

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Bank's independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong. As described in "Appendix VIII – Documents Delivered to the Registrar of Companies and Available for Inspection", a copy of the Accountants' Report is available for inspection.



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December 10, 2013

The Directors
China Everbright Bank Company Limited

China International Capital Corporation Hong Kong Securities Limited
UBS Securities Hong Kong Limited
Morgan Stanley Asia Limited
China Everbright Capital Limited
BNP Paribas Securities (Asia) Limited
BOCI Asia Limited

INTRODUCTION

We set out below our report on the financial information relating to China Everbright Bank Company Limited (the "Bank") and its subsidiaries (hereinafter collectively referred to as the "Group") comprising the consolidated statements of financial position of the Group and the statements of financial position of the Bank as at December 31, 2010, 2011 and 2012 and June 30, 2013, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements for each of the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 (the "Relevant Periods"), together with the explanatory notes thereto (the "Financial Information"), for inclusion in the prospectus of the Bank dated December 10, 2013 (the "Prospectus").

The Bank commenced operation in the People's Republic of China (the "PRC") on August 18, 1992 as a commercial bank. The Bank undertook a capital restructuring and became a joint stock commercial bank on January 15, 1997. The Bank's "A" shares were listed on the Shanghai Stock Exchange on August 18, 2010.

The Group has prepared statutory financial statements in accordance with the "Accounting Standards for Business Enterprises – Basic Standard" issued by the Ministry of Finance of the PRC (the "MOF") on February 15, 2006, as well as 38 additional specific accounting standards, the Application Guide and Interpretations of Accounting Standards, and other relevant regulations (collectively known as the "PRC GAAP") (the "PRC Accounting Standard Financial Statements"). KPMG Huazhen has acted as the statutory auditor of the Group and has audited the PRC Accounting Standard Financial Statements for each of the years ended December 31, 2010 and 2011. KPMG Huazhen (SGP) has acted as the statutory auditor of the Group and has audited the PRC Accounting Standard Financial Statements for the year ended December 31, 2012.

All subsidiaries of the Bank have adopted December 31 as their financial year end date. Details of the Bank's subsidiaries and the names of the respective auditors are set out in Note 25 of Section V. The Bank's subsidiaries, except for Jiangsu Huai'an Everbright Village Bank Co., Ltd., have prepared statutory financial statements in accordance with the PRC GAAP.

The directors of the Bank have also prepared the Group's consolidated financial statements for the Relevant Periods in accordance with the International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") (the "Underlying Financial Statements"). The Underlying Financial Statements for each of the Relevant Periods were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Financial Information has been prepared by the directors of the Bank for inclusion in the Prospectus in connection with the listing of shares of the Bank on the Main Board of The Stock Exchange of Hong Kong Limited based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Bank are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with IFRSs, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Bank determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by HKICPA. We have not audited any financial statements of the Bank, its subsidiaries or the Group in respect of any period subsequent to June 30, 2013.

OPINION

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group and the Bank as at December 31, 2010, 2011 and 2012 and June 30, 2013 and the Group's consolidated results and cash flows for the Relevant Periods then ended.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Group comprising the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the six months ended June 30, 2012, together with the explanatory notes thereon (the "Corresponding Financial Information"), for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

The directors of the Bank are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

I CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Expressed in millions of Renminbi, unless otherwise stated)

	Note	Years ended December 31,			Six months ended June 30,	
		2010	2011	2012	2012	2013
					(Unaudited)	
Interest income.....		54,156	77,884	103,971	50,736	58,368
Interest expense.....		(23,733)	(38,444)	(53,708)	(25,428)	(32,314)
Net interest income	4	<u>30,423</u>	<u>39,440</u>	<u>50,263</u>	<u>25,308</u>	<u>26,054</u>
Fee and commission income		5,081	7,381	9,994	5,163	7,666
Fee and commission expense		(372)	(408)	(515)	(225)	(317)
Net fee and commission income	5	<u>4,709</u>	<u>6,973</u>	<u>9,479</u>	<u>4,938</u>	<u>7,349</u>
Net trading (losses)/gains	6	(347)	(1,063)	(238)	500	48
Dividend income		2	2	3	3	-
Net gains/(losses) arising from investment securities.....	7	326	(115)	75	29	121
Foreign exchange gains/(losses)		360	760	208	(350)	140
Other operating income.....		255	201	280	103	126
Operating income		<u>35,728</u>	<u>46,198</u>	<u>60,070</u>	<u>30,531</u>	<u>33,838</u>
Operating expenses	8	<u>(15,126)</u>	<u>(18,289)</u>	<u>(22,685)</u>	<u>(10,802)</u>	<u>(12,160)</u>
Operating profit before impairment		<u>20,602</u>	<u>27,909</u>	<u>37,385</u>	<u>19,729</u>	<u>21,678</u>
Impairment losses on assets	11	(3,491)	(3,698)	(5,795)	(2,439)	(2,250)
Profit before tax		<u>17,111</u>	<u>24,211</u>	<u>31,590</u>	<u>17,290</u>	<u>19,428</u>
Income tax	12	(4,317)	(6,126)	(7,970)	(4,354)	(4,489)
Net profit		<u>12,794</u>	<u>18,085</u>	<u>23,620</u>	<u>12,936</u>	<u>14,939</u>
Other comprehensive income: Items that may be reclassified subsequently to profit or loss						
- Net change in fair value of available-for-sale financial assets .		(982)	179	(202)	1,160	80
- Income tax relating to other comprehensive income.....		245	(45)	50	(290)	(20)
- Net change in fair value of available-for-sale financial assets reclassified to profit or loss.....		(119)	293	82	120	60
Other comprehensive income, net of tax		<u>(856)</u>	<u>427</u>	<u>(70)</u>	<u>990</u>	<u>120</u>
Total comprehensive income		<u>11,938</u>	<u>18,512</u>	<u>23,550</u>	<u>13,926</u>	<u>15,059</u>
Net profit attributable to:						
Equity shareholders of the Bank		12,791	18,068	23,591	12,920	14,917
Non-controlling interests		3	17	29	16	22
		<u>12,794</u>	<u>18,085</u>	<u>23,620</u>	<u>12,936</u>	<u>14,939</u>
Total comprehensive income attributable to:						
Equity shareholders of the Bank		11,935	18,495	23,521	13,910	15,037
Non-controlling interests		3	17	29	16	22
		<u>11,938</u>	<u>18,512</u>	<u>23,550</u>	<u>13,926</u>	<u>15,059</u>
Basic and diluted earnings per share (in RMB)	13	<u>0.36</u>	<u>0.45</u>	<u>0.58</u>	<u>0.32</u>	<u>0.37</u>

II(A) CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in millions of Renminbi, unless otherwise stated)

	Note	December 31,			June 30,
		2010	2011	2012	2013
Assets					
Cash and deposits with the central bank	14	185,745	228,666	285,478	311,708
Deposits with banks and other financial institutions	15	53,275	105,263	47,019	73,870
Placements with banks and other financial institutions	16	23,833	81,746	135,979	137,060
Financial assets at fair value through profit or loss	17	22,397	22,727	29,453	31,779
Positive fair value of derivatives	18	3,025	2,262	1,677	1,560
Financial assets held under resale agreements	19	170,037	206,941	230,726	181,384
Interests receivable	20	4,139	6,100	10,140	13,735
Loans and advances to customers	21	760,555	868,782	997,331	1,078,665
Available-for-sale financial assets	22	77,241	54,502	91,900	99,408
Held-to-maturity investments	23	87,793	83,985	95,824	93,048
Debt securities classified as receivables	24	–	–	261,207	350,334
Fixed assets	26	10,141	10,810	11,869	11,893
Goodwill	27	1,281	1,281	1,281	1,281
Deferred tax assets	28	1,306	1,857	2,454	2,496
Other assets	29	83,182	58,424	76,957	82,947
Total assets		<u>1,483,950</u>	<u>1,733,346</u>	<u>2,279,295</u>	<u>2,471,168</u>
Liabilities and equity					
Liabilities					
Deposits from banks and other financial institutions	31	197,214	270,627	527,561	564,122
Placements from banks and other financial institutions	32	18,214	27,362	23,205	40,222
Negative fair value of derivatives	18	2,960	3,062	1,861	1,716
Financial assets sold under repurchase agreements	33	12,679	40,609	74,285	72,217
Deposits from customers	34	1,063,180	1,225,278	1,426,941	1,554,691
Accrued staff costs	35	5,187	6,257	7,405	7,210
Taxes payable	36	1,663	2,534	3,174	2,375
Interests payable	37	8,536	12,625	18,414	18,569
Debt securities issued	38	16,000	16,000	52,700	44,700
Other liabilities	39	76,854	32,842	29,427	38,280
Total liabilities		<u>1,402,487</u>	<u>1,637,196</u>	<u>2,164,973</u>	<u>2,344,102</u>
Equity					
Share capital	40	40,435	40,435	40,435	40,435
Capital reserve	41	19,901	20,328	20,258	20,378
Surplus reserve	42	2,434	4,226	6,560	6,560
General reserve	42	11,632	13,877	28,063	28,063
Retained earnings	43	6,963	17,169	18,862	31,434
Total equity attributable to equity shareholders of the Bank		81,365	96,035	114,178	126,870
Non-controlling interests		98	115	144	196
Total equity		<u>81,463</u>	<u>96,150</u>	<u>114,322</u>	<u>127,066</u>
Total liabilities and equity		<u>1,483,950</u>	<u>1,733,346</u>	<u>2,279,295</u>	<u>2,471,168</u>

II(B) STATEMENTS OF FINANCIAL POSITION

(Expressed in millions of Renminbi, unless otherwise stated)

	Note	December 31,			June 30,
		2010	2011	2012	2013
Assets					
Cash and deposits with the central bank	14	185,713	228,600	285,418	311,614
Deposits with banks and other financial institutions	15	52,774	104,790	46,918	73,790
Placements with banks and other financial institutions	16	23,833	81,746	135,979	137,060
Financial assets at fair value through profit or loss	17	22,397	22,727	29,453	31,779
Positive fair value of derivatives	18	3,025	2,262	1,677	1,560
Financial assets held under resale agreements	19	170,037	206,941	230,726	181,384
Interests receivable	20	4,121	6,061	10,050	13,627
Loans and advances to customers	21	760,463	868,666	997,178	1,078,334
Available-for-sale financial assets	22	77,241	54,502	91,900	99,408
Held-to-maturity investments	23	87,793	83,985	95,824	93,048
Debt securities classified as receivables	24	-	-	261,207	350,334
Investments in subsidiaries	25	755	755	755	825
Fixed assets	26	10,138	10,795	11,854	11,878
Goodwill	27	1,281	1,281	1,281	1,281
Deferred tax assets	28	1,306	1,845	2,430	2,472
Other assets	29	79,058	50,524	64,518	67,559
Total assets		<u>1,479,935</u>	<u>1,725,480</u>	<u>2,267,168</u>	<u>2,455,953</u>
Liabilities and equity					
Liabilities					
Deposits from banks and other financial institutions	31	197,239	270,963	528,677	564,870
Placements from banks and other financial institutions	32	14,984	20,962	13,115	28,522
Negative fair value of derivatives	18	2,960	3,062	1,861	1,716
Financial assets sold under repurchase agreements	33	12,679	40,609	74,285	72,217
Deposits from customers	34	1,062,997	1,224,923	1,426,533	1,554,028
Accrued staff costs	35	5,182	6,243	7,381	7,198
Taxes payable	36	1,651	2,512	3,134	2,343
Interests payable	37	8,529	12,552	18,329	18,460
Debt securities issued	38	16,000	16,000	52,700	44,700
Other liabilities	39	76,377	31,795	27,399	35,637
Total liabilities		<u>1,398,598</u>	<u>1,629,621</u>	<u>2,153,414</u>	<u>2,329,691</u>
Equity					
Share capital	40	40,435	40,435	40,435	40,435
Capital reserve	41	19,901	20,328	20,258	20,378
Surplus reserve	42	2,434	4,226	6,560	6,560
General reserve	42	11,632	13,877	28,063	28,063
Retained earnings	43	6,935	16,993	18,438	30,826
Total equity		<u>81,337</u>	<u>95,859</u>	<u>113,754</u>	<u>126,262</u>
Total liabilities and equity		<u>1,479,935</u>	<u>1,725,480</u>	<u>2,267,168</u>	<u>2,455,953</u>

III CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in millions of Renminbi, unless otherwise stated)

	Note	Attributable to equity shareholders of the Bank					Sub-total	Non-controlling interests	Total
		Share Capital	Capital reserve	Surplus reserve	General reserve	Retained earnings			
Balance at January 1, 2010.....		33,435	6,434	1,158	5,486	1,594	48,107	15	48,122
Changes in equity for the year:									
Total comprehensive income.....		-	(856)	-	-	12,791	11,935	3	11,938
Changes in share capital:									
- Issue of ordinary shares.....		7,000	14,323	-	-	-	21,323	-	21,323
- Non-controlling interests of new subsidiaries.....		-	-	-	-	-	-	80	80
Appropriation of profit:									
- Appropriation to surplus reserve.....	43	-	-	1,276	-	(1,276)	-	-	-
- Appropriation to general reserve.....	43	-	-	-	6,146	(6,146)	-	-	-
Balance at December 31, 2010.....		<u>40,435</u>	<u>19,901</u>	<u>2,434</u>	<u>11,632</u>	<u>6,963</u>	<u>81,365</u>	<u>98</u>	<u>81,463</u>
Balance at January 1, 2011.....		40,435	19,901	2,434	11,632	6,963	81,365	98	81,463
Changes in equity for the year:									
Total comprehensive income.....		-	427	-	-	18,068	18,495	17	18,512
Appropriation of profit:									
- Appropriation to surplus reserve.....	43	-	-	1,792	-	(1,792)	-	-	-
- Appropriation to general reserve.....	43	-	-	-	2,245	(2,245)	-	-	-
- Appropriation to shareholders.....	43	-	-	-	-	(3,825)	(3,825)	-	(3,825)
Balance at December 31, 2011.....		<u>40,435</u>	<u>20,328</u>	<u>4,226</u>	<u>13,877</u>	<u>17,169</u>	<u>96,035</u>	<u>115</u>	<u>96,150</u>
Balance at January 1, 2012.....		40,435	20,328	4,226	13,877	17,169	96,035	115	96,150
Changes in equity for the year:									
Total comprehensive income.....		-	(70)	-	-	23,591	23,521	29	23,550
Appropriation of profit:									
- Appropriation to surplus reserve.....	43	-	-	2,334	-	(2,334)	-	-	-
- Appropriation to general reserve.....	43	-	-	-	14,186	(14,186)	-	-	-
- Appropriation to shareholders.....	43	-	-	-	-	(5,378)	(5,378)	-	(5,378)
Balance at December 31, 2012.....		<u>40,435</u>	<u>20,258</u>	<u>6,560</u>	<u>28,063</u>	<u>18,862</u>	<u>114,178</u>	<u>144</u>	<u>114,322</u>
Balance at January 1, 2013.....		40,435	20,258	6,560	28,063	18,862	114,178	144	114,322
Changes in equity for the period:									
Total comprehensive income.....		-	120	-	-	14,917	15,037	22	15,059
Changes in share capital:									
- Non-controlling interests of new subsidiaries.....		-	-	-	-	-	-	30	30
Appropriation of profit:									
- Appropriation to shareholders.....	43	-	-	-	-	(2,345)	(2,345)	-	(2,345)
Balance at June 30, 2013.....		<u>40,435</u>	<u>20,378</u>	<u>6,560</u>	<u>28,063</u>	<u>31,434</u>	<u>126,870</u>	<u>196</u>	<u>127,066</u>
Balance at January 1, 2012 (unaudited).....		40,435	20,328	4,226	13,877	17,169	96,035	115	96,150
Changes in equity for the period:									
Total comprehensive income.....		-	990	-	-	12,920	13,910	16	13,926
Appropriation of profit:									
- Appropriation to shareholders.....	43	-	-	-	-	(5,378)	(5,378)	-	(5,378)
Balance at June 30, 2012 (unaudited).....		<u>40,435</u>	<u>21,318</u>	<u>4,226</u>	<u>13,877</u>	<u>24,711</u>	<u>104,567</u>	<u>131</u>	<u>104,698</u>

IV CONSOLIDATED CASH FLOW STATEMENTS

(Expressed in millions of Renminbi, unless otherwise stated)

	Years ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(Unaudited)	
Cash flows from operating activities					
Net profit	12,794	18,085	23,620	12,936	14,939
<i>Adjustments for:</i>					
Impairment losses on assets.....	3,491	3,698	5,795	2,439	2,250
Depreciation and amortization	877	1,117	1,394	669	794
Unwinding of discount	(66)	(52)	(156)	(52)	(171)
Dividend income	(2)	(2)	(3)	(3)	–
Unrealized foreign exchange losses/(gains) ..	29	93	20	(18)	29
Net (gains)/losses on disposal of investment securities.....	(326)	115	(75)	(29)	(121)
Net (gains)/losses on disposal of trading securities	(119)	20	439	219	129
Revaluation losses/(gains) on financial instruments at fair value through profit or loss.....	466	1,043	(201)	(719)	(177)
Interest expense on debt securities issued	859	753	1,953	734	1,140
Net losses/(gains) on disposal of fixed assets.....	4	3	(8)	–	2
Income tax.....	4,317	6,126	7,970	4,354	4,489
	<u>22,324</u>	<u>30,999</u>	<u>40,748</u>	<u>20,530</u>	<u>23,303</u>
<i>Changes in operating assets</i>					
Net increase in deposits with the central bank, banks and other financial institutions	(33,592)	(59,764)	(37,475)	(42,456)	(54,434)
Net increase in placements with banks and other financial institutions	(7,079)	(27,463)	(34,083)	(12,241)	(33,435)
Net increase in loans and advances to customers.....	(131,341)	(112,186)	(134,003)	(82,802)	(83,644)
Net (increase)/decrease in financial assets held under resale agreements.....	(49,277)	(37,829)	(23,764)	(142,168)	50,230
Net (increase)/decrease in other operating assets	(555)	25,062	(22,120)	(64,142)	(10,064)
	<u>(221,844)</u>	<u>(212,180)</u>	<u>(251,445)</u>	<u>(343,809)</u>	<u>(131,347)</u>
<i>Changes in operating liabilities</i>					
Net (decrease)/increase in deposits from banks and other financial institutions	(34,046)	73,413	256,934	133,883	36,561
Net (decrease)/increase in placements from banks and other financial institutions	(4,877)	9,148	(4,157)	8,778	17,017
Net (decrease)/increase in financial assets sold under repurchase agreements	(1,981)	28,050	33,798	7,804	(2,281)
Net increase in deposits from customers.....	255,551	162,100	201,663	157,934	127,750
Income tax paid	(4,168)	(6,305)	(8,242)	(4,960)	(5,365)
Net increase/(decrease) in other operating liabilities.....	2,701	(38,892)	2,706	8,180	10,002
	<u>213,180</u>	<u>227,514</u>	<u>482,702</u>	<u>311,619</u>	<u>183,684</u>
Net cash flows from/(used in) operating activities.....	<u>13,660</u>	<u>46,333</u>	<u>272,005</u>	<u>(11,660)</u>	<u>75,640</u>

IV CONSOLIDATED CASH FLOW STATEMENTS (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

Note	Years ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(Unaudited)	
Cash flows from investing activities					
Proceeds from disposal and redemption of investments.....	280,879	424,752	326,171	180,396	163,421
Dividends received.....	2	2	3	3	–
Proceeds from disposal of fixed assets and other assets	99	32	50	9	21
Payments on acquisition of investments	(330,894)	(398,629)	(644,507)	(240,196)	(259,309)
Payments on acquisition of fixed assets, intangible assets and other assets	(2,238)	(1,961)	(2,748)	(442)	(793)
Net cash flows (used in)/from investing activities.....	(52,152)	24,196	(321,031)	(60,230)	(96,660)
Cash flows from financing activities					
Proceeds from capital injection.....	21,323	–	–	–	–
Capital contribution by non-controlling interests	80	–	–	–	30
Net proceeds from new debt securities issued.....	–	–	36,700	36,700	–
Repayment of debt securities issued ...	(5,550)	–	–	–	(8,000)
Interest paid on debt securities issued.	(870)	(736)	(770)	(561)	(2,208)
Dividends paid	(1,167)	(3,674)	(5,528)	(5,316)	(2,256)
Net cash flows from/(used in) financing activities	13,816	(4,410)	30,402	30,823	(12,434)
Effect of foreign exchange rate changes on cash and cash equivalents.....	(147)	(539)	(108)	86	(257)
Net (decrease)/increase in cash and cash equivalents	45(a) (24,823)	65,580	(18,732)	(40,981)	(33,711)
Cash and cash equivalents as at January 1.....	115,888	91,065	156,645	156,645	137,913
Cash and cash equivalents as at December 31/June 30.....	45(b) 91,065	156,645	137,913	115,664	104,202
Interest received.....	53,926	77,338	99,565	47,926	53,793
Interest paid (excluding interest expense on debt securities issued) ...	(20,592)	(33,739)	(47,270)	(23,234)	(29,738)

V NOTES TO THE FINANCIAL INFORMATION**(Expressed in millions of Renminbi, unless otherwise stated)****1 Background information**

The Bank commenced operation in Beijing, the PRC on August 18, 1992 as a commercial bank wholly owned by China Everbright (Group) Corporation (“China Everbright (Group)”).

