in the yield curve) is specified;
- Operating an early alert program
- Placing a limit on foreign exchange exposures; Placing a limit on the value at risk; and
- Placing a limit based on the results of stress tests.

7. Liquidity Risk

The Bank is exposed to the risk that it may be unable to meet its obligations as they fall due, arising from the differing maturity profiles of its assets and liabilities.

Under the PRA's liquidity rules, the Bank is regarded as a stand-alone, self-sufficient entity and prepares an Individual Liquidity Adequacy Assessment ("ILAA") at least annually to determine the amount of liquidity resources required. A buffer of highly liquid government securities is held to mitigate the Bank's liquidity risk.

9. Capital adequacy

In assessing the adequacy of its capital, the Bank considers its risk appetite, the risk types to which the Bank is exposed and the appropriate management strategies for each of the Bank's material risks. In addition to capital adequacy quarterly reporting to the FCA, an internal capital adequacy assessment is performed daily in order to assess the Bank's capital adequacy and to determine the levels of capital required going forward to support the current and future risks of the Bank's growing business. Capital adequacy reports are produced by the Finance Department and reviewed, monthly, by ALCo and Senior Management. If the daily surplus capital falls within a predetermined, (currently 20%) of the Individual Capital Guidance ('ICG' – a prudential measure specific to each financial institution set by the PRA), ALCo is notified immediately. ALCo will then monitor the situation closely and make any necessary recommendations to ExCo who will decide what actions are required to rectify the situation.

The Risk department is responsible for ensuring that the Bank's current and expected future risks are reflected in the Internal Capital Adequacy Assessment Process (ICAAP) document which is approved, at least, annually by the Board. The Finance and Risk departments are jointly responsible for ensuring that sufficient capital is maintained to provide the Bank with adequate headroom to cover expected risks of current and potential business activities and stress testing scenarios.

The amount and composition of the Bank's capital requirements is determined by assessing the minimum capital requirements under Pillar 1 of the Capital Requirements Directive (CRD), the applicable approach for risk assessment being the Standardised Approach for credit risks and the Basic Indicator Approach for operational risk and the ICG of the Bank.

The following table shows the Bank's Pillar 1 capital requirement by asset class :

Credit Risk - Standardised Approach	31 December 2013		31 December 2012	
(USD000s)	Exposure Value	Capital Requirement	Exposure Value	Capital Requirement
Central governments or Central Banks	2,388,711	-	50,158	-
Multilateral Development Banks	-	-	-	-
Institutions	3,022,581	34,791	276,701	7901
Corporates	642,776	51,820	30,483	2,439
Short term claims on institutions and corporates	2,090	167	442,393	14,326
Other items	129,230	149	59,985	242
Capital Component for Credit Risk	6,185,388	86,927	859,720	24,908
Operational risk – Basic Indicator Approach		4,379		3,955
Counterparty Risk Capital Component		2,007		783
Foreign exchange PRR		20,133		794
Interest PRR		429		371
Total Pillar 1 capital requirement		113,875		31,990
Total capital resources		453,320		204,133
Excess capital resources over Pillar1 capital requirement		**339,445**		**172,143**

- There is a question as to the obligor's ability or willingness to pay interest or principal. The Risk Department, or a member of the Credit Committee can recommend that an account be placed on non-performing status to the Credit Committee;
- Principal and / or interest remains unpaid for ninety days after its due date or more; or
- The account is classified Substandard or Doubtful or Loss through the Account Classification Process (see definitions below).

The Bank's Credit Policy details the valuation process for impairments.

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount shall be reduced either directly or through use of an allowance account and the loss shall be recognised in profit or loss.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in profit or loss.

Any accrued and unpaid interest on a non-performing exposure is reversed and only recognized as interest income when cash payments are received. However, it may continue to be classified adversely.

Once an account is put on non-performing status, it is classified at Substandard or lower (see definitions below). It can be restored to performing status only after all outstanding payments of principal and interest have been received in cash or a suitable restructuring/rescheduling agreement has been signed and the obligor has fulfilled all its obligations under the revised agreement. This is accompanied by evidence of a relative improvement in the Obligor's condition and debt service capacity and clear commitment to repay. An important factor is a reasonable period of demonstrated payment performance in accordance with the modified terms.

Under the *Early Alert* process, the Risk Department, overseen by the CEO, has the ongoing responsibility to identify signs of weakness or other signs of deterioration in each credit. The recommendations are presented to the Credit Committee.

The *Early Alert* Process may lead to placing the account on any of the following statuses:

- Watch;
- Substandard;
- Doubtful; or
- Loss.

Watch: assets subject to conditions that, if left uncorrected, could raise concerns about full repayment are to be classified "Watch". Examples of such conditions are weaknesses in the customer's financial condition or deterioration in the security or weaknesses that have been detected in the documentation. These require more than normal attention by the client relationship managers.

Substandard: assets that do not have adequate protection (e.g. obligor net worth or collateral) and/or interest or principal or both are more than 90 days overdue. No loss is foreseen, but a protracted workout is a possibility. Prompt corrective action is required to strengthen the Bank's position as a creditor, to reduce its exposure and to ensure that

11.Remuneration

11.1Overview

The terms of the Prudential Regulatory Authority (PRA) guidance on remuneration apply to all aspects of remuneration which could have a bearing on effective risk management in the Bank including salary, long-term incentive plans, pensions and severance arrangements. The Bank's reward structure reflects the requirements of the PRA and addresses these issues in a manner tailored to the needs of the business. The remuneration disclosures are presented as required by BIPRU 11.5.18

11.2The Remuneration Committee and the Remuneration Policy

The Remuneration Committee (the 'Committee') shall be appointed by the Board of CCBL (the 'Board') and shall comprise of not less than two members of the Board who must be Non-Executive Directors of the Bank able to exercise independent judgment. The Chairman of the Committee shall be appointed by the Chairman of the Board.

11.3The Decision Making Process and the Link between Pay and Performance

The Committee is authorized by the Board of the Bank to ensure the implementation of effective remuneration governance and related risk management practice within China Construction Bank (London) Ltd. (the 'Bank'), and determine and adopt a remuneration policy which is in line with the FCA Remuneration Code and to review its implementation at least annually for compliance.

The financial reward offered by the Bank comprises three components: base pay, variable pay and non-contractual benefits. Variable pay includes non-contractual and discretionary overtime and may also include annual discretionary bonus awards. Benefits consist of a standard non contractual benefits package.

11.4Key Performance Indicators

The Bank's overall performance is evaluated against key performance indicators ('KPI's) set by the Head Office of China Construction Bank Corporation and agreed with the Board Remuneration Committee of CCBL.

11.5Variable Components

The variable pay (discretionary bonus) is based upon a combination of assessments of performance against the following;

- The performance of the Bank;
- The performance of departments;
- The performance of employees in the context of the annual objectives of their role; and
- External compensation benchmarks.

The Bank may award employees with annual discretionary bonuses. Where a bonus is paid, the amount is wholly at the discretion of the Bank and payments made will be non – pensionable awards that are subject to tax and National Insurance. The annual cash discretionary bonus allocation for senior executives and all other staff whose base pay exceeds £120,000 per annum needs to be agreed by both CCB Head Office and the Board Remuneration Committee. The intention of the Bank's bonus scheme is to