On January 15, 1997, the Bank was restructured and became a joint stock commercial bank with the approval of the People’s Bank of China (the “PBOC”) in the notices “Approval for the Restructuring of China Everbright Bank” (Yin Fu [1995] No. 70) and “Approval for Shareholders of China Everbright Bank” (Yin Guan [1997] No. 8). Its registered share capital increased to RMB2,800 million comprising 2,800 million ordinary shares.

In 1999, the Bank increased its registered capital from RMB2,800 million to RMB4,312 million by transferring RMB1,512 million from its capital reserve with the approval of the PBOC (Yin Fu [1999] No. 278) and shareholder’s resolution. The Bank issued 1,512 million new shares at par value of RMB1 per share to existing shareholders at 54 new ordinary shares for every 100 existing shares.

In 2001, the Bank issued 3,157.9 million new ordinary shares at a price of RMB1.95 per share with par value of RMB1 for each share with the approval of the PBOC (Yin Fu [2000] No. 217 and Yin Fu [2001] No. 147) and shareholder’s resolution passed in 2000. The registered capital of the Bank increased from RMB4,312 million to RMB7,469.9 million.

In 2002, the Bank increased its registered capital from RMB7,469.9 million to RMB8,216.89 million by transferring RMB746.99 million from its capital reserve with the approval of the PBOC (Yin Fu [2002] No. 119) and shareholder’s resolution. The Bank issued 746.99 million new shares at par value of RMB1 per share to existing shareholders at 1 new ordinary share for every 10 existing shares.

In 2007, the Bank went through a series of restructuring measures under a restructuring plan (the “Restructuring”) approved by the State Council of the PRC and announced in August 2007. The Restructuring included the following major measures which are highlighted as below:

(1) Debt restructuring

On July 20, 2007, the Bank entered into a debt restructuring agreement with China Everbright (Group) and Everbright Finance Limited. Under the terms set out in the agreement, the aforementioned companies made full repayments for their debts to the Bank and released the Bank from most of the guarantee obligations for guarantees made on behalf of the China Everbright (Group). China Everbright (Group) further made arrangements with its creditors for releasing of the remaining guarantee of the Bank (Note 46(d)).

(2) Capital injection

Under the Restructuring, with the approval of the Bank’s fourth board of directors on November 13, 2007 and of its shareholders at the first 2007 extraordinary general meeting held on November 28, 2007, the Bank and Central Huijin Investment Ltd. (“Huijin”) reached an agreement on investment into the Bank on November 28, 2007. According to the agreement, Huijin injected US dollars at an amount equivalent to RMB20 billion into the Bank to acquire 20 billion new ordinary shares at a price of RMB1 per share (issue price at RMB1 per share). In accordance with the revised Articles of Association and resolutions of the meetings as mentioned above, as well as the approval of the China Banking Regulatory Commission (the “CBRC”) (Yin Jian Fu [2007] No. 596), the registered capital of the Bank increased from RMB8,216.89 million to RMB28,216.89 million. Accordingly the ordinary shares issued increased from 8,216.89 million to 28,216.89 million.

V NOTES TO THE FINANCIAL INFORMATION (continued)**(Expressed in millions of Renminbi, unless otherwise stated)****1 Background information (continued)****(3) Disposal of impaired financial assets**

The Bank disposed impaired financial assets in April 2008 through public auction. The Bank entered into assets transfer agreements (“Agreements”) with three asset management companies on April 18, 2008 to transfer, on a non-recourse basis, impaired financial assets with an original principal amount of RMB14,206 million (and a provision for impairment losses of RMB12,354 million) as at December 31, 2007 to the three asset management companies. The Bank received cash consideration of RMB1,644 million in return. According to the Agreements, all the risks and rewards related to the impaired financial assets were transferred to the three asset management companies on the date of transfer. The difference of RMB208 million between the amount of cash received and the carrying amounts of the impaired financial assets was recorded as disposal loss in the statements of comprehensive income.

(4) Tax policies in the restructuring

Pursuant to the Notice jointly issued by the MOF and State Administration of Taxation on relevant tax policies during the Restructuring of China Everbright Bank (Cai Shui [2008] No. 29), the tax policies on the Bank’s restructuring is as follows:

- (i) The accumulated losses of RMB13.9 billion after provision for impairment losses during the Restructuring is permitted to offset against profit before tax during the period from January 1, 2008 to December 31, 2010;
- (ii) The losses resulted from the disposal of impaired assets (Note 1(3)), which had been deducted before tax according to point (i) above, cannot be deducted again for the purpose of income tax.

Pursuant to the Bank’s resolution and approval of the CBRC (Yin Jian Fu [2009] No.368), the Bank issued 5,217.9 million ordinary shares at a price of RMB2.2 with a face value of RMB1 per share in August 2009. Accordingly, the registered capital of the Bank increased from RMB28,216.89 million to RMB33,434.79 million.

Pursuant to the Bank’s resolution, approval of the CBRC (Yin Jian Fu [2009] No.517) and approval from the China Securities Regulatory Commission (“the CSRC”) (Zheng Jian Xu Ke [2010] No.1019), by August 18, 2010, the Bank issued 6,100 million A shares in its initial public offering on the Shanghai Stock Exchange, and by September 16, 2010 the Bank executed its over-allotment options and issued another 900 million shares. Accordingly, the registered capital of the Bank increased from RMB33,434.79 million to RMB40,434.79 million.

The principal activities of the Group are the provision of corporate and retail deposits, loans and advances, settlement, treasury business and other financial services as approved by the CBRC. The Bank mainly operated in mainland China, which, for the purpose of this report, excludes the Hong Kong Special Administration Region of the PRC (“Hong Kong”), the Macau Special Administration Region of the PRC and Taiwan.

The Bank has branches in 28 provinces, autonomous regions, municipalities in mainland China and Hong Kong as at June 30, 2013.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

2 Significant accounting policies

(1) Statement of compliance and basis of preparation

The Financial Information set out in this report have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and related interpretations, issued by the International Accounting Standards Board (the “IASB”), as well as with the disclosure requirements of the Hong Kong Companies Ordinance. The Financial Information also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

For the purpose of preparing the Financial Information, the Group has adopted all the new and revised IFRSs in issue which are relevant to the Group for the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting period ended June 30, 2013. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period ended June 30, 2013 are set out below:

		Effective for accounting period beginning on or after
Amendments to IAS 32	Financial instruments: <i>Presentation</i> – Offsetting financial assets and financial liabilities	January 1, 2014
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment entities	January 1, 2014
IFRS 9	Financial Instruments	To be determined (no earlier than January 1, 2017)

The Financial Information are presented in RMB, rounded to the nearest million, which is the functional currency of the Group.

The preparation of Financial Information in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for judgements on the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. Judgements that have a significant effect on the Financial Information and estimates with a significant risk of material adjustments in the subsequent period are discussed in Note 2(24).

The measurement basis used in the preparation of the Financial Information is historical cost, with the exception of financial assets and financial liabilities, which are measured at fair value, as stated in Note 2(5).

(2) Basis of consolidation

The Financial Information comprise financial statements of the Bank and its subsidiaries. Control exists when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its operating activities. The financial statements of subsidiaries are included in Financial Information from the date that control commences until the date that control ceases.

V NOTES TO THE FINANCIAL INFORMATION (continued)**(Expressed in millions of Renminbi, unless otherwise stated)****2 Significant accounting policies (continued)****(2) Basis of consolidation (continued)**

Intra-group balances and transactions, and any unrealized profit arising from intra-group transactions, are eliminated in full in preparing the Financial Information. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Non-controlling interests is presented separately in the consolidated statements of financial position within equity as well as in the consolidated statements of comprehensive income within net profit and total comprehensive income. Where losses attributable to the non-controlling interests of a subsidiary exceed the non-controlling interests in the equity of the subsidiary, the excess, and any further losses attributable to the non-controlling interests, are allocated against the equity attributable to the Group.

In the Bank's statements of financial position, investments in subsidiaries are stated at cost less provision for impairment losses.

(3) Translation of foreign currencies

When the Group receives capital in foreign currencies from investors, the capital is translated to RMB at the spot exchange rate on the date of receipt. Other foreign currency transactions are, on initial recognition, translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates at the dates of transactions.

A spot exchange rate is quoted by the PBOC, the State Administration of Foreign Exchange, or a cross rate determined based on quoted exchange rates. A rate that approximates the spot exchange rate is determined by a systematic and rational method, normally the average exchange rate of the current period.

Monetary items denominated in foreign currencies are translated to RMB at the spot exchange rate at the end of the Relevant Periods. The resulting exchange differences are recognized in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to RMB using the foreign exchange rates at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rates at the date the fair value is determined; the exchange differences are recognized in profit or loss, except for the exchange differences arising from the translation of non-monetary available-for-sale financial assets which are recognized in capital reserve.

(4) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-restricted balances with central banks, short-term deposits and placements with banks and other financial institutions, and highly liquid short-term investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

(5) Financial instruments**(i) Recognition and measurement of financial assets and liabilities**

A financial asset or financial liability is recognized in the statements of financial position when the Group becomes a party to the contractual provisions of a financial instrument.

The Group classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

V NOTES TO THE FINANCIAL INFORMATION (continued)**(Expressed in millions of Renminbi, unless otherwise stated)****2 Significant accounting policies (continued)****(5) Financial instruments (continued)****(i) Recognition and measurement of financial assets and liabilities (continued)**

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any attributable transaction costs are included in their initial costs.

Financial assets and financial liabilities are categorized as follows:

- Financial assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading).

A financial asset or financial liability is classified as at fair value through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, a financial instrument managed in a pattern of short-term profit taking, a derivative, or if it is designated at fair value through profit or loss.

Financial assets and financial liabilities are designated at fair value through profit or loss upon initial recognition when:

- the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial assets or financial liabilities;
- the financial assets or financial liabilities contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or
- the separation of the embedded derivatives from the financial instrument is prohibited.

Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, without any deduction for transactions costs that may occur on sale, and changes therein are recognized in profit or loss.

- Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than

- (a) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or
- (b) those that meet the definition of loans and receivables.

Subsequent to initial recognition, held-to-maturity investments are stated at amortized cost using the effective interest method.

- Loans and receivables

Loans and receivables are non-derivative financial assets held by the Group with fixed or determinable recoverable amounts that are not quoted in an active market, other than

- (a) those that the Group intends to sell immediately or in the near-term, which will be classified as held for trading;
- (b) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(5) Financial instruments (continued)

(i) Recognition and measurement of financial assets and liabilities (continued)

- (c) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale.

Loans and receivables mainly comprise loans and advances to customers, deposits and placements with banks and other financial institutions and financial assets held under resale agreements. Subsequent to initial recognition, loans and receivables are stated at amortized cost using the effective interest method.

- Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated upon initial recognition as available-for-sale and other financial assets which do not fall into any of the above categories.

Subsequent to initial recognition, available-for-sale financial assets are measured at fair value, without any deduction for transaction costs that may occur on sale and changes therein, except for impairment losses and foreign exchange gains and losses from monetary financial assets, are recognized directly in other comprehensive income. Investments in available-for-sale equity instruments that do not have a quoted price in an active market and whose fair value cannot be reliably measured, are measured at cost less impairment losses, if any. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is reclassified to the profit or loss.

- Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

(ii) Impairment of financial assets

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the Group at the end of the Relevant Periods to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment in the financial asset represents events that occur after the initial recognition of the financial asset and have impact on the estimated future cash flows of the asset, which can be estimated reliably.

Objective evidence includes the following loss event:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- disappearance of an active market for financial assets because of financial difficulties;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

- Loans and receivables

The Group uses two methods of assessing impairment losses: those assessed individually and those assessed on a collective basis.

V NOTES TO THE FINANCIAL INFORMATION (continued)**(Expressed in millions of Renminbi, unless otherwise stated)****2 Significant accounting policies (continued)****(5) Financial instruments (continued)***(ii) Impairment of financial assets (continued)**Individual assessment*

Loans and receivables, which are considered individually significant, are assessed individually for impairment. If there is objective evidence of impairment of loans and receivables, the amount of loss is measured as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. The impairment losses are recognized in profit or loss.

It may not be possible to identify a single, discrete event that caused the impairment but it may be possible to identify impairment through the combined effect of several events.

Cash flows relating to short-term loans and receivables are not discounted when assessing impairment loss if the difference between the estimated future cash flows and its present value is immaterial.

The calculation of the present value of the estimated future cash flows of a collateralized loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Collective assessment

Loans and receivables which are assessed collectively for impairment include individually assessed loans and receivables with no objective evidence of impairment on an individual basis, and homogeneous groups of loans and receivables which are not considered individually significant and not assessed individually. Loans and receivables are grouped for similar credit risk characteristics for collective assessment. The objective evidence of impairment mainly includes that, though it is unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there is observable evidence indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets.

Homogeneous groups of loans not considered individually significant

For homogeneous groups of loans that are not considered individually significant, the Group adopts a flow rate methodology to collectively assess impairment losses. This methodology utilizes a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an adjustment of observable data that reflects the current economic conditions and judgement based on management's historical experience.

Individually assessed loans with no objective evidence of impairment on an individual basis

Loans which are individually significant and therefore have been individually assessed but for which no objective evidence of impairment can be identified, either due to the absence of any loss events or due to an inability to measure reliably the impact of loss events on future cash flows, are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. This assessment covers those loans and advances that were impaired at the end of the Relevant Periods but which will not be individually identified as such until some time in the future.

The collective impairment loss is assessed after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics;
- the emergence period between a loss occurring and that loss being identified; and

V NOTES TO THE FINANCIAL INFORMATION (continued)**(Expressed in millions of Renminbi, unless otherwise stated)****2 Significant accounting policies (continued)****(5) Financial instruments (continued)****(ii) Impairment of financial assets (continued)**

- the current economic and credit environments and the judgement on inherent loss based on management's historical experience.

The emergence period between a loss occurring and its identification is determined by management based on the historical experience of the markets where the Group operates.

As soon as information is available that specifically identifies objective evidence of impairment on individual assets in a portfolio, those assets are removed from the portfolio of financial assets. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment for impairment.

The Group periodically reviews and assesses the impaired loans and receivables for any subsequent changes to the estimated recoverable amounts and the resulted changes in the provision for impairment losses.

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortized cost at the date of the reversal had the impairment not been recognized.

When the Group determines that a loan has no reasonable prospect of recovery after the Group has completed all the necessary legal or other claim proceedings, the loan is written off against its provision for impairment losses upon necessary approval. If in a subsequent period the loan written off is recovered, the amount recovered is recognized in profit or loss through impairment losses.

Rescheduled loans are loans that have been restructured due to deterioration in the borrower's financial position to the extent that the borrower is unable to repay according to the original terms and where the Group has made concessions that it would not otherwise consider under normal circumstances. Rescheduled loans are assessed individually and classified as impaired loans upon restructuring. Rescheduled loans are subject to ongoing monitoring. Once a rescheduled loan meets specific conditions, it is no longer considered as impaired.

- Held-to-maturity investments

The impairment loss is calculated based on the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognized in profit or loss.

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortized cost at the date of the reversal had the impairment not been recognized.

- Available-for-sale financial assets

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognized in other comprehensive income is reclassified to the profit or loss even though the financial asset has not been derecognized.

V NOTES TO THE FINANCIAL INFORMATION (continued)**(Expressed in millions of Renminbi, unless otherwise stated)****2 Significant accounting policies (continued)****(5) Financial instruments (continued)***(ii) Impairment of financial assets (continued)*

The amount of the cumulative loss that is removed from equity is the difference between the acquisition cost net of any principal repayment and amortization and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

If, after an impairment loss has been recognized on available-for-sale debt instruments, the fair value of the assets increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. An impairment loss recognized for an equity instrument classified as available-for-sale is not reversed through profit or loss but recognized directly in other comprehensive income.

For investments in equity instruments measured at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset, and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognized in profit or loss.

(iii) Fair value measurement principles

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price. For a financial asset to be acquired or a financial liability assumed, it is the current asking price. The quoted prices from an active market are prices that are readily and regularly available from an exchange, broker, industry group or pricing service agency, and represent actual and regularly occurring market transactions on an arm's length basis.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of the Relevant Periods. Where other pricing models are used, inputs are based on market data at the end of the Relevant Periods.

In estimating the fair value of a financial asset and financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The Group obtains market data from the same market where the financial instrument was originated or purchased.

(iv) Derecognition of financial assets and financial liabilities

Financial assets (or a part of a financial asset or group of financial assets) are derecognized when the financial assets meet one of the following conditions:

- the contractual rights to the cash flows from the financial asset expire; or

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)**(5) Financial instruments (continued)***(iv) Derecognition of financial assets and financial liabilities (continued)*

- the Group transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognize the financial asset and relevant liability to the extent of its continuing involvement in the financial asset.

The financial liability (or part of it) is derecognized only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the derecognized financial liability and the consideration paid is recognized in profit or loss.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position when the Group has a legally enforceable right to set off the recognized amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

(6) Financial assets held under resale and repurchase agreements

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are carried in the statements of financial position at amortized cost.

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statements of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortized cost.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognized respectively as interest income and interest expense over the life of each agreement using the effective interest method.

(7) Investment in subsidiaries

In the Group's consolidated financial statements, investments in subsidiaries are accounted for in accordance with the principles described in Note 2(2).

In the Bank's financial statements, investments in subsidiaries are accounted for using the cost method. An investment in a subsidiary acquired other than through a business combination is initially recognized at actual payment cost if the Bank acquires the investment by cash. The investment is stated at cost less impairment loss (Note 2(14)) in the statements of financial position. Except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid in obtaining the investments, the Group recognizes its share of the cash dividends or profit distribution declared by the investees as investment income.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(8) Investment property

Investment property is a property held either for earning rental income or for capital appreciation or for both. Investment property is accounted for using the cost model and stated in the statements of financial position at cost less accumulated depreciation and impairment loss (Note 2(14)). Investment property is depreciated using the straight-line method over its estimated useful life after taking into account its estimated residual value.

	<u>Estimated useful life</u>	<u>Estimated rate of residual value</u>	<u>Depreciation rate</u>
Premises	30-35 years	3%	2.8%-3.2%

(9) Fixed assets and construction in progress

Fixed assets are assets held by the Group for operation and administration purposes with useful lives over one year.

Fixed assets are stated in the statements of financial position at cost less accumulated depreciation and impairment loss (Note 2(14)). Construction in progress is stated in the statements of financial position at cost less impairment loss (Note 2(14)).

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any expenditure directly attributable to bringing the asset into working condition for its intended use.

All direct and indirect costs that are related to the construction of fixed assets and incurred before the assets are ready for their intended use are capitalized as the cost of construction in progress. Construction in progress is transferred to fixed assets when the item being constructed is ready for its intended use. No depreciation is provided against construction in progress.

Where the individual component parts of an item of fixed assets have different useful lives or provide benefits to the Group in different patterns thus necessitating use of different depreciation rates or methods, they are recognized as a separate fixed asset.

The subsequent costs including the cost of replacing part of an item of fixed assets are recognized in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of fixed assets are recognized in profit or loss as incurred.

Gains or losses arising from the retirement or disposal of an item of fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)**(9) Fixed assets and construction in progress (continued)**

Fixed assets are depreciated using the straight-line method over their estimated useful lives, after taking into account their estimated residual values. The estimated useful lives, residual values and depreciation rates of each class of fixed assets are as follows:

<u>Asset category</u>	<u>Estimated useful life</u>	<u>Estimated rate of residual value</u>	<u>Depreciation rate</u>
Premises	30-35 years	3%	2.8%-3.2%
Electronic equipment.....	3-5 years	3%-5%	19.0%-32.3%
Others.....	5-10 years	3%-5%	9.5%-19.4%

Useful lives, residual values and depreciation methods are reviewed at least each year-end.

(10) Lease

A lease is classified as either a finance lease or an operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of a leased asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred or not. An operating lease is a lease other than a finance lease.

(a) Operating lease charges

Rental payments under operating leases are recognized as costs or expenses on a straight-line basis over the lease term. Contingent rental payments are recognized as expenses in the accounting period in which they are incurred.

(b) Assets leased-out under finance lease

The Group recognizes the sum of the minimum lease receipts determined at the inception of a lease and the initial direct costs as finance lease receivable, and recognizes unguaranteed residual value at the same time.

Unearned finance income is allocated to each accounting period during the lease term using the effective interest method. At the end of the Relevant Periods, finance lease receivables, net of unearned finance income, are presented as finance lease receivables in the statements of financial position.

The Group accounted for impairment losses on finance lease receivables in accordance with the accounting policies as set out Note 2(5)(ii).

The unguaranteed residual values are reviewed at least at each year end. Any excess of the carrying amount of the unguaranteed residual values over their estimated recoverable amounts is recognized as impairment loss. If there is an indication that there has been a change in the factors used to determine the provision for impairment losses and as a result the estimated recoverable amount of the unguaranteed residual values is greater than its carrying amount, the impairment loss recognized in prior years is reversed. Reversals of impairment losses are recognized in profit or loss.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)**(11) Intangible assets**

The intangible assets of the Group have finite useful lives. The intangible assets are stated at cost less accumulated amortization and impairment loss (Note 2(14)). The cost of intangible assets less residual value and impairment loss is amortized on the straight-line method over the estimated useful lives.

The respective amortization periods for intangible assets are as follows:

Asset category	Estimated useful lives
Computer software	5 years
Others.....	5-10 years

(12) Goodwill

Goodwill represents the excess of cost of acquisition over the Group's interest in the fair value of the identifiable net assets of the acquiree under the business combination involving entities not under common control. Goodwill is not amortized and is stated at cost less accumulated impairment loss (Note 2(14)). On disposal of the related cash-generating unit ("CGU") or group of CGUs, any attributable amount of purchased goodwill is written off and included in the calculation of the profit or loss on disposal.

(13) Repossessed assets

Repossessed assets are physical assets or property rights obtained by the Group from debtors, warrantors or third parties following the enforcement of its creditor's rights. The initial cost of repossessed assets is measured at the lower of the net carrying amount of loans and advances and the fair value of the assets less costs to sell on the acquisition date. Repossessed assets are not depreciated or amortized. The impairment losses of initial measurement and subsequent revaluation are charged to the profit or loss.

(14) Provision for impairment losses on non-financial assets

The carrying amounts of the following assets are reviewed at the end of each of the Relevant Periods based on the internal and external sources of information to determine whether there is any indication of impairment:

- fixed assets
- construction in progress
- intangible assets
- goodwill
- investment property measured using a cost model
- investment in subsidiaries

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated. In addition, the Group estimates the recoverable amounts of goodwill at no later than each year-end, irrespective of whether there is any indication of impairment or not. Goodwill is allocated to the CGU, or group of CGUs, that is expected to benefit from the synergies of the combination for the purpose of impairment testing.

V NOTES TO THE FINANCIAL INFORMATION (continued)**(Expressed in millions of Renminbi, unless otherwise stated)****2 Significant accounting policies (continued)****(14) Provision for impairment losses on non-financial assets (continued)**

A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. A CGU is composed of assets directly relating to cash-generation. Identification of a CGU is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Group also considers how management monitors the Group's operations and how management makes decisions about continuing or disposing of the Group's assets.

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called "asset") is the higher of its fair value less costs to sell and its present value of expected future cash flows. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset; if it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the assets belongs.

An asset's fair value less costs to sell is the amount determined by the price of a sale agreement in an arm's length transaction, less the costs that are directly attributable to the disposal of the asset. The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects expected future cash flows, the useful life and the discount rate specific to the asset.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss. A provision for an impairment loss of the asset is recognized accordingly. Impairment losses related to an asset group or a set of asset groups first reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups, and then reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, the carrying amount of an impaired asset will not be reduced below the highest of its individual fair value less costs to sell (if determinable), the present value of expected future cash flows (if determinable) and zero.

An impairment loss in respect of goodwill is not reversed. If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after impairment was recognized, the previously recognized impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior periods.

V NOTES TO THE FINANCIAL INFORMATION (continued)**(Expressed in millions of Renminbi, unless otherwise stated)****2 Significant accounting policies (continued)****(15) Employee benefits**

Employee benefits are all forms of considerations given and other relevant expenditures incurred in exchange for services rendered by employees. Except for termination benefits, employee benefits are recognized as a liability in the period in which the associated services are rendered by employees, with a corresponding increase in cost of relevant assets or the expenses in profit or loss.

(i) Retirement benefitsSocial pension schemes

Pursuant to the relevant laws and regulations in the PRC, the Group has the social pension schemes for the employees arranged by local government labor and security authorities. The Group makes contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the government. The contributions are charged to the profit or loss on an accrual basis. When employees retire, the local government labor and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

Annuity plan

The Group provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' gross wages, which are expensed in profit or loss when the contributions are made.

Supplementary retirement benefits

The Group pays supplementary retirement benefits to its eligible employees. The Group's obligations in respect of supplementary retirement benefits are calculated by estimating, the present value of the total amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. Such obligations were discounted at the interest yield of government bonds with similar duration at the reporting date.

Except for the above mentioned, the Group has no significant responsibilities to pay any other retirement benefits to employees.

(ii) Housing fund and other social insurances

In addition to the retirement benefits, the Group has joined defined social security contributions schemes for employees pursuant to the relevant laws and regulations of the PRC. These include a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes monthly contributions to the housing fund and other social insurances mentioned above at the applicable rates based on the amounts stipulated by the relevant government organizations. The contributions are charged to profit or loss on an accrual basis.

V NOTES TO THE FINANCIAL INFORMATION (continued)**(Expressed in millions of Renminbi, unless otherwise stated)****2 Significant accounting policies (continued)****(16) Income tax**

Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to items that are recognized in other comprehensive income, in which case they are recognized in other comprehensive income.

Current tax is the expected tax payable calculated at the applicable tax rate on taxable income for the year, and any adjustment to tax payable in respect of previous years.

At the end of each of the Relevant Periods, current tax assets and liabilities are offset if the taxable entity has a legally enforceable right to set off them and the entity intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases, which include the deductible losses and tax credits carried forward to subsequent periods. Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be used.

Deferred tax is not recognized for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or tax loss). Deferred tax is not recognized for taxable temporary differences arising from the initial recognition of goodwill.

At the end of each of the Relevant Periods, the amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities using tax rates that are expected to be applied in the period when the asset is realized or the liability is settled in accordance with tax laws.

The carrying amount of a deferred tax asset is reviewed at the end of each of the Relevant Periods. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

At the end of each of the Relevant Periods, deferred tax assets and liabilities are offset if all the following conditions are met:

- the taxable entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- they relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities which either intend to settle the current tax liabilities and assets on a net basis, or to simultaneously realize the assets and settle the liabilities in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

V NOTES TO THE FINANCIAL INFORMATION (continued)**(Expressed in millions of Renminbi, unless otherwise stated)****2 Significant accounting policies (continued)*****(17) Financial guarantees, provisions and contingent liabilities*****(i) Financial guarantees**

Financial guarantees are contracts that require the issuer (the “guarantor”) to make specified payments to reimburse the beneficiary of the guarantee (“holder”) for a loss that the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognized as deferred income in other liabilities. The deferred income is amortized in profit or loss over the term of the guarantee as income from financial guarantees issued. Provisions are recognized in the statements of financial position as stated in Note 2(17)(ii) if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and the amount of that claim on the Group is expected to exceed the carrying amount of the deferred income.

(ii) Other provisions and contingent liabilities

A provision is recognized for an obligation related to a contingency if the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

For a possible obligation resulting from a past transaction or event whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

(18) Fiduciary activities

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding (“entrusted funds”) to the Group, and the Group grants loans to third parties (“entrusted loans”) under instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

V NOTES TO THE FINANCIAL INFORMATION (continued)**(Expressed in millions of Renminbi, unless otherwise stated)****2 Significant accounting policies (continued)****(19) Income recognition**

Income is the gross inflow of economic benefit in the periods arising in the course of the Group's ordinary activities when the inflows result in an increase in shareholder's equity, other than an increase relating to contributions from shareholders. Income is recognized in profit or loss when it is probable that the economic benefits will flow to the Group, the income and costs can be measured reliably and the following respective conditions are met:

(i) Interest income

Interest income for financial assets is recognized in profit or loss as it is incurred, based on the time for alienation of right to use capital and effective interest rates. Interest income includes the amortization of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest rate.

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the Relevant Periods. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate.

Interest on the impaired assets is recognized using the rate of interest used to discount future cash flows ("unwinding of discount") for the purpose of measuring the related impairment loss.

(ii) Fee and commission income

Fee and commission income is recognized in profit or loss when the corresponding service is provided.

Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognized as an adjustment to the effective interest rate. If the commitment expires without making a loan, the fee is recognized as fee and commission income upon its expiry.

(iii) Other income

Other income is recognized on an accrual basis.

V NOTES TO THE FINANCIAL INFORMATION (continued)**(Expressed in millions of Renminbi, unless otherwise stated)****2 Significant accounting policies (continued)****(20) Expenses recognition****(i) Interest expenses**

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortized cost and the applicable effective interest rate.

(ii) Other expenses

Other expenses are recognized on an accrual basis.

(21) Dividends

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorized and declared after the end of the Relevant Periods are not recognized as a liability at the end of the Relevant Periods but disclosed separately in the notes to the Financial Information.

(22) Related parties

If a Group has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Group is under common control only from the State and that have no other related party relationships are not regarded as related parties of the Group. Related parties of the Group and the Bank include, but are not limited to:

- (a) the Bank's parent;
- (b) the Bank's subsidiaries;
- (c) enterprises that are controlled by the Bank's parent;
- (d) investors that have joint control or exercise significant influence over the Group;
- (e) enterprises or individuals if a party has control or joint control over both the enterprises or individuals and the Group;
- (f) joint ventures of the Group, including subsidiaries of joint ventures;
- (g) associates of the Group;
- (h) principal individual investors and close family members of such individuals;
- (i) key management personnel of the Group and close family members of such individuals;
- (j) key management personnel of the Bank's parent;
- (k) close family members of key management personnel of the Bank's parent;
- (l) other enterprises that are controlled or jointly controlled by principal individual investors, key management personnel of the Group, and close family members of such individuals; and
- (m) a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

V NOTES TO THE FINANCIAL INFORMATION (continued)**(Expressed in millions of Renminbi, unless otherwise stated)****2 Significant accounting policies (continued)****(23) Segment reporting**

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organization, management requirements and internal reporting system, whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and assess its performance. Any segments which do not comply with the reporting of segments by division of quantities are reported at consolidation level.

(24) Significant accounting estimates and judgements

The preparation of Financial Information requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

- (i) Impairment losses on loans and advances, available-for-sale financial assets and held-to-maturity investments

The Group reviews portfolios of loans and advances, available-for-sale financial assets and held-to-maturity investments periodically to assess whether any impairment losses exist and the amount of impairment losses if there is any indication of impairment. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows for loans and advances, available-for-sale financial assets and held-to-maturity investments. It also includes observable data indicating adverse changes in the repayment status of the debtors, or change in national or local economic conditions that causes the default in payment.

The impairment loss for loans, advances, and held-to-maturity investments that is individually assessed for impairment is the net decrease in the estimated discounted future cash flow of the assets. When the financial assets are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the financial assets. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions and the judgement based on management's historical experience. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss.

The objective evidence of impairment for available-for-sale investments includes significant or continual decline in fair value of investment. When deciding whether there is significant or continual decline in fair value, the Group will consider the historical fluctuation records of market and debtors' credit condition, financial position and performance of related industry.

V NOTES TO THE FINANCIAL INFORMATION (continued)**(Expressed in millions of Renminbi, unless otherwise stated)****2 Significant accounting policies (continued)****(24) Significant accounting estimates and judgements (continued)**

(ii) Fair value of financial instruments

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis, and option pricing models. The Group has established a work flow to ensure that the valuation techniques are constructed by qualified personnel and are validated and reviewed by independent personnel. Valuation techniques are certified and calibrated before implementation to ensure the valuation result reflects the actual market conditions. Valuation models established by the Group make maximum use of market input and rely as little as possible on the Group's specific data. However, it should be noted that some input, such as credit and counterparty risk, and risk correlations require management's estimates. The Group reviews the above estimations and assumptions periodically and makes adjustment if necessary.

(iii) The classification of the held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments, if the Group has the intention and ability to hold them until maturity. In evaluating whether requirements to classify a financial asset as held-to-maturity are met, management makes significant judgements. Failure in correctly assessing the Group's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

(iv) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognized for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognized to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognized if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

(v) Impairment of non-financial assets

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgements are exercised over the asset's selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)**(24) Significant accounting estimates and judgements (continued)****(vi) Depreciation and amortization**

Investment properties, fixed assets and intangible assets are depreciated and amortized using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortization costs charged in each of the Relevant Periods. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortization, the amount of depreciation or amortization will be revised.

3 Taxes

The Group's main applicable taxes and tax rates are as follows:

(a) Business tax

Business tax is charged at 5% on taxable income.

(b) City construction tax

City construction tax is calculated as 1% – 7% of business tax.

(c) Education surcharge

Education surcharge is calculated as 3% of business tax.

(d) Income tax

The income tax is calculated on taxable income. The statutory income tax rate is 25%.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

4 Net interest income

	Note	Years ended December 31,			Six months ended June 30,	
		2010	2011	2012	2012	2013
					(Unaudited)	
Interest income arising from						
Deposits with the central bank		2,107	3,106	3,901	1,830	2,193
Deposits with banks and other financial institutions		1,400	3,030	1,943	1,458	431
Placements with banks and other financial institutions		587	1,742	5,781	2,844	2,889
Loans and advances to customers	4(a)					
– Corporate loans and advances ..		27,065	36,992	46,526	23,085	23,040
– Personal loans and advances		8,833	12,667	17,017	7,740	10,259
– Discounted bills		576	913	1,318	801	462
Financial assets held under resale agreements		7,157	11,266	13,137	7,643	5,150
Investments		5,766	7,821	13,689	4,953	13,585
Re-discounted bills		665	347	659	382	359
Sub-total		54,156	77,884	103,971	50,736	58,368
Interest expenses arising from						
Deposits from banks and other financial institutions		6,702	11,593	16,890	7,655	11,744
Placements from banks and other financial institutions		311	1,455	1,522	861	629
Deposits from customers						
– Corporate customers		12,317	19,919	25,801	12,231	13,872
– Individual customers		2,086	3,523	5,645	2,850	3,795
Financial assets sold under repurchase agreements		1,260	1,201	1,897	1,097	1,134
Debt securities issued	4(b)	859	753	1,953	734	1,140
Re-discounted bills		198	–	–	–	–
Sub-total		23,733	38,444	53,708	25,428	32,314
Net interest income		<u>30,423</u>	<u>39,440</u>	<u>50,263</u>	<u>25,308</u>	<u>26,054</u>

Notes:

- (a) The interest income arising from impaired financial assets for the six months ended June 30, 2013 amounted to RMB171 million (2012: RMB156 million; 2011: RMB52 million; 2010: RMB66 million; six months ended June 30, 2012 (unaudited): RMB52 million).
- (b) Interest expense on financial liabilities with maturity over five years mainly included the interest expense on debt securities issued.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

5 Net fee and commission income

	Years ended December 31			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(Unaudited)	
Fee and commission income					
Bank card service fees.....	988	1,808	3,360	1,784	3,200
Underwriting and advisory fees.....	997	1,443	1,594	904	1,152
Wealth management service fees	948	993	1,547	519	1,174
Settlement and clearing fees	940	1,376	1,405	869	850
Acceptance and guarantee fees	486	649	610	321	432
Agency services fees	339	505	651	350	303
Custody and other fiduciary business fees	193	352	558	280	388
Others	190	255	269	136	167
Sub-total	<u>5,081</u>	<u>7,381</u>	<u>9,994</u>	<u>5,163</u>	<u>7,666</u>
Fee and commission expense					
Bank card transaction fees.....	253	285	388	165	253
Settlement and clearing fees.....	46	51	53	27	33
Others	73	72	74	33	31
Sub-total	<u>372</u>	<u>408</u>	<u>515</u>	<u>225</u>	<u>317</u>
Net fee and commission income	<u><u>4,709</u></u>	<u><u>6,973</u></u>	<u><u>9,479</u></u>	<u><u>4,938</u></u>	<u><u>7,349</u></u>

6 Net trading (losses)/gains

	Years ended December 31			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(Unaudited)	
Trading financial instruments					
– Debt securities.....	114	(41)	(556)	10	(151)
– Derivatives	(284)	(865)	616	714	28
Financial instruments designated at fair value through profit or loss	(177)	(157)	(298)	(224)	171
Total	<u>(347)</u>	<u>(1,063)</u>	<u>(238)</u>	<u>500</u>	<u>48</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

7 Net gains/(losses) arising from investment securities

	Years ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(Unaudited)	
Net gains on disposal of available-for-sale financial assets	189	264	124	189	175
Net revaluation gains/(losses) reclassified from other comprehensive income on disposal	159	(391)	(109)	(160)	(80)
Net (losses)/gains on disposal of held-to-maturity investments.....	(22)	12	2	–	(1)
Net gains on disposal of debt securities classified as receivables.....	–	–	58	–	27
Total	<u>326</u>	<u>(115)</u>	<u>75</u>	<u>29</u>	<u>121</u>

8 Operating expenses

	Note	Years ended December 31,			Six months ended June 30,	
		2010	2011	2012	2012	2013
					(Unaudited)	
Staff costs						
– Salaries and bonuses		6,060	6,816	8,294	4,534	4,566
– Staff welfares		123	162	203	86	93
– Pension and annuity		480	596	713	335	422
– Housing allowances.....		222	287	377	167	217
– Supplementary retirement benefits		7	60	46	6	4
– Others.....		525	678	768	383	439
Sub-total.....		<u>7,417</u>	<u>8,599</u>	<u>10,401</u>	<u>5,511</u>	<u>5,741</u>
Premises and equipment expenses						
– Depreciation of fixed assets		612	807	997	483	566
– Amortization of intangible assets		98	98	138	64	82
– Amortization of long-term assets		167	212	259	122	146
– Rental and property management expenses.....		921	1,140	1,413	661	812
Sub-total.....		<u>1,798</u>	<u>2,257</u>	<u>2,807</u>	<u>1,330</u>	<u>1,606</u>
Business tax and surcharges		2,431	3,448	4,551	2,187	2,709
Other general and administrative expenses.....	8(a)	3,480	3,985	4,926	1,774	2,104
Total		<u>15,126</u>	<u>18,289</u>	<u>22,685</u>	<u>10,802</u>	<u>12,160</u>

Note:

- (a) Auditors' remuneration for six months ended June 30, 2013 was nil (2012: RMB8.90 million; 2011: RMB8.90 million; 2010: RMB7.80 million; six months ended June 30, 2012 (unaudited): nil).

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

9 Directors' and supervisors' emoluments

The emoluments before individual income tax in respect of the directors and supervisors who held office during the Relevant Periods are as follows:

	Year ended December 31, 2010							
	Fees	Salaries	Discretionary bonus		Sub-total	Contributions to social pension schemes	Other welfares	Total
			Paid	Payable				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors								
Guo You.....	-	430	-	924	1,354	28	203	1,585
Wu Qing	-	433	-	876	1,309	28	197	1,534
Non-executive directors								
Tang Shuangning.....	-	-	-	-	-	-	-	-
Luo Zhefu	-	-	-	-	-	-	-	-
Yu Erniu.....	-	-	-	-	-	-	-	-
Feng Ailing	-	-	-	-	-	-	-	-
Wang Xia	-	-	-	-	-	-	-	-
Wu Jian.....	-	-	-	-	-	-	-	-
Narentuya.....	-	-	-	-	-	-	-	-
Wu Gang	-	-	-	-	-	-	-	-
Independent non-executive directors								
Chung Shui Ming....	200	-	-	-	200	-	-	200
James Parks Stent ...	200	-	-	-	200	-	-	200
Wang Wei.....	200	-	-	-	200	-	-	200
Jia Kang.....	200	-	-	-	200	-	-	200
Cai Hongbin.....	200	-	-	-	200	-	-	200
Supervisors								
Mu Huijun.....	-	438	-	-	438	28	192	658
Chen Shuang	-	-	-	-	-	-	-	-
Pang Jiying	-	-	-	-	-	-	-	-
Zhang Chuanju.....	-	-	-	-	-	-	-	-
Wu Junhao	-	-	-	-	-	-	-	-
Xia Bin	160	-	-	-	160	-	-	160
Wang Huanbang	160	-	-	-	160	-	-	160
Chen Yu	-	573	431	-	1,004	28	83	1,115
Yang Bingbing	-	479	351	-	830	28	74	932
Li Wei	-	185	183	221	589	28	59	676
Former non-executive directors								
Lin Yan	-	-	-	-	-	-	-	-
Duan Yicai	-	-	-	-	-	-	-	-
Former supervisor								
Nan Jingming.....	-	308	-	-	308	18	114	440
	<u>1,320</u>	<u>2,846</u>	<u>965</u>	<u>2,021</u>	<u>7,152</u>	<u>186</u>	<u>922</u>	<u>8,260</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

9 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the Relevant Periods are as follows: (continued)

	Year ended December 31, 2011							
	Fees	Salaries	Discretionary bonus		Sub-total	Contributions to social pension schemes	Other welfares	Total
			Paid	Payable				
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Executive directors								
Guo You.....	-	428	-	968	1,396	30	202	1,628
Wu Qing	-	398	458	458	1,314	30	190	1,534
Non-executive directors								
Tang Shuangning	-	-	-	-	-	-	-	-
Luo Zhefu	-	-	-	-	-	-	-	-
Yu Erniu	-	-	-	-	-	-	-	-
Wang Shumin.....	-	-	-	-	-	-	-	-
Wang Xia.....	-	-	-	-	-	-	-	-
Wu Jian.....	-	-	-	-	-	-	-	-
Narentuya.....	-	-	-	-	-	-	-	-
Wu Gang	-	-	-	-	-	-	-	-
Independent non-executive directors								
Chung Shui Ming.....	200	-	-	-	200	-	-	200
James Parks Stent	200	-	-	-	200	-	-	200
Wang Wei	200	-	-	-	200	-	-	200
Zhang Xinze	17	-	-	-	17	-	-	17
Cai Hongbin.....	200	-	-	-	200	-	-	200
Supervisors								
Mu Huijun	-	398	458	458	1,314	30	189	1,533
Chen Shuang.....	-	-	-	-	-	-	-	-
Pang Jiyong.....	-	-	-	-	-	-	-	-
Zhang Chuanju.....	-	-	-	-	-	-	-	-
Wu Junhao	-	-	-	-	-	-	-	-
Xia Bin	160	-	-	-	160	-	-	160
Wang Huanbang.....	160	-	-	-	160	-	-	160
Chen Yu	-	661	502	545	1,708	30	81	1,819
Yang Bingbing	-	522	420	552	1,494	30	72	1,596
Li Wei.....	-	247	222	392	861	30	64	955
Former non-executive director								
Feng Ailing.....	-	-	-	-	-	-	-	-
Former independent non-executive director								
Jia Kang.....	17	-	-	-	17	-	-	17
	<u>1,154</u>	<u>2,654</u>	<u>2,060</u>	<u>3,373</u>	<u>9,241</u>	<u>180</u>	<u>798</u>	<u>10,219</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

9 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the Relevant Periods are as follows: (continued)

Year ended December 31, 2012									
	Note	Fees RMB'000	Salaries RMB'000	Discretionary bonus		Sub-total RMB'000	Contributions	Other welfares RMB'000	Total RMB'000
				Paid RMB'000	Payable RMB'000		to social pension schemes RMB'000		
Executive directors									
Guo You.....	(i)	-	447	-	-	447	33	198	678
Wu Qing.....	(i)	-	568	-	-	568	33	189	790
Non-executive directors									
Tang Shuangning.....		-	-	-	-	-	-	-	-
Luo Zhefu.....		-	-	-	-	-	-	-	-
Wu Jian.....		-	-	-	-	-	-	-	-
Narentuya.....		-	-	-	-	-	-	-	-
Wu Gang.....		-	-	-	-	-	-	-	-
Wang Shumin.....		-	-	-	-	-	-	-	-
Wang Zhongxin.....	(ii)	-	-	-	-	-	-	-	-
Wu Gaolian.....	(ii)	-	-	-	-	-	-	-	-
Independent non-executive directors									
Zhou Daojiong.....	(ii)	-	-	-	-	-	-	-	-
Wang Wei.....		200	-	-	-	200	-	-	200
Zhang Xinze.....		200	-	-	-	200	-	-	200
Qiao Zhimin.....	(ii)	-	-	-	-	-	-	-	-
Xie Rong.....	(ii)	-	-	-	-	-	-	-	-
Supervisors									
Cai Haoyi.....	(i)/(ii)	-	48	-	-	48	3	17	68
Mu Huijun.....	(i)	-	568	-	-	568	33	189	790
Chen Shuang.....		-	-	-	-	-	-	-	-
Wang Pingsheng.....	(ii)	-	-	-	-	-	-	-	-
Zhang Chuanju.....		-	-	-	-	-	-	-	-
Wu Junhao.....		-	-	-	-	-	-	-	-
Yu Erniu.....	(ii)	27	-	-	-	27	-	-	27
James Parks Stent.....	(ii)	-	-	-	-	-	-	-	-
Chen Yu.....		-	662	1,103	-	1,765	33	69	1,867
Ye Donghai.....	(ii)	-	114	177	-	291	6	12	309
Ma Ning.....	(ii)	-	137	236	-	373	6	12	391
Former non-executive directors									
Wang Xia.....	(ii)	-	-	-	-	-	-	-	-
Yu Erniu.....	(ii)	-	-	-	-	-	-	-	-
Former independent non-executive directors									
James Parks Stent.....	(ii)	200	-	-	-	200	-	-	200
Chung Shui Ming.....	(ii)	200	-	-	-	200	-	-	200
Cai Hongbin.....	(ii)	200	-	-	-	200	-	-	200
Former supervisors									
Pang Jiyang.....	(ii)	-	-	-	-	-	-	-	-
Xia Bin.....	(ii)	147	-	-	-	147	-	-	147
Wang Huanbang.....	(ii)	160	-	-	-	160	-	-	160
Yang Bingbing.....	(ii)	-	514	959	-	1,473	27	56	1,556
Li Wei.....	(ii)	-	238	442	-	680	27	50	757
		<u>1,334</u>	<u>3,296</u>	<u>2,917</u>	<u>-</u>	<u>7,547</u>	<u>201</u>	<u>792</u>	<u>8,540</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

9 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the Relevant Periods are as follows: (continued)

	Six months ended June 30, 2012 (Unaudited)							
	Fees	Salaries	Discretionary bonus		Sub-total	Contributions to social pension schemes	Other welfares	Total
			Paid	Payable				
			RMB'000	RMB'000				
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Executive directors								
Guo You.....	-	369	-	-	369	16	95	480
Wu Qing	-	382	-	-	382	16	87	485
Non-executive directors								
Tang Shuangning	-	-	-	-	-	-	-	-
Luo Zhefu.....	-	-	-	-	-	-	-	-
Yu Erniu	-	-	-	-	-	-	-	-
Wang Shumin.....	-	-	-	-	-	-	-	-
Wang Zhongxin.....	-	-	-	-	-	-	-	-
Wu Jian.....	-	-	-	-	-	-	-	-
Narentuya	-	-	-	-	-	-	-	-
Wu Gang.....	-	-	-	-	-	-	-	-
Independent non-executive directors								
Chung Shui Ming.....	100	-	-	-	100	-	-	100
James Parks Stent.....	100	-	-	-	100	-	-	100
Wang Wei	100	-	-	-	100	-	-	100
Zhang Xinze	100	-	-	-	100	-	-	100
Cai Hongbin	100	-	-	-	100	-	-	100
Supervisors								
Mu Huijun	-	382	-	-	382	16	87	485
Chen Shuang.....	-	-	-	-	-	-	-	-
Pang Jiyang	-	-	-	-	-	-	-	-
Zhang Chuanju.....	-	-	-	-	-	-	-	-
Wu Junhao	-	-	-	-	-	-	-	-
Xia Bin.....	80	-	-	-	80	-	-	80
Wang Huanbang.....	80	-	-	-	80	-	-	80
Chen Yu.....	-	331	246	-	577	16	34	627
Yang Bingbing	-	295	212	-	507	16	31	554
Li Wei.....	-	143	81	-	224	16	29	269
	<u>660</u>	<u>1,902</u>	<u>539</u>	<u>-</u>	<u>3,101</u>	<u>96</u>	<u>363</u>	<u>3,560</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

9 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the Relevant Periods are as follows: (continued)

Six months ended June 30, 2013

	Fees		Discretionary bonus			Contributions to social pension schemes	Other welfares	Total
	Salaries	Paid	Payable	Sub-total				
	RMB'000				RMB'000			
Executive directors								
Guo You.....	-	288	-	-	288	17	103	408
Wu Qing	-	288	-	-	288	17	103	408
Non-executive directors								
Tang Shuangning	-	-	-	-	-	-	-	-
Luo Zhefu.....	-	-	-	-	-	-	-	-
Wu Jian.....	-	-	-	-	-	-	-	-
Narentuya	-	-	-	-	-	-	-	-
Wu Gang.....	-	-	-	-	-	-	-	-
Wang Shumin.....	-	-	-	-	-	-	-	-
Wang Zhongxin.....	-	-	-	-	-	-	-	-
Wu Gaolian.....	-	-	-	-	-	-	-	-
Independent non-executive directors								
Zhou Daojiong.....	100	-	-	-	100	-	-	100
Wang Wei	100	-	-	-	100	-	-	100
Zhang Xinze	100	-	-	-	100	-	-	100
Qiao Zhimin	100	-	-	-	100	-	-	100
Xie Rong	100	-	-	-	100	-	-	100
Supervisors								
Cai Haoyi	-	288	-	-	288	17	103	408
Mu Huijun	-	288	-	-	288	17	103	408
Chen Shuang.....	-	-	-	-	-	-	-	-
Wang Pingsheng.....	-	-	-	-	-	-	-	-
Zhang Chuanju.....	-	-	-	-	-	-	-	-
Wu Junhao	-	-	-	-	-	-	-	-
Yu Erniu	67	-	-	-	67	-	-	67
James Parks Stent	67	-	-	-	67	-	-	67
Chen Yu	-	331	248	-	579	17	36	632
Ye Donghai.....	-	344	243	-	587	17	36	640
Ma Ning	-	448	321	-	769	17	36	822
	<u>634</u>	<u>2,275</u>	<u>812</u>	<u>-</u>	<u>3,721</u>	<u>119</u>	<u>520</u>	<u>4,360</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)**(Expressed in millions of Renminbi, unless otherwise stated)****9 Directors' and supervisors' emoluments (continued)**

The emoluments before individual income tax in respect of the directors and supervisors who held office during the Relevant Periods are as follows: (continued)

Notes:

- (i) The total compensation package for these directors and supervisors for the year ended December 31, 2012 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact on the Group's and the Bank's financial statements for the year ended December 31, 2012.
- (ii) Mrs. Wang Xia ceased to serve as the non-executive director of the Bank due to her resignation for other working arrangement since May 4, 2012.

The Bank's Fifth General Meeting held on May 15, 2012 elected Mr. Wang Zhongxin as non-executive director of the Bank.

The Bank's First meeting of The Second Workers Congress held on November 5, 2012 elected Mr. Ye Donghai and Mr. Ma Ning as supervisors of the Bank; Mr. Yang Bingbing and Mr. Li Wei are no longer supervisors of the Bank.

The Bank's 2012 first Extraordinary General Meeting held on November 19, 2012 elected Mr. Wu Gaolian as non-executive director of the Bank; Mr. Zhou Daojiong, Mr. Qiao Zhimin and Mr. Xie Rong as independent non-executive directors of the Bank; Mr. Yu Erniu as supervisor of the Bank, he thus ceased to serve as the non-executive director of the Bank; Mr. James Parks Stent as supervisor of the Bank, he thus ceased to serve as the independent non-executive director of the Bank; Mr. Chung Shui Ming and Mr. Cai Hongbin are no longer independent non-executive directors of the Bank; Mr. Cai Haoyi and Mr. Wang Pingsheng as supervisors of the Bank; Mr. Pang Jiying, Mr. Xia Bin and Mr. Wang Huanbang are no longer supervisors of the Bank.

The above persons' compensations are calculated on the basis of their actual time acting as the Directors or Supervisors of the Bank in 2012.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

10 Individuals with highest emoluments

The emoluments before individual income tax of the five individuals with highest emoluments during the Relevant Periods are as follows:

	Years ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(Unaudited)	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Salaries and other emoluments	1,141	2,277	1,963	1,649	1,705
Discretionary bonuses.....	20,745	22,951	23,534	4,116	3,957
Contributions to pension schemes	129	150	159	74	81
Others.....	304	294	281	145	154
Total	<u>22,319</u>	<u>25,672</u>	<u>25,937</u>	<u>5,984</u>	<u>5,897</u>

None of the five individuals with the highest emoluments are directors or supervisors. The number of these individuals whose emoluments before individual income tax are within the following bands is set out below:

	Years ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(Unaudited)	
RMB500,001-1,000,000	–	–	–	1	–
RMB1,000,001-1,500,000	–	–	–	4	5
RMB3,500,001-4,000,000	1	–	1	–	–
RMB4,000,001-4,500,000	3	2	1	–	–
RMB5,000,001-5,500,000	–	1	1	–	–
RMB5,500,001-6,000,000	1	1	1	–	–
RMB6,000,001-6,500,000	–	1	–	–	–
RMB6,500,001-7,000,000	–	–	1	–	–

None of these individuals received any inducements or compensation for loss of office, or waived any emoluments during the Relevant Periods.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

11 Impairment losses on assets

	Years ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(Unaudited)	
Loans and advances to customers.....	3,254	3,420	5,690	2,410	2,266
Held-to-maturity investments.....	50	143	30	8	(33)
Available-for-sale financial assets	9	–	–	–	(1)
Others.....	178	135	75	21	18
Total	<u>3,491</u>	<u>3,698</u>	<u>5,795</u>	<u>2,439</u>	<u>2,250</u>

12 Income tax

(a) Income tax for the Relevant Periods:

	Note	Years ended December 31,			Six months ended June 30,	
		2010	2011	2012	2012	2013
					(Unaudited)	
Current tax		4,758	6,691	8,512	4,190	4,854
Deferred tax	28(b)	(445)	(693)	(574)	134	(82)
Adjustments for prior years.....		4	128	32	30	(283)
Total		<u>4,317</u>	<u>6,126</u>	<u>7,970</u>	<u>4,354</u>	<u>4,489</u>

(b) Reconciliations between income tax and accounting profit are as follows:

	Years ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(Unaudited)	
Profit before tax	<u>17,111</u>	<u>24,211</u>	<u>31,590</u>	<u>17,290</u>	<u>19,428</u>
Statutory tax rate	25%	25%	25%	25%	25%
Income tax calculated at statutory tax rate.....	<u>4,278</u>	<u>6,053</u>	<u>7,898</u>	<u>4,323</u>	<u>4,857</u>
Non-deductible expenses					
– Staff costs	30	27	22	27	25
– Impairment losses on assets	148	156	385	76	178
– Others.....	121	123	181	44	90
	<u>299</u>	<u>306</u>	<u>588</u>	<u>147</u>	<u>293</u>
Non-taxable income					
– Interest income from the PRC government bonds	(264)	(361)	(548)	(146)	(378)
Sub-total	<u>4,313</u>	<u>5,998</u>	<u>7,938</u>	<u>4,324</u>	<u>4,772</u>
Adjustments for prior years	4	128	32	30	(283)
Income tax.....	<u>4,317</u>	<u>6,126</u>	<u>7,970</u>	<u>4,354</u>	<u>4,489</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

13 Basic and diluted earnings per share

	Note	Years ended December 31,			Six months ended June 30,	
		2010	2011	2012	2012	2013
					(Unaudited)	
Weighted average number of ordinary shares (in millions)....	13(a)	35,693	40,435	40,435	40,435	40,435
Net profit attributable to equity shareholders of the Bank		12,791	18,068	23,591	12,920	14,917
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)		0.36	0.45	0.58	0.32	0.37

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the Relevant Periods.

(a) Weighted average number of ordinary shares (in millions)

	Years ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(Unaudited)	
Number of ordinary shares as at January 1	33,435	40,435	40,435	40,435	40,435
New added weighted average number of ordinary shares.....	<u>2,258</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Weighted average number of ordinary shares	<u>35,693</u>	<u>40,435</u>	<u>40,435</u>	<u>40,435</u>	<u>40,435</u>

The Bank issued 7,000 million shares at RMB3.1 per share in its initial public offering on the Shanghai Stock Exchange in August 2010, accordingly the registered capital of the Bank increased from RMB33,434.79 million to RMB40,434.79 million, the total number of shares in issue increased from 33,434.79 million to 40,434.79 million.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

14 Cash and deposits with the central bank

The Group

	Note	December 31,			June 30,
		2010	2011	2012	2013
Cash on hand		3,888	5,092	6,873	8,359
Deposits with the central bank					
– Statutory deposit reserves	14(a)	146,677	193,751	250,350	275,306
– Surplus deposit reserves	14(b)	32,271	25,981	24,130	22,499
– Fiscal deposits		2,909	3,842	4,125	5,544
Sub-total		181,857	223,574	278,605	303,349
Total.....		185,745	228,666	285,478	311,708

The Bank

	Note	December 31,			June 30,
		2010	2011	2012	2013
Cash on hand		3,886	5,089	6,869	8,350
Deposits with the central bank					
– Statutory deposit reserves	14(a)	146,656	193,688	250,300	275,221
– Surplus deposit reserves	14(b)	32,262	25,981	24,124	22,499
– Fiscal deposits		2,909	3,842	4,125	5,544
Sub-total		181,827	223,511	278,549	303,264
Total.....		185,713	228,600	285,418	311,614

- (a) The Group places statutory deposit reserves with the People's Bank of China (the "PBOC") in accordance with relevant regulations. As at the end of the Relevant Periods, the statutory deposit reserve ratios applicable to the Bank were as follows:

	December 31,			June 30,
	2010	2011	2012	2013
Reserve ratio for RMB deposits	17.0%	19.0%	18.0%	18.0%
Reserve ratio for foreign currency deposits.....	5.0%	5.0%	5.0%	5.0%

The statutory deposit reserves are not available for the Group's daily business.

- (b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

15 Deposits with banks and other financial institutions

Analyzed by type and location of counterparty

The Group

	December 31,			June 30,
	2010	2011	2012	2013
Deposits in mainland China				
– Banks	50,427	99,709	43,428	71,040
– Other financial institutions	96	136	116	149
Sub-total	50,523	99,845	43,544	71,189
Deposits outside mainland China				
– Banks	2,776	5,433	3,505	2,710
Sub-total	2,776	5,433	3,505	2,710
Total	53,299	105,278	47,049	73,899
Less: Provision for impairment losses	(24)	(15)	(30)	(29)
Net balances	53,275	105,263	47,019	73,870

The Bank

	December 31,			June 30,
	2010	2011	2012	2013
Deposits in mainland China				
– Banks	49,926	99,236	43,327	70,960
– Other financial institutions	96	136	116	149
Sub-total	50,022	99,372	43,443	71,109
Deposits outside mainland China				
– Banks	2,776	5,433	3,505	2,710
Sub-total	2,776	5,433	3,505	2,710
Total	52,798	104,805	46,948	73,819
Less: Provision for impairment losses	(24)	(15)	(30)	(29)
Net balances	52,774	104,790	46,918	73,790

As at the end of each of the Relevant Periods, part of the deposits with banks and other financial institutions mentioned above was pledged for the swap and secured transactions (Note 30(a)).

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

16 Placements with banks and other financial institutions

The Group and the Bank

	December 31,			June 30,
	2010	2011	2012	2013
Placements in mainland China				
– Banks	14,143	64,816	109,527	114,281
– Other financial institutions	9,166	16,702	26,460	21,159
Sub-total	23,309	81,518	135,987	135,440
Placements outside mainland China				
– Banks	528	229	–	1,626
Sub-total	528	229	–	1,626
Total	23,837	81,747	135,987	137,066
Less: Provision for impairment losses	(4)	(1)	(8)	(6)
Net balances	23,833	81,746	135,979	137,060

17 Financial assets at fair value through profit or loss

The Group and the Bank

	Note	December 31,			June 30,
		2010	2011	2012	2013
Debt securities held for trading .	17(a)	21,728	22,170	29,084	31,473
Financial assets designated at fair value through profit or loss	17(b)	669	557	369	306
Total		22,397	22,727	29,453	31,779

(a) Debt securities held for trading

The Group and the Bank

	Note	December 31,			June 30,
		2010	2011	2012	2013
Issued by the following governments or institutions					
In mainland China					
– Government		–	30	138	318
– The PBOC		382	19	100	120
– Banks and other financial institutions		–	219	6,589	6,435
– Other institutions	(i)	21,346	21,902	22,257	24,600
Total	(ii)	21,728	22,170	29,084	31,473
Unlisted		21,728	22,170	29,084	31,473
Total		21,728	22,170	29,084	31,473

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

17 Financial assets at fair value through profit or loss (continued)

(a) Debt securities held for trading (continued)

Notes:

- (i) As at the end of each of the Relevant Periods, debt securities issued by other institutions in mainland China mainly represented debt securities issued by state-owned enterprises and joint stock enterprises in mainland China.
- (ii) No investments were subject to material restrictions on realization.
- (b) Financial assets designated at fair value through profit or loss represented fixed interest rate personal mortgage loans. The Group used interest rate swap to manage the associated interest rate risk. As at June 30, 2013, the contractual amount of these mortgage loans was RMB311 million (December 31, 2012: RMB362 million; December 31, 2011: RMB540 million; December 31, 2010: RMB690 million). The changes in fair value during the Relevant Periods and the accumulated changes attributable to credit risk were immaterial.

18 Derivatives

Derivative financial instruments include forward and swap contracts undertaken by the Group in foreign currency and interest rate markets. The Group acts as an intermediary between a wide range of customers for structuring deals to provide risk management solutions to meet customer needs. These positions are actively managed through entering into back-to-back deals with external parties to ensure the Group's net exposures are within acceptable risk level. The Group also uses derivative financial instruments in the management of its own asset and liability portfolios and structural positions.

The following tables provide an analysis of the notional amounts of derivative financial instruments of the Group and the corresponding fair values at the end of each of the Relevant Periods. The notional amounts of the derivatives indicate the volume of transactions outstanding at the end of the Relevant Periods, they do not represent amounts at risk.

(a) Analyzed by nature of contract

The Group and the Bank

	December 31, 2010		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swap	84,908	2,277	(2,213)
– Bond option	66	–	–
Currency derivatives			
– Foreign exchange forward	21,907	97	(72)
– Foreign exchange swap	73,640	647	(672)
Credit derivatives			
– Credit default swap	600	4	(3)
Total	<u>181,121</u>	<u>3,025</u>	<u>(2,960)</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

18 Derivatives (continued)

(a) Analyzed by nature of contract (continued)

The Group and the Bank

	December 31, 2011		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swap	132,463	1,604	(2,080)
Currency derivatives			
– Foreign exchange forward	48,876	270	(297)
– Foreign exchange swap	76,317	384	(682)
Credit derivatives			
– Credit default swap	400	4	(3)
Total	<u>258,056</u>	<u>2,262</u>	<u>(3,062)</u>

The Group and the Bank

	December 31, 2012		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swap	128,086	944	(1,065)
Currency derivatives			
– Foreign exchange forward	17,067	122	(173)
– Foreign exchange swap	127,329	611	(623)
Credit derivatives			
– Credit default swap	200	–	–
Total	<u>272,682</u>	<u>1,677</u>	<u>(1,861)</u>

The Group and the Bank

	June 30, 2013		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swap	84,056	632	(580)
Currency derivatives			
– Foreign exchange forward	24,490	168	(223)
– Foreign exchange swap	131,047	760	(913)
Total	<u>239,593</u>	<u>1,560</u>	<u>(1,716)</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

18 Derivatives (continued)

(b) Analyzed by credit risk-weighted amounts

As at December 31, 2010, 2011 and 2012, the Group calculated the credit risk weighted assets for derivatives in accordance with “Regulations Governing Capital Adequacy of Commercial Banks” and other relevant requirements promulgated by the CBRC, which were abolished on January 1, 2013. The relevant figures are as follows:

The Group and the Bank

	December 31,		
	2010	2011	2012
Interest rate derivatives			
– Interest rate swap	2,422	1,483	695
Currency derivatives			
– Foreign exchange forward	343	356	187
– Foreign exchange swap	346	615	455
Credit derivatives			
– Credit default swap	15	14	10
Total	<u>3,126</u>	<u>2,468</u>	<u>1,347</u>

The credit risk-weighted amount refers to the amount as computed in accordance with the rules set out by the CBRC, and depends on the status of the counterparty and the maturity characteristics of the instrument. It includes customer driven transactions, which were hedged back to back. The amounts have taken into account the effects of bilateral netting arrangements.

	June 30, 2013
Counterparty default risk-weighted assets	
– Interest rate derivatives	200
– Currency derivatives	1,139
Credit value adjustment	<u>2,201</u>
Total	<u>3,540</u>

Note:

- (i) The credit risk weighted amounts represent the counterparty credit risk associated with derivative transactions, which are calculated with reference to the guidelines issued by the CBRC. These amounts include counterparty credit default risk weighted assets and credit valuation adjustment.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

19 Financial assets held under resale agreements

(a) Analyzed by type and location of counterparty

The Group and the Bank

	December 31,			June 30,
	2010	2011	2012	2013
In mainland China				
– Banks	149,177	181,098	212,755	169,492
– Other financial institutions	20,829	25,814	17,942	11,863
– Other enterprises	31	29	29	29
Total	170,037	206,941	230,726	181,384
Net balances	<u>170,037</u>	<u>206,941</u>	<u>230,726</u>	<u>181,384</u>

(b) Analyzed by type of security held

The Group and the Bank

	December 31,			June 30,
	2010	2011	2012	2013
Debt securities				
– Government bonds.....	7,909	18,381	2,818	11,620
– Bills issued by the PBOC.....	3,659	1,578	–	–
– Other debt securities	27,014	53,687	43,678	29,948
– Others.....	31	29	29	29
Sub-total	38,613	73,675	46,525	41,597
Bank acceptances.....	130,924	132,666	184,001	137,339
Others	500	600	200	2,448
Total	170,037	206,941	230,726	181,384
Net balances	<u>170,037</u>	<u>206,941</u>	<u>230,726</u>	<u>181,384</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

20 Interests receivable

The Group

	December 31,			June 30,
	2010	2011	2012	2013
Interests receivable from loans and advances to customers.....	1,502	2,299	3,148	3,383
Interests receivable from investments.	2,407	2,671	5,521	9,144
Interests receivable from deposits and placements with banks and other financial institutions	175	1,021	1,325	1,039
Other interests receivable	82	148	191	196
Total	4,166	6,139	10,185	13,762
Less: Provision for impairment losses	(27)	(39)	(45)	(27)
Net balances	<u>4,139</u>	<u>6,100</u>	<u>10,140</u>	<u>13,735</u>

The Bank

	December 31,			June 30,
	2010	2011	2012	2013
Interests receivable from loans and advances to customers.....	1,502	2,299	3,148	3,382
Interests receivable from investments.	2,407	2,671	5,521	9,144
Interests receivable from deposits and placements with banks and other financial institutions	175	1,021	1,325	1,039
Other interests receivable	64	109	101	89
Total	4,148	6,100	10,095	13,654
Less: Provision for impairment losses	(27)	(39)	(45)	(27)
Net balances	<u>4,121</u>	<u>6,061</u>	<u>10,050</u>	<u>13,627</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers

(a) Analyzed by nature

The Group

	December 31,			June 30,
	2010	2011	2012	2013
Corporate loans and advances	571,232	641,950	699,090	731,522
Personal loans and advances				
– Residential and commercial mortgage loans	118,280	130,215	154,550	171,227
– Micro-enterprise equipment loans ...	43,722	49,685	41,756	36,495
– Credit cards	13,000	25,346	69,611	89,496
– Others	18,805	28,208	45,537	63,917
Sub-total	193,807	233,454	311,454	361,135
Discounted bills	13,789	14,421	12,643	11,897
Gross loans and advances to customers	778,828	889,825	1,023,187	1,104,554
Less: Provision for impairment losses				
– Individually assessed	(4,293)	(3,823)	(3,487)	(3,241)
– Collectively assessed	(13,980)	(17,220)	(22,369)	(22,648)
Total provision for impairment losses	(18,273)	(21,043)	(25,856)	(25,889)
Net loans and advances to customers .	760,555	868,782	997,331	1,078,665

The Bank

	December 31,			June 30,
	2010	2011	2012	2013
Corporate loans and advances	571,170	641,863	698,974	731,258
Personal loans and advances				
– Residential and commercial mortgage loans	118,261	130,190	154,528	171,211
– Micro-enterprise equipment loans ...	43,722	49,685	41,756	36,495
– Credit cards	13,000	25,346	69,611	89,496
– Others	18,793	28,200	45,516	63,858
Sub-total	193,776	233,421	311,411	361,060
Discounted bills	13,789	14,421	12,643	11,897
Gross loans and advances to customers	778,735	889,705	1,023,028	1,104,215
Less: Provision for impairment losses				
– Individually assessed	(4,293)	(3,823)	(3,487)	(3,241)
– Collectively assessed	(13,979)	(17,216)	(22,363)	(22,640)
Total provision for impairment losses	(18,272)	(21,039)	(25,850)	(25,881)
Net loans and advances to customers .	760,463	868,666	997,178	1,078,334

As at the end of each of the Relevant Periods, part of the above loans and advances to customers was pledged for repurchase agreements (Note 30(a)).

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(b) Analyzed by economic sector

The Group

	December 31, 2010		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing.....	140,369	18.02%	18,691
Real estate	81,316	10.44%	51,111
Water, environment and public utility management	67,235	8.63%	16,488
Wholesale and retail trade	67,048	8.61%	17,588
Transportation, storage and postal services.....	65,122	8.36%	11,565
Leasing and commercial services	55,951	7.19%	14,902
Production and supply of electric power, gas and water	29,625	3.80%	3,229
Mining	19,852	2.55%	2,276
Others	44,714	5.75%	13,658
Sub-total of corporate loans and advances.....	571,232	73.35%	149,508
Personal loans and advances.....	193,807	24.88%	177,959
Discounted bills.....	13,789	1.77%	11,734
Gross loans and advances to customers	778,828	100.00%	339,201
Less: Provision for impairment losses			
– Individually assessed.....	(4,293)		
– Collectively assessed.....	(13,980)		
Total provision for impairment losses.....	(18,273)		
Net loans and advances to customers	760,555		

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(b) Analyzed by economic sector (continued)

The Group

	December 31, 2011		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing.....	186,037	20.91%	24,175
Wholesale and retail trade	102,718	11.54%	26,639
Real estate	84,076	9.45%	64,671
Transportation, storage and postal services	67,427	7.58%	14,493
Leasing and commercial services	51,816	5.82%	15,401
Water, environment and public utility management	42,222	4.74%	11,757
Production and supply of electric power, gas and water	30,293	3.40%	3,357
Mining	24,507	2.75%	2,657
Others	52,854	5.95%	13,034
Sub-total of corporate loans and advances.....	641,950	72.14%	176,184
Personal loans and advances.....	233,454	26.24%	201,697
Discounted bills.....	14,421	1.62%	13,758
Gross loans and advances to customers	889,825	100.00%	391,639
Less: Provision for impairment losses			
– Individually assessed.....	(3,823)		
– Collectively assessed.....	(17,220)		
Total provision for impairment losses.....	(21,043)		
Net loans and advances to customers	868,782		

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(b) Analyzed by economic sector (continued)

The Group

	December 31, 2012		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing.....	224,411	21.93%	28,216
Wholesale and retail trade	129,590	12.67%	32,605
Real estate	85,469	8.35%	75,433
Transportation, storage and postal services.....	67,628	6.61%	20,494
Leasing and commercial services	40,775	3.99%	14,104
Water, environment and public utility management	32,643	3.19%	10,183
Mining	27,805	2.72%	3,095
Production and supply of electric power, gas and water	23,125	2.26%	3,643
Others	67,644	6.60%	15,288
Sub-total of corporate loans and advances.....	699,090	68.32%	203,061
Personal loans and advances.....	311,454	30.44%	227,334
Discounted bills.....	12,643	1.24%	11,777
Gross loans and advances to customers	1,023,187	100.00%	442,172
Less: Provision for impairment losses			
– Individually assessed.....	(3,487)		
– Collectively assessed.....	(22,369)		
Total provision for impairment losses.....	(25,856)		
Net loans and advances to customers	997,331		

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(b) Analyzed by economic sector (continued)

The Group

	June 30, 2013		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing.....	233,659	21.15%	43,454
Wholesale and retail trade	140,298	12.70%	45,197
Real estate	91,482	8.28%	74,308
Transportation, storage and postal services	67,291	6.09%	19,221
Leasing and commercial services	38,541	3.49%	12,695
Water, environment and public utility management	29,702	2.69%	9,199
Mining	27,778	2.52%	4,079
Production and supply of electric power, gas and water	21,767	1.97%	4,211
Others	81,004	7.34%	23,227
Sub-total of corporate loans and advances	731,522	66.23%	235,591
Personal loans and advances	361,135	32.69%	252,797
Discounted bills	11,897	1.08%	10,432
Gross loans and advances to customers	1,104,554	100.00%	498,820
Less: Provision for impairment losses			
– Individually assessed.....	(3,241)		
– Collectively assessed.....	(22,648)		
Total provision for impairment losses.....	(25,889)		
Net loans and advances to customers	1,078,665		

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(b) Analyzed by economic sector (continued)

The Bank

	December 31, 2010		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing.....	140,369	18.03%	18,691
Real estate	81,316	10.44%	51,111
Water, environment and public utility management	67,230	8.63%	16,483
Wholesale and retail trade	67,048	8.61%	17,588
Transportation, storage and postal services.....	65,122	8.36%	11,565
Leasing and commercial service	55,936	7.18%	14,887
Production and supply of electric power, gas and water	29,625	3.80%	3,229
Mining	19,852	2.55%	2,276
Others	44,672	5.75%	13,628
Sub-total of corporate loans and advances.....	571,170	73.35%	149,458
Personal loans and advances.....	193,776	24.88%	177,931
Discounted bills.....	13,789	1.77%	11,734
Gross loans and advances to customers	778,735	100.00%	339,123
Less: Provision for impairment losses			
– Individually assessed.....	(4,293)		
– Collectively assessed.....	(13,979)		
Total provision for impairment losses.....	(18,272)		
Net loans and advances to customers	760,463		

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(b) Analyzed by economic sector (continued)

The Bank

	December 31, 2011		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing.....	186,032	20.91%	24,175
Wholesale and retail trade	102,718	11.55%	26,639
Real estate	84,076	9.45%	64,671
Transportation, storage and postal services.....	67,427	7.58%	14,493
Leasing and commercial service	51,811	5.82%	15,396
Water, environment and public utility management	42,212	4.74%	11,752
Production and supply of electric power, gas and water	30,293	3.40%	3,357
Mining	24,507	2.75%	2,657
Others	52,787	5.94%	12,987
Sub-total of corporate loans and advances.....	641,863	72.14%	176,127
Personal loans and advances.....	233,421	26.24%	201,667
Discounted bills.....	14,421	1.62%	13,758
Gross loans and advances to customers	889,705	100.00%	391,552
Less: Provision for impairment losses			
– Individually assessed.....	(3,823)		
– Collectively assessed.....	(17,216)		
Total provision for impairment losses.....	(21,039)		
Net loans and advances to customers	868,666		

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(b) Analyzed by economic sector (continued)

The Bank

	December 31, 2012		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing.....	224,386	21.93%	28,191
Wholesale and retail trade	129,590	12.67%	32,605
Real estate	85,469	8.35%	75,433
Transportation, storage and postal services.....	67,628	6.61%	20,494
Leasing and commercial services	40,770	3.99%	14,099
Water, environment and public utility management	32,633	3.19%	10,178
Mining	27,805	2.72%	3,095
Production and supply of electric power, gas and water	23,125	2.26%	3,643
Others	67,568	6.60%	15,221
Sub-total of corporate loans and advances.....	698,974	68.32%	202,959
Personal loans and advances.....	311,411	30.44%	227,299
Discounted bills.....	12,643	1.24%	11,777
Gross loans and advances to customers	1,023,028	100.00%	442,035
Less: Provision for impairment losses			
– Individually assessed.....	(3,487)		
– Collectively assessed.....	(22,363)		
Total provision for impairment losses.....	(25,850)		
Net loans and advances to customers	997,178		

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(b) Analyzed by economic sector (continued)

The Bank

	June 30, 2013		Loans and advances secured by collaterals
	Amount	Percentage	
Manufacturing.....	233,550	21.15%	43,410
Wholesale and retail trade	140,284	12.70%	45,183
Real estate	91,482	8.28%	74,308
Transportation, storage and postal services.....	67,291	6.09%	19,221
Leasing and commercial services	38,541	3.49%	12,695
Water, environment and public utility management	29,673	2.69%	9,172
Mining	27,778	2.52%	4,079
Production and supply of electric power, gas and water	21,767	1.97%	4,211
Others	80,892	7.33%	23,174
Sub-total of corporate loans and advances.....	731,258	66.22%	235,453
Personal loans and advances.....	361,060	32.70%	252,748
Discounted bills.....	11,897	1.08%	10,432
Gross loans and advances to customers	1,104,215	100.00%	498,633
Less: Provision for impairment losses			
– Individually assessed.....	(3,241)		
– Collectively assessed.....	(22,640)		
Total provision for impairment losses.....	(25,881)		
Net loans and advances to customers	1,078,334		

As at the end of each of the Relevant Periods and during the respective periods, detailed information of the impaired loans and advances to customers as well as the corresponding provision for impairment losses in respect of each economic sectors which constitute 10% or more of gross loans and advances to customers are as follows:

The Group and the Bank

	December 31, 2010				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the year	Written-off during the year
Manufacturing.....	1,838	(1,621)	(2,773)	(379)	178
Real estate	451	(405)	(1,644)	(629)	–

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(b) Analyzed by economic sector (continued)

The Group and the Bank

	December 31, 2011				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the year	Written-off during the year
Manufacturing.....	1,957	(1,490)	(3,853)	(1,092)	158
Wholesale and retail trade	932	(698)	(1,935)	(874)	178

The Group

	December 31, 2012				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the year	Written-off during the year
Manufacturing.....	2,246	(1,128)	(5,975)	(2,086)	296
Wholesale and retail trade	1,983	(868)	(3,536)	(1,972)	173

The Bank

	December 31, 2012				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the year	Written-off during the year
Manufacturing.....	2,246	(1,128)	(5,974)	(2,085)	296
Wholesale and retail trade	1,983	(868)	(3,536)	(1,972)	173

The Group

	June 30, 2013				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the period	Written-off during the period
Manufacturing.....	2,098	(839)	(5,780)	(350)	798
Wholesale and retail trade	3,149	(1,509)	(3,457)	(857)	203

The Bank

	June 30, 2013				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the period	Written-off during the period
Manufacturing.....	2,098	(839)	(5,778)	(349)	798
Wholesale and retail trade	3,149	(1,509)	(3,456)	(857)	203

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(c) Analyzed by type of collateral

The Group

	December 31,			June 30,
	2010	2011	2012	2013
Unsecured loans	240,206	276,449	312,965	326,988
Guaranteed loans	199,421	221,737	268,050	278,746
Secured loans				
– By tangible assets other than monetary assets	277,293	311,601	355,951	398,818
– By monetary assets.....	61,908	80,038	86,221	100,002
Gross loans and advances to customers	778,828	889,825	1,023,187	1,104,554
Less: Provision for impairment losses				
– Individually assessed.....	(4,293)	(3,823)	(3,487)	(3,241)
– Collectively assessed.....	(13,980)	(17,220)	(22,369)	(22,648)
Total provision for impairment losses	(18,273)	(21,043)	(25,856)	(25,889)
Net loans and advances to customers .	<u>760,555</u>	<u>868,782</u>	<u>997,331</u>	<u>1,078,665</u>

The Bank

	December 31,			June 30,
	2010	2011	2012	2013
Unsecured loans	240,191	276,446	312,962	326,985
Guaranteed loans	199,421	221,707	268,031	278,597
Secured loans				
– By tangible assets other than monetary assets	277,221	311,514	355,816	398,633
– By monetary assets.....	61,902	80,038	86,219	100,000
Gross loans and advances to customers	778,735	889,705	1,023,028	1,104,215
Less: Provision for impairment losses				
– Individually assessed.....	(4,293)	(3,823)	(3,487)	(3,241)
– Collectively assessed.....	(13,979)	(17,216)	(22,363)	(22,640)
Total provision for impairment losses	(18,272)	(21,039)	(25,850)	(25,881)
Net loans and advances to customers .	<u>760,463</u>	<u>868,666</u>	<u>997,178</u>	<u>1,078,334</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(d) Overdue loans analyzed by overdue period

The Group and the Bank

	December 31, 2010				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans.....	345	246	48	85	724
Guaranteed loans	342	23	1,143	1,117	2,625
Secured loans					
– By tangible assets other than monetary assets	3,650	234	530	1,441	5,855
– By monetary assets.....	12	1	244	475	732
Total	<u>4,349</u>	<u>504</u>	<u>1,965</u>	<u>3,118</u>	<u>9,936</u>
As a percentage of gross loans and advances to customers	<u>0.56%</u>	<u>0.07%</u>	<u>0.25%</u>	<u>0.40%</u>	<u>1.28%</u>

The Group and the Bank

	December 31, 2011				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans.....	1,004	419	23	79	1,525
Guaranteed loans	1,262	63	374	1,347	3,046
Secured loans					
– By tangible assets other than monetary assets	2,909	229	302	1,379	4,819
– By monetary assets.....	133	5	3	619	760
Total	<u>5,308</u>	<u>716</u>	<u>702</u>	<u>3,424</u>	<u>10,150</u>
As a percentage of gross loans and advances to customers	<u>0.60%</u>	<u>0.08%</u>	<u>0.08%</u>	<u>0.38%</u>	<u>1.14%</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(d) Overdue loans analyzed by overdue period (continued)

The Group and the Bank

	December 31, 2012				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans.....	2,432	946	83	97	3,558
Guaranteed loans	1,652	1,885	193	961	4,691
Secured loans					
– By tangible assets other than monetary assets	5,697	668	331	1,157	7,853
– By monetary assets.....	219	56	12	579	866
Total	<u>10,000</u>	<u>3,555</u>	<u>619</u>	<u>2,794</u>	<u>16,968</u>
As a percentage of gross loans and advances to customers	<u>0.98%</u>	<u>0.35%</u>	<u>0.06%</u>	<u>0.27%</u>	<u>1.66%</u>

The Group and the Bank

	June 30, 2013				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans.....	2,624	1,838	96	46	4,604
Guaranteed loans	2,556	1,326	729	430	5,041
Secured loans					
– By tangible assets other than monetary assets	7,504	1,010	870	950	10,334
– By monetary assets.....	1,107	559	25	71	1,762
Total	<u>13,791</u>	<u>4,733</u>	<u>1,720</u>	<u>1,497</u>	<u>21,741</u>
As a percentage of gross loans and advances to customers	<u>1.25%</u>	<u>0.43%</u>	<u>0.16%</u>	<u>0.13%</u>	<u>1.97%</u>

Overdue loans represent loans, of which the whole or part of the principal or interest were overdue for one day or more.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(e) Loans and advances and provision for impairment losses

The Group

	December 31, 2010				Gross impaired loans and advances as a percentage of gross loans and advances
	(Note (i)) Loans and advances for which provision are collectively assessed	(Note (ii)) Impaired loans and advances		Total	
		for which provision are collectively assessed	for which provision are individually assessed		
Gross loans and advances to customers	772,999	1,100	4,729	778,828	0.75%
Less: Provision for impairment losses	(13,228)	(752)	(4,293)	(18,273)	
Net loans and advances to customers	<u>759,771</u>	<u>348</u>	<u>436</u>	<u>760,555</u>	

The Group

	December 31, 2011				Gross impaired loans and advances as a percentage of gross loans and advances
	(Note (i)) Loans and advances for which provision are collectively assessed	(Note (ii)) Impaired loans and advances		Total	
		for which provision are collectively assessed	for which provision are individually assessed		
Gross loans and advances to customers	884,098	980	4,747	889,825	0.64%
Less: Provision for impairment losses	(16,509)	(711)	(3,823)	(21,043)	
Net loans and advances to Customers	<u>867,589</u>	<u>269</u>	<u>924</u>	<u>868,782</u>	

The Group

	December 31, 2012				Gross impaired loans and advances as a percentage of gross loans and advances
	(Note (i)) Loans and advances for which provision are collectively assessed	(Note (ii)) Impaired loans and advances		Total	
		for which provision are collectively assessed	for which provision are individually assessed		
Gross loans and advances to customers	1,015,574	1,600	6,013	1,023,187	0.74%
Less: Provision for impairment losses	(21,237)	(1,132)	(3,487)	(25,856)	
Net loans and advances to customers	<u>994,337</u>	<u>468</u>	<u>2,526</u>	<u>997,331</u>	

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(e) Loans and advances and provision for impairment losses (continued)

The Group

	June 30, 2013				Gross impaired loans and advances as a percentage of gross loans and advances
	(Note (i)) Loans and advances for which provision are collectively assessed	(Note (ii)) Impaired loans and advances		Total	
		for which provision are collectively assessed	for which provision are individually assessed		
Gross loans and advances to customers	1,095,713	2,163	6,678	1,104,554	0.80%
Less: Provision for impairment losses	<u>(21,315)</u>	<u>(1,333)</u>	<u>(3,241)</u>	<u>(25,889)</u>	
Net loans and advances to customers	<u>1,074,398</u>	<u>830</u>	<u>3,437</u>	<u>1,078,665</u>	

The Bank

	December 31, 2010				Gross impaired loans and advances as a percentage of gross loans and advances
	(Note (i)) Loans and advances for which provision are collectively assessed	(Note (ii)) Impaired loans and advances		Total	
		for which provision are collectively assessed	for which provision are individually assessed		
Gross loans and advances to customers	772,906	1,100	4,729	778,735	0.75%
Less: Provision for impairment losses	<u>(13,227)</u>	<u>(752)</u>	<u>(4,293)</u>	<u>(18,272)</u>	
Net loans and advances to customers	<u>759,679</u>	<u>348</u>	<u>436</u>	<u>760,463</u>	

The Bank

	December 31, 2011				Gross impaired loans and advances as a percentage of gross loans and advances
	(Note (i)) Loans and advances for which provision are collectively assessed	(Note (ii)) Impaired loans and advances		Total	
		for which provision are collectively assessed	for which provision are individually assessed		
Gross loans and advances to customers	883,978	980	4,747	889,705	0.64%
Less: Provision for impairment losses	<u>(16,505)</u>	<u>(711)</u>	<u>(3,823)</u>	<u>(21,039)</u>	
Net loans and advances to Customers	<u>867,473</u>	<u>269</u>	<u>924</u>	<u>868,666</u>	

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(e) Loans and advances and provision for impairment losses (continued)

The Bank

	December 31, 2012				Gross impaired loans and advances as a percentage of gross loans and advances
	(Note (i)) Loans and advances for which provision are collectively assessed	(Note (ii)) Impaired loans and advances		Total	
		for which provision are collectively assessed	for which provision are individually assessed		
Gross loans and advances to customers	1,015,415	1,600	6,013	1,023,028	0.74%
Less: Provision for impairment losses	(21,231)	(1,132)	(3,487)	(25,850)	
Net loans and advances to customers	<u>994,184</u>	<u>468</u>	<u>2,526</u>	<u>997,178</u>	

The Bank

	June 30, 2013				Gross impaired loans and advances as a percentage of gross loans and advances
	(Note (i)) Loans and advances for which provision are collectively assessed	(Note (ii)) Impaired loans and advances		Total	
		for which provision are collectively assessed	for which provision are individually assessed		
Gross loans and advances to customers	1,095,374	2,163	6,678	1,104,215	0.80%
Less: Provision for impairment losses	(21,307)	(1,333)	(3,241)	(25,881)	
Net loans and advances to customers	<u>1,074,067</u>	<u>830</u>	<u>3,437</u>	<u>1,078,334</u>	

Notes:

- (i) Loans and advances collectively assessed for impairment bear relatively insignificant impairment losses as a proportion of the total portfolio. These loans and advances include those which are graded normal or special-mention.
- (ii) Impaired loans and advances include those for which objective evidence of impairment has been identified and assessed using the following methods:
- Individually (including corporate loans and advances which are graded substandard, doubtful or loss); or
 - Collectively, representing portfolios of homogeneous loans (including personal loans and advances which are graded substandard, doubtful or loss).
- (iii) The definitions of the loan classifications, stated in Notes (i) and (ii) above, are set out in Note 48(a).

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(f) Movements of provision for impairment losses

The Group

	2010			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		Total
		which are collectively assessed	which are individually assessed	
As at January 1	(9,186)	(1,137)	(5,442)	(15,765)
Charge for the year.....	(4,042)	(160)	(131)	(4,333)
Release for the year.....	-	-	1,079	1,079
Recoveries	-	(74)	(67)	(141)
Unwinding of discount	-	-	66	66
Write-offs	-	619	202	821
As at December 31	<u>(13,228)</u>	<u>(752)</u>	<u>(4,293)</u>	<u>(18,273)</u>

The Group

	2011			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		Total
		which are collectively assessed	which are individually assessed	
As at January 1	(13,228)	(752)	(4,293)	(18,273)
Charge for the year.....	(3,281)	(230)	(380)	(3,891)
Release for the year.....	-	-	471	471
Recoveries	-	(88)	(63)	(151)
Unwinding of discount	-	-	52	52
Write-offs	-	359	390	749
As at December 31	<u>(16,509)</u>	<u>(711)</u>	<u>(3,823)</u>	<u>(21,043)</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(f) Movements of provision for impairment losses (continued)

The Group

	2012			Total
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		which are collectively assessed	which are individually assessed	
As at January 1	(16,509)	(711)	(3,823)	(21,043)
Charge for the year.....	(4,728)	(722)	(872)	(6,322)
Release for the year.....	–	–	632	632
Recoveries	–	(92)	(96)	(188)
Unwinding of discount	–	–	156	156
Write-offs	–	393	516	909
As at December 31	<u>(21,237)</u>	<u>(1,132)</u>	<u>(3,487)</u>	<u>(25,856)</u>

The Group

	Six months ended June 30, 2013			Total
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		which are collectively assessed	which are individually assessed	
As at January 1	(21,237)	(1,132)	(3,487)	(25,856)
Charge for the period	(78)	(837)	(1,678)	(2,593)
Release for the period	–	–	327	327
Recoveries	–	(67)	(25)	(92)
Unwinding of discount	–	–	171	171
Disposals	–	–	805	805
Write-offs	–	703	646	1,349
As at June 30	<u>(21,315)</u>	<u>(1,333)</u>	<u>(3,241)</u>	<u>(25,889)</u>

The Bank

	2010			Total
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		which are collectively assessed	which are individually assessed	
As at January 1	(9,186)	(1,137)	(5,442)	(15,765)
Charge for the year.....	(4,041)	(160)	(131)	(4,332)
Release for the year.....	–	–	1,079	1,079
Recoveries	–	(74)	(67)	(141)
Unwinding of discount	–	–	66	66
Write-offs	–	619	202	821
As at December 31	<u>(13,227)</u>	<u>(752)</u>	<u>(4,293)</u>	<u>(18,272)</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(f) Movements of provision for impairment losses (continued)

The Bank

	2011			Total
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		which are collectively assessed	which are individually assessed	
As at January 1	(13,227)	(752)	(4,293)	(18,272)
Charge for the year.....	(3,278)	(230)	(380)	(3,888)
Release for the year.....	–	–	471	471
Recoveries	–	(88)	(63)	(151)
Unwinding of discount	–	–	52	52
Write-offs	–	359	390	749
As at December 31	<u>(16,505)</u>	<u>(711)</u>	<u>(3,823)</u>	<u>(21,039)</u>

The Bank

	2012			Total
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		which are collectively assessed	which are individually assessed	
As at January 1	(16,505)	(711)	(3,823)	(21,039)
Charge for the year.....	(4,726)	(722)	(872)	(6,320)
Release for the year.....	–	–	632	632
Recoveries	–	(92)	(96)	(188)
Unwinding of discount	–	–	156	156
Write-offs	–	393	516	909
As at December 31	<u>(21,231)</u>	<u>(1,132)</u>	<u>(3,487)</u>	<u>(25,850)</u>

The Bank

	Six months ended June 30, 2013			Total
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		which are collectively assessed	which are individually assessed	
As at January 1	(21,231)	(1,132)	(3,487)	(25,850)
Charge for the period	(76)	(837)	(1,678)	(2,591)
Release for the period	–	–	327	327
Recoveries	–	(67)	(25)	(92)
Unwinding of discount	–	–	171	171
Disposals	–	–	805	805
Write-offs	–	703	646	1,349
As at June 30	<u>(21,307)</u>	<u>(1,333)</u>	<u>(3,241)</u>	<u>(25,881)</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(g) Analyzed by geographical sector

The Group

	December 31, 2010		
	Loan balance	Percentage	Loans and advances secured by collaterals
Yangtze River Delta.....	209,058	26.84%	104,960
Bohai Rim	170,906	21.94%	68,427
Central	113,774	14.61%	40,731
Western	113,487	14.57%	48,940
Pearl River Delta	112,268	14.41%	50,331
Northeastern	46,312	5.95%	25,812
Head Office	13,023	1.68%	—
Gross loans and advances to customers	<u>778,828</u>	<u>100.00%</u>	<u>339,201</u>

The Group

	December 31, 2011		
	Loan balance	Percentage	Loans and advances secured by collaterals
Yangtze River Delta.....	222,276	24.98%	109,032
Bohai Rim	193,992	21.80%	77,461
Western	132,947	14.94%	62,759
Central	132,157	14.85%	49,890
Pearl River Delta	126,963	14.27%	59,542
Northeastern	56,123	6.31%	32,955
Head Office	25,367	2.85%	—
Gross loans and advances to customers	<u>889,825</u>	<u>100.00%</u>	<u>391,639</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(g) Analyzed by geographical sector (continued)

The Group

	December 31, 2012		
	Loan balance	Percentage	Loans and advances secured by collaterals
Yangtze River Delta.....	243,573	23.81%	121,711
Bohai Rim	199,896	19.54%	81,820
Central	152,891	14.94%	60,736
Western	151,357	14.79%	77,017
Pearl River Delta	144,859	14.16%	68,471
Head Office	69,629	6.80%	-
Northeastern	60,982	5.96%	32,417
Gross loans and advances to customers	<u>1,023,187</u>	<u>100.00%</u>	<u>442,172</u>

The Group

	June 30, 2013		
	Loan balance	Percentage	Loans and advances secured by collaterals
Yangtze River Delta	248,648	22.51%	132,200
Bohai Rim	205,841	18.64%	81,411
Central	168,376	15.24%	72,685
Western	167,649	15.18%	91,433
Pearl River Delta	154,269	13.97%	80,204
Head Office	89,513	8.10%	-
Northeastern	67,208	6.08%	37,979
Hong Kong	3,050	0.28%	2,908
Gross loans and advances to customers	<u>1,104,554</u>	<u>100.00%</u>	<u>498,820</u>

The Bank

	December 31, 2010		
	Loan balance	Percentage	Loans and advances secured by collaterals
Yangtze River Delta.....	209,058	26.84%	104,960
Bohai Rim	170,906	21.95%	68,427
Central	113,681	14.60%	40,653
Western	113,487	14.57%	48,940
Pearl River Delta	112,268	14.42%	50,331
Northeastern	46,312	5.95%	25,812
Head Office	13,023	1.67%	-
Gross loans and advances to customers	<u>778,735</u>	<u>100.00%</u>	<u>339,123</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(g) Analyzed by geographical sector (continued)

The Bank

	December 31, 2011		
	Loan balance	Percentage	Loans and advances secured by collaterals
Yangtze River Delta.....	222,276	24.98%	109,032
Bohai Rim	193,992	21.80%	77,461
Western	132,947	14.94%	62,759
Central	132,037	14.84%	49,803
Pearl River Delta	126,963	14.27%	59,542
Northeastern	56,123	6.31%	32,955
Head Office	25,367	2.86%	-
Gross loans and advances to customers	<u>889,705</u>	<u>100.00%</u>	<u>391,552</u>

The Bank

	December 31, 2012		
	Loan balance	Percentage	Loans and advances secured by collaterals
Yangtze River Delta.....	243,573	23.81%	121,711
Bohai Rim	199,896	19.54%	81,820
Central	152,732	14.93%	60,599
Western	151,357	14.80%	77,017
Pearl River Delta	144,859	14.16%	68,471
Head Office	69,629	6.80%	-
Northeastern	60,982	5.96%	32,417
Gross loans and advances to customers	<u>1,023,028</u>	<u>100.00%</u>	<u>442,035</u>

The Bank

	June 30, 2013		
	Loan balance	Percentage	Loans and advances secured by collaterals
Yangtze River Delta	248,494	22.50%	132,169
Bohai Rim	205,841	18.64%	81,411
Central	168,191	15.23%	72,529
Western	167,649	15.18%	91,433
Pearl River Delta	154,269	13.97%	80,204
Head Office	89,513	8.11%	-
Northeastern	67,208	6.09%	37,979
Hong Kong	3,050	0.28%	2,908
Gross loans and advances to customers	<u>1,104,215</u>	<u>100.00%</u>	<u>498,633</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(g) Analyzed by geographical sector (continued)

As at the end of each of the Relevant Periods, detailed information of the impaired loans and advances to customers as well as the corresponding impairment provision in respect of geographic sectors which constitute 10% or more of gross loans and advances to customers are as follows:

The Group

	December 31, 2010		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Pearl River Delta	1,426	(1,276)	(2,104)
Yangtze River Delta.....	1,326	(946)	(3,845)
Central	1,017	(695)	(2,264)
Bohai Rim	795	(601)	(2,839)
Western	645	(512)	(1,863)

The Group

	December 31, 2011		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Pearl River Delta	1,826	(1,412)	(2,515)
Yangtze River Delta.....	1,203	(743)	(4,416)
Central	897	(609)	(2,677)
Bohai Rim	724	(561)	(3,517)
Western	389	(276)	(2,504)

The Group

	December 31, 2012		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Yangtze River Delta.....	3,018	(1,020)	(5,627)
Pearl River Delta	1,558	(1,197)	(3,244)
Central	775	(388)	(3,453)
Bohai Rim	635	(454)	(4,380)
Western	507	(274)	(3,078)

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(g) Analyzed by geographical sector (continued)

The Group

	June 30, 2013		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Yangtze River Delta	4,088	(1,452)	(5,904)
Central	1,083	(352)	(3,312)
Pearl River Delta	1,065	(610)	(3,246)
Bohai Rim	654	(467)	(4,208)
Western	484	(298)	(3,196)

The Bank

	December 31, 2010		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Pearl River Delta	1,426	(1,276)	(2,104)
Yangtze River Delta.....	1,326	(946)	(3,845)
Central	1,017	(695)	(2,263)
Bohai Rim	795	(601)	(2,839)
Western.....	645	(512)	(1,863)

The Bank

	December 31, 2011		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Pearl River Delta	1,826	(1,412)	(2,515)
Yangtze River Delta.....	1,203	(743)	(4,416)
Central	897	(609)	(2,673)
Bohai Rim	724	(561)	(3,517)
Western.....	389	(276)	(2,504)

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(g) Analyzed by geographical sector (continued)

The Bank

	December 31, 2012		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Yangtze River Delta.....	3,018	(1,020)	(5,627)
Pearl River Delta.....	1,558	(1,197)	(3,244)
Central.....	775	(388)	(3,447)
Bohai Rim.....	635	(454)	(4,380)
Western.....	507	(274)	(3,078)

The Bank

	June 30, 2013		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Yangtze River Delta.....	4,088	(1,452)	(5,903)
Central.....	1,083	(352)	(3,305)
Pearl River Delta.....	1,065	(610)	(3,246)
Bohai Rim.....	654	(467)	(4,208)
Western.....	484	(298)	(3,196)

The definitions of the regional distributions are set out in Note 47(b).

(h) Rescheduled loans and advances to customers

The Group and the Bank

	December 31,			June 30,
	2010	2011	2012	2013
Rescheduled loans and advances to customers.....	288	213	96	79
Less: Rescheduled loans and advances to customers overdue more than 90 days	<u>204</u>	<u>144</u>	<u>94</u>	<u>77</u>
Rescheduled loans and advances to customers overdue not more than 90 days	<u>84</u>	<u>69</u>	<u>2</u>	<u>2</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(i) Fair value of collaterals

The collateral includes land, buildings and equipments, and etc. The fair value of collateral was estimated by the Group based on the latest available external valuations adjusted by taking into account the current realization experience as well as the market situation.

As at June 30, 2013, the loans and advances of the Group and the Bank for which the provision for impairment losses were individually assessed amounted to RMB6,678 million (December 31, 2012: RMB6,013 million; December 31, 2011: RMB4,747 million; December 31, 2010: RMB4,729 million). The covered portion of these loans and advances were RMB1,360 million (December 31, 2012: RMB734 million; December 31, 2011: RMB337 million; December 31, 2010: RMB231 million). The fair value of collateral held against these loans and advances amounted to RMB1,360 million (December 31, 2012: RMB746 million; December 31, 2011: RMB404 million; December 31, 2010: 231 million).

As at June 30, 2013, the gross amount of loans and advances of the Group and the Bank, which were overdue but not impaired and were subject to individual assessment, was RMB3,347 million (December 31, 2012: RMB1,675 million; December 31, 2011: RMB807 million; December 31, 2010: RMB395 million). The covered portion of these loans and advances were RMB1,548 million (December 31, 2012: RMB599 million; December 31, 2011: RMB105 million; December 31, 2010: RMB91 million). The fair value of collateral held against these loans and advances amounted to RMB3,684 million (December 31, 2012: RMB1,268 million; December 31, 2011: RMB265 million; December 31, 2010: RMB225 million).

22 Available-for-sale financial assets

The Group and the Bank

	Note	December 31,			June 30,
		2010	2011	2012	2013
Available-for-sale debt investments.....	22(a)	77,142	54,403	91,801	99,309
Available-for-sale equity investments.....	22(b)	99	99	99	99
Total.....		<u>77,241</u>	<u>54,502</u>	<u>91,900</u>	<u>99,408</u>
Listed.....		814	667	724	1,105
– of which in Hong Kong.....		198	187	187	537
Unlisted.....		<u>76,427</u>	<u>53,835</u>	<u>91,176</u>	<u>98,303</u>
Total.....		<u>77,241</u>	<u>54,502</u>	<u>91,900</u>	<u>99,408</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

22 Available-for-sale financial assets (continued)

(a) Available-for-sale debt investments

All available-for-sale debt investments were stated at fair value and issued by the following governments and institutions:

The Group and the Bank

	Note	December 31,			June 30,
		2010	2011	2012	2013
In mainland China					
– Government		8,232	8,287	42,370	43,941
– The PBOC		30,354	–	–	496
– Banks and other financial institutions.....		6,249	10,135	9,947	10,543
– Other institutions	(i)	31,432	35,256	38,761	43,225
Sub-total		<u>76,267</u>	<u>53,678</u>	<u>91,078</u>	<u>98,205</u>
Outside mainland China					
– Government		73	–	–	–
– Banks and other financial institutions.....		568	608	610	956
– Other institutions		234	117	113	148
Sub-total		<u>875</u>	<u>725</u>	<u>723</u>	<u>1,104</u>
Total.....	(ii)	<u>77,142</u>	<u>54,403</u>	<u>91,801</u>	<u>99,309</u>

Notes:

- (i) As at the end of each of the Relevant Periods, debt securities issued by other institutions mainly represented debt securities issued by state-owned enterprises and joint stock companies.
- (ii) As at the end of each of the Relevant Periods, certain available-for-sale financial assets was pledged for repurchase agreements and time deposits (Note 30(a)). No other investments were subject to material restrictions on the realization.

(b) Available-for-sale equity investments

The Group and the Bank

	December 31,			June 30,
	2010	2011	2012	2013
Cost of investments				
As at January 1	126	100	100	100
Decreases.....	(26)	–	–	–
As at December 31/June 30.....	100	100	100	100
Less: Provision for impairment losses				
	(1)	(1)	(1)	(1)
Net balances	<u>99</u>	<u>99</u>	<u>99</u>	<u>99</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

23 Held-to-maturity investments

Analyzed by type and location of issuer

The Group and the Bank

	Note	December 31,			June 30,
		2010	2011	2012	2013
In mainland China					
– Government		36,966	31,965	45,771	46,326
– Banks and other financial institutions.....		36,897	30,124	25,593	23,185
– Other institutions	23(a)	13,647	21,899	24,495	23,542
Sub-total		87,510	83,988	95,859	93,053
Outside mainland China					
– Banks and other financial institutions.....		330	255	253	250
– Other institutions		68	–	–	–
Sub-total		398	255	253	250
Total.....	23(b)	87,908	84,243	96,112	93,303
Less: Provision for impairment losses.....		(115)	(258)	(288)	(255)
Net balances.....		87,793	83,985	95,824	93,048
Listed		491	465	461	364
– of which in Hong Kong.....		428	405	402	304
Unlisted.....		87,302	83,520	95,363	92,684
Net balances.....		87,793	83,985	95,824	93,048
Fair value.....		87,255	84,363	96,064	93,426

Notes:

- (a) As at the end of each of the Relevant Periods, debt securities issued by other institutions mainly represented debt securities issued by state-owned enterprises and joint stock enterprises.
- (b) As at the end of each of the Relevant Periods, part of the held-to-maturity investments was pledged as security for certain transactions (Note 30(a)).
- (c) The Group disposed of the held-to-maturity debt investments with a notional amount of RMB1,542 million prior to their maturity dates for the six months ended June 30, 2013 (2012: RMB130 million; 2011: RMB502 million; 2010: RMB2,228 million), which account for 1.61% (2012: 0.15%; 2011: 0.57%; 2010: 2.54%;) of the portfolio before the disposal.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

24 Debt securities classified as receivables

The Group and the Bank

	Note	December 31,			June 30,
		2010	2011	2012	2013
Wealth management products issued by other financial institutions.....	24(a)	–	–	97,513	86,966
Beneficial interest transfer plans.....	24(b)/(c)	–	–	163,694	263,368
Total.....		–	–	261,207	350,334
Carrying amount		–	–	261,207	350,334

Notes:

- (a) Wealth management products issued by other financial institutions are fixed term products.
- (b) Beneficial interest transfer plans are mainly trust beneficial interests issued by trust companies, securities companies, insurance companies and asset management companies.
- (c) As at the end of each of the Relevant Periods, part of investments in beneficial interest transfer plans held by the Bank were under forward sale contracts with financial institutions in mainland China, the notional amount of which as at June 30, 2013 was RMB168,998 million (December 31, 2012: RMB120,188 million; December 31, 2011: nil; December 31, 2010: nil). The fair values of investments mentioned above approximate to their carrying amounts.

25 Investments in subsidiaries

The Bank

	Note	December 31,			June 30,
		2010	2011	2012	2013
Shaoshan Everbright Village Bank Co., Ltd.....	25(a)	35	35	35	35
Everbright Financial Leasing Co., Ltd.....	25(b)	720	720	720	720
Jiangsu Huai'an Everbright Village Bank Co., Ltd.	25(c)	–	–	–	70
Total.....		755	755	755	825

Notes:

- (a) Shaoshan Everbright Village Bank Co., Ltd. ("Shaoshan Everbright") was incorporated on September 24, 2009 in Shaoshan city of Hunan Province, with registered capital of RMB50 million. The principal activities of Shaoshan Everbright are the provision of corporate and retail banking services. The Bank holds 70% of equity interest of Shaoshan Everbright. The financial statements of Shaoshan Everbright Village Bank Co., Ltd. for the years ended December 31, 2010 and 2011 were audited by Baker Tilly China Certified Public Accountants Co., Ltd, and for the year ended December 31, 2012 was audited by Baker Tilly China Certified Public Accountants.
- (b) Everbright Financial Leasing Co., Ltd. ("Everbright Financial Leasing") was incorporated on May 19, 2010 in Wuhan city of Hubei Province, with registered capital of RMB800 million. The principal activities of Everbright Financial Leasing are the provision of leasing services. The Bank holds 90% of equity interest of Everbright Financial Leasing. The financial statements of Everbright Financial Leasing Co., Ltd. for the years ended December 31, 2010 and 2011 were audited by KPMG Huazhen, and for the year ended December 31, 2012 was audited by KPMG Huazhen (SGP).
- (c) Jiangsu Huai'an Everbright Village Bank Co., Ltd. ("Huai'an Everbright") was incorporated on 1 February, 2013 in Huai'an city of Jiangsu Province, with registered capital of RMB100 million. The principal activities of Huai'an Everbright are the provision of corporate and retail banking services. The Bank holds 70% of equity interest of Huai'an Everbright.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

26 Fixed assets

The Group

	Premises	Investment properties	Construction in progress	Electronic equipment	Others	Total
Cost						
As at January 1, 2010	5,244	339	2,948	2,285	807	11,623
Additions	113	-	1,097	477	321	2,008
Transfers in/(out) of construction in progress	4	-	(4)	-	-	-
Transfers (out)/in of investment properties	(100)	100	-	-	-	-
Transfers out to others	-	-	(9)	-	-	(9)
Disposals	(18)	-	-	(164)	(61)	(243)
As at December 31, 2010.	5,243	439	4,032	2,598	1,067	13,379
Additions	68	-	517	541	382	1,508
Transfers in/(out) of construction in progress	3,103	-	(3,598)	158	337	-
Transfers in/(out) of investment properties	4	(4)	-	-	-	-
Disposals	-	-	-	(153)	(23)	(176)
As at December 31, 2011.	8,418	435	951	3,144	1,763	14,711
Additions	281	-	784	559	451	2,075
Transfers in/(out) of construction in progress	514	16	(606)	7	69	-
Transfers in/(out) of investment properties	6	(6)	-	-	-	-
Disposals	-	-	-	(158)	(38)	(196)
As at December 31, 2012.	9,219	445	1,129	3,552	2,245	16,590
Additions	1	-	240	219	137	597
Transfers (out)/in of construction in progress	-	-	(11)	4	7	-
Transfers in/(out) of investment property	18	(18)	-	-	-	-
Disposals	-	-	-	(73)	(8)	(81)
As at June 30, 2013	9,238	427	1,358	3,702	2,381	17,106

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

26 Fixed assets (continued)

The Group

	Premises	Investment properties	Construction in progress	Electronic equipment	Others	Total
Accumulated depreciation						
As at January 1, 2010	(929)	(87)	–	(1,313)	(308)	(2,637)
Charge for the year	(153)	(12)	–	(326)	(121)	(612)
Transfers out/(in) of investment properties....	8	(8)	–	–	–	–
Disposals	10	–	–	101	59	170
As at December 31, 2010.	(1,064)	(107)	–	(1,538)	(370)	(3,079)
Charge for the year	(214)	(12)	–	(411)	(170)	(807)
Transfers (in)/out of investment properties....	(3)	3	–	–	–	–
Disposals	–	–	–	129	15	144
As at December 31, 2011.	(1,281)	(116)	–	(1,820)	(525)	(3,742)
Charge for the year	(368)	(13)	–	(392)	(224)	(997)
Transfers (in)/out of investment properties....	(8)	8	–	–	–	–
Disposals	–	–	–	145	32	177
As at December 31, 2012.	(1,657)	(121)	–	(2,067)	(717)	(4,562)
Charge for the period	(143)	(6)	–	(254)	(163)	(566)
Transfers out/(in) of investment property	3	(3)	–	–	–	–
Disposals	–	–	–	69	5	74
As at June 30, 2013	(1,797)	(130)	–	(2,252)	(875)	(5,054)
Provision for impairment						
As at January 1, 2010	(134)	(25)	–	–	–	(159)
Transfers (in)/out.....	(1)	1	–	–	–	–
As at December 31, 2010.	(135)	(24)	–	–	–	(159)
As at December 31, 2011.	(135)	(24)	–	–	–	(159)
Transfers out/(in).....	7	(7)	–	–	–	–
As at December 31, 2012.	(128)	(31)	–	–	–	(159)
As at June 30, 2013	(128)	(31)	–	–	–	(159)
Net book value						
As at December 31, 2010.	4,044	308	4,032	1,060	697	10,141
As at December 31, 2011.	7,002	295	951	1,324	1,238	10,810
As at December 31, 2012.	7,434	293	1,129	1,485	1,528	11,869
As at June 30, 2013	7,313	266	1,358	1,450	1,506	11,893

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

26 Fixed assets (continued)

The Bank

	Premises	Investment properties	Construction in progress	Electronic equipment	Others	Total
Cost						
As at January 1, 2010	5,244	339	2,948	2,284	807	11,622
Additions.....	113	-	1,097	473	321	2,004
Transfers in/(out) of construction in progress	4	-	(4)	-	-	-
Transfers (out)/in of investment properties....	(100)	100	-	-	-	-
Transfers out to others	-	-	(9)	-	-	(9)
Disposals	(18)	-	-	(164)	(61)	(243)
As at December 31, 2010.	5,243	439	4,032	2,593	1,067	13,374
Additions.....	56	-	517	541	382	1,496
Transfers in/(out) of construction in progress	3,103	-	(3,598)	158	337	-
Transfers in/(out) of investment properties....	4	(4)	-	-	-	-
Disposals	-	-	-	(153)	(23)	(176)
As at December 31, 2011.	8,406	435	951	3,139	1,763	14,694
Additions.....	281	-	784	558	451	2,074
Transfers in/(out) of construction in progress	514	16	(606)	7	69	-
Transfers in/(out) of investment properties....	6	(6)	-	-	-	-
Disposals	-	-	-	(158)	(38)	(196)
As at December 31, 2012.	9,207	445	1,129	3,546	2,245	16,572
Additions	1	-	240	219	136	596
Transfers (out)/in of construction in progress	-	-	(11)	4	7	-
Transfers in/(out) of Investment property	18	(18)	-	-	-	-
Disposals	-	-	-	(73)	(8)	(81)
As at June 30, 2013	9,226	427	1,358	3,696	2,380	17,087

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

26 Fixed assets (continued)

The Bank

	Premises	Investment properties	Construction in progress	Electronic equipment	Others	Total
Accumulated depreciation						
As at January 1, 2010	(929)	(87)	–	(1,312)	(308)	(2,636)
Charge for the year	(153)	(12)	–	(325)	(121)	(611)
Transfers out/(in) of investment properties....	8	(8)	–	–	–	–
Disposals	10	–	–	101	59	170
As at December 31, 2010.	(1,064)	(107)	–	(1,536)	(370)	(3,077)
Charge for the year	(214)	(12)	–	(410)	(170)	(806)
Transfers (in)/out of investment properties....	(3)	3	–	–	–	–
Disposals	–	–	–	128	15	143
As at December 31, 2011.	(1,281)	(116)	–	(1,818)	(525)	(3,740)
Charge for the year	(368)	(13)	–	(391)	(224)	(996)
Transfers (in)/out of investment properties....	(8)	8	–	–	–	–
Disposals	–	–	–	145	32	177
As at December 31, 2012.	(1,657)	(121)	–	(2,064)	(717)	(4,559)
Charge for the Period.....	(143)	(6)	–	(253)	(163)	(565)
Transfers out/(in) of investment property	3	(3)	–	–	–	–
Disposals	–	–	–	69	5	74
As at June 30, 2013	(1,797)	(130)	–	(2,248)	(875)	(5,050)
Provision for impairment						
As at January 1, 2010	(134)	(25)	–	–	–	(159)
Transfers (in)/out.....	(1)	1	–	–	–	–
As at December 31, 2010.	(135)	(24)	–	–	–	(159)
As at December 31, 2011.	(135)	(24)	–	–	–	(159)
Transfers out/(in).....	7	(7)	–	–	–	–
As at December 31, 2012.	(128)	(31)	–	–	–	(159)
As at June 30, 2013	(128)	(31)	–	–	–	(159)
Net book value						
As at December 31, 2010.	4,044	308	4,032	1,057	697	10,138
As at December 31, 2011.	6,990	295	951	1,321	1,238	10,795
As at December 31, 2012.	7,422	293	1,129	1,482	1,528	11,854
As at June 30, 2013	7,301	266	1,358	1,448	1,505	11,878

As at June 30, 2013, title deeds were not yet finalised for the premises with a carrying amount of RMB74 million (December 31, 2012: RMB82 million; December 31, 2011: RMB84 million; December 31, 2010: RMB90 million). Management of the Group expected that there would be no significant cost in obtaining the title deeds.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

26 Fixed assets (continued)

The net book values of premises at the end of the Relevant Periods are analyzed by the remaining terms of the land leases as follows:

The Group

	December 31,			June 30,
	2010	2011	2012	2013
Held in mainland China				
– Long term leases (over 50 years).....	113	179	171	242
– Medium term leases (10 – 50 years).....	3,910	6,803	7,243	7,052
– Short term leases (less than 10 years).....	21	20	20	19
Total	<u>4,044</u>	<u>7,002</u>	<u>7,434</u>	<u>7,313</u>

The Bank

	December 31,			June 30,
	2010	2011	2012	2013
Held in mainland China				
– Long term leases (over 50 years).....	113	179	171	242
– Medium term leases (10 – 50 years).....	3,910	6,791	7,231	7,040
– Short term leases (less than 10 years).....	21	20	20	19
Total	<u>4,044</u>	<u>6,990</u>	<u>7,422</u>	<u>7,301</u>

The net book values of investment properties at the end of the Relevant Periods are analyzed by the remaining terms of the land leases is as follows:

The Group and the Bank

	December 31,			June 30,
	2010	2011	2012	2013
Held in mainland China				
– Long term leases (over 50 years).....	–	3	3	3
– Medium term leases (10 – 50 years).....	<u>308</u>	<u>292</u>	<u>290</u>	<u>263</u>
Total	<u>308</u>	<u>295</u>	<u>293</u>	<u>266</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

27 Goodwill

The Group and the Bank

	December 31,			June 30,
	2010	2011	2012	2013
Cost.....	6,019	6,019	6,019	6,019
Less: Provision for impairment losses.....	(4,738)	(4,738)	(4,738)	(4,738)
Net balances	<u>1,281</u>	<u>1,281</u>	<u>1,281</u>	<u>1,281</u>

As approved by the PBOC, the Bank and China Development Bank (“CDB”) jointly signed an “Agreement between China Development Bank and China Everbright Bank for the transfer of assets, liabilities and banking premises of China Investment Bank” (the “Agreement”) on March 18, 1999. According to the Agreement, CDB transferred the assets, liabilities, equity and 137 outlets of 29 branches of the former China Investment Bank (“CIB”) to the Bank. The Agreement became effective on March 18, 1999. The Bank assessed the transferred assets and liabilities at fair value, and recognized the excess of the purchase cost over the sum of the fair value of the net assets transferred and deferred tax assets as goodwill.

The goodwill is tested for impairment annually. The Bank makes provision for impairment if necessary. The Bank calculates the recoverable amount of the CGU using cash flow projections based on financial forecasts approved by management covering a five-year period. The discount rate used reflects specific risks relating to the relevant segments.

28 Deferred tax assets and liabilities

(a) Analyzed by nature

The Group

	December 31,			June 30,
	2010	2011	2012	2013
Deferred tax assets	1,306	1,857	2,454	2,496
Deferred tax liabilities.....	—	—	—	—
Net balances	<u>1,306</u>	<u>1,857</u>	<u>2,454</u>	<u>2,496</u>

The Bank

	December 31,			June 30,
	2010	2011	2012	2013
Deferred tax assets	1,306	1,845	2,430	2,472
Deferred tax liabilities.....	—	—	—	—
Net balances	<u>1,306</u>	<u>1,845</u>	<u>2,430</u>	<u>2,472</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

28 Deferred tax assets and liabilities (continued)

(b) Movements of deferred tax

The Group

	Provision for impairment losses	Staff cost payable	Net losses/ (gains) from fair value changes of financial instruments	Net balance of deferred tax assets
	Note(i)		Note(ii)	
January 1, 2010	584	264	(272)	576
Recognized in profit or loss	(98)	426	117	445
Recognized in other comprehensive income	—	—	285	285
December 31, 2010.....	486	690	130	1,306
Recognized in profit or loss	175	258	260	693
Recognized in other comprehensive income	—	—	(142)	(142)
December 31, 2011.....	661	948	248	1,857
Recognized in profit or loss	340	284	(50)	574
Recognized in other comprehensive income	—	—	23	23
December 31, 2012.....	<u>1,001</u>	<u>1,232</u>	<u>221</u>	<u>2,454</u>
Recognized in profit or loss	251	(125)	(44)	82
Recognized in other comprehensive income	—	—	(40)	(40)
June 30, 2013	<u>1,252</u>	<u>1,107</u>	<u>137</u>	<u>2,496</u>

The Bank

	Provision for impairment losses	Staff cost payable	Net losses/ (gains) from fair value changes of financial instruments	Net balance of deferred tax assets
	Note(i)		Note(ii)	
January 1, 2010	584	264	(272)	576
Recognized in profit or loss	(98)	426	117	445
Recognized in other comprehensive income	—	—	285	285
December 31, 2010.....	486	690	130	1,306
Recognized in profit or loss	166	255	260	681
Recognized in other comprehensive income	—	—	(142)	(142)
December 31, 2011.....	652	945	248	1,845

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

28 Deferred tax assets and liabilities (continued)

(b) Movements of deferred tax (continued)

	Provision for impairment losses	Staff cost payable	Net losses/ (gains) from fair value changes of financial instruments	Net balance of deferred tax assets
	Note(i)		Note(ii)	
December 31, 2011.....	652	945	248	1,845
Recognized in profit or loss	331	281	(50)	562
Recognized in other comprehensive income	—	—	23	23
December 31, 2012.....	<u>983</u>	<u>1,226</u>	<u>221</u>	<u>2,430</u>
Recognized in profit or loss	251	(125)	(44)	82
Recognized in other comprehensive income	—	—	(40)	(40)
June 30, 2013	<u>1,234</u>	<u>1,101</u>	<u>137</u>	<u>2,472</u>

Notes:

- (i) The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets at the end of the Relevant Periods. However, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of the Relevant Periods, together with write-offs which fulfill specific criteria as set out in the PRC tax rules and are approved by the tax authorities.
- (ii) Net gains or losses on fair value changes of financial instruments are subject to tax when realized.
- (iii) Unrecognized deferred tax assets
As at June 30, 2013, the Group has not recognized deferred tax assets of RMB2,369 million (December 31, 2012: RMB2,276 million; December 31, 2011: RMB2,018 million; December 31, 2010: RMB1,867 million) for provision for impairment losses amounting to RMB9,477 million (December 31, 2012: RMB9,103 million; December 31, 2011: RMB8,073 million; December 31, 2010: RMB7,467 million). This was mainly because it was uncertain whether the losses from write-offs of the impaired assets could be approved by the relevant tax authorities in the foreseeable future.

29 Other assets

The Group

	Note	December 31,			June 30,
		2010	2011	2012	2013
Assets held for wealth management products.....	29(a)	76,794	48,248	60,874	62,469
Finance lease receivables		4,121	7,894	11,644	14,754
Other receivables		656	365	1,454	1,980
Long-term deferred expense.....		827	970	1,094	1,038
Fixed assets purchase prepayment		390	410	1,031	868
Intangible assets.....		267	403	532	544
Land use rights		125	127	128	125
Precious metal.....		2	2	52	970
Repossessed assets		—	5	148	199
Total.....		<u>83,182</u>	<u>58,424</u>	<u>76,957</u>	<u>82,947</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

29 Other assets (continued)

The Bank

	Note	December 31,			June 30,
		2010	2011	2012	2013
Assets held for wealth management products.....	29(a)	76,794	48,248	60,874	62,469
Other receivables		655	363	1,454	1,980
Long-term deferred expense.....		826	969	1,093	1,037
Fixed assets purchase prepayment		390	410	241	239
Intangible assets.....		266	400	528	540
Land use rights		125	127	128	125
Precious metal.....		2	2	52	970
Repossessed assets		–	5	148	199
Total.....		<u>79,058</u>	<u>50,524</u>	<u>64,518</u>	<u>67,559</u>

(a) Assets held for wealth management products

The assets held for wealth management products represent the trust investments purchased by the Group, acting as an agent for wealth management investors, and using the funds collected from investors. The credit risk, interest risk, liquidity risk and investment risk of the underlying trust investments are assumed by the investors who purchase wealth management products. However, the Group has risk exposures in respect of the above wealth management products for which the amounts and maturities do not exactly match the underlying trust funds. Accordingly, the Group accounts for such wealth management assets under other assets and the corresponding trust funds as other liabilities (Note 39(a)).

30 Pledged assets

(a) Assets pledged as collaterals

Financial assets pledged by the Group as collaterals for liabilities or contingent liabilities mainly include discounted bills, debt securities and deposits with banks and other financial institutions. They are mainly pledged for repurchase agreements, time deposits, contingent liabilities and swap transactions. The carrying amounts of the financial assets pledged as collateral as at June 30, 2013 and December 31, 2012, 2011 and 2010 are RMB81,531 million, RMB97,798 million, RMB60,525 million, RMB31,902 million, respectively.

(b) Collaterals received

The Group conducts resale agreements under the usual and customary terms of placements, and holds collaterals for these transactions. As at the end of each of the Relevant Periods, the Group did not hold any resale agreement that collaterals were permitted to sell or repledge in the absence of the counterparty's default on the agreements.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

31 Deposits from banks and other financial institutions

Analyzed by type and location of counterparty

The Group

	December 31,			June 30,
	2010	2011	2012	2013
Deposits in mainland China				
– Banks	140,749	216,937	399,049	414,363
– Other financial institutions	56,464	49,938	121,102	143,489
Sub-total	197,213	266,875	520,151	557,852
Deposits outside mainland China				
– Banks	1	3,752	7,410	6,270
Sub-total	1	3,752	7,410	6,270
Total	197,214	270,627	527,561	564,122

The Bank

	December 31,			June 30,
	2010	2011	2012	2013
Deposits in mainland China				
– Banks	140,774	217,273	399,194	414,644
– Other financial institutions	56,464	49,938	122,073	143,956
Sub-total	197,238	267,211	521,267	558,600
Deposits outside mainland China				
– Banks	1	3,752	7,410	6,270
Sub-total	1	3,752	7,410	6,270
Total	197,239	270,963	528,677	564,870

32 Placements from banks and other financial institutions

Analyzed by type and location of counterparty

The Group

	December 31,			June 30,
	2010	2011	2012	2013
Placements in mainland China				
– Banks	12,591	22,353	20,040	33,436
– Other financial institutions	–	–	–	338
Sub-total	12,591	22,353	20,040	33,774
Placements outside mainland China				
– Banks	5,623	5,009	3,165	6,448
Sub-total	5,623	5,009	3,165	6,448
Total	18,214	27,362	23,205	40,222

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

32 Placements from banks and other financial institutions (continued)

The Bank

	December 31,			June 30,
	2010	2011	2012	2013
Placements in mainland China				
– Banks	9,361	15,953	9,950	21,736
– Other financial institutions	–	–	–	338
Sub-total	9,361	15,953	9,950	22,074
Placements outside mainland China				
– Banks	5,623	5,009	3,165	6,448
Sub-total	5,623	5,009	3,165	6,448
Total	14,984	20,962	13,115	28,522

33 Financial assets sold under repurchase agreements

(a) Analyzed by type and location of counterparty

The Group and the Bank

	December 31,			June 30,
	2010	2011	2012	2013
In mainland China				
– Banks	7,903	38,747	74,221	70,615
– Other financial institutions	4,775	1,673	3	1,601
– Other enterprises	1	189	61	1
Total	12,679	40,609	74,285	72,217

(b) Analyzed by collateral

The Group and the Bank

	December 31,			June 30,
	2010	2011	2012	2013
Bank acceptances.....	4,835	17,785	36,621	14,025
PBOC bills	5,460	1,960	–	–
Debt securities	2,384	20,864	37,664	58,192
Total	12,679	40,609	74,285	72,217

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

34 Deposits from customers

The Group

	December 31,			June 30,
	2010	2011	2012	2013
At amortized cost				
Demand deposits				
– Corporate customers	384,456	398,986	397,626	392,407
– Individual customers	59,206	78,712	157,302	192,915
Sub-total.....	443,662	477,698	554,928	585,322
Time deposits				
– Corporate customers	356,370	409,417	476,737	526,834
– Individual customers	87,503	114,062	127,378	141,001
Sub-total.....	443,873	523,479	604,115	667,835
Pledged deposits				
– Acceptances	118,187	139,927	184,085	206,276
– Letters of credit	9,481	18,854	20,134	21,902
– Letters of guarantees.....	7,387	8,882	8,902	10,890
– Others	5,596	7,780	8,841	10,094
Sub-total.....	140,651	175,443	221,962	249,162
Inward and outward remittances	1,524	2,180	3,319	4,339
Total deposits from customers at amortized cost	1,029,710	1,178,800	1,384,324	1,506,658
At fair value				
Structured deposits				
– Corporate customers	14,132	4,017	14,103	20,109
– Individual customers	19,338	42,461	28,514	27,924
Total deposits from customers at fair value.....	33,470	46,478	42,617	48,033
Total.....	1,063,180	1,225,278	1,426,941	1,554,691

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

34 Deposits from customers (continued)

The Bank

	December 31,			June 30,
	2010	2011	2012	2013
At amortized cost				
Demand deposits				
– Corporate customers	384,378	398,733	397,417	392,088
– Individual customers	59,185	78,686	157,274	192,873
Sub-total	<u>443,563</u>	<u>477,419</u>	<u>554,691</u>	<u>584,961</u>
Time deposits				
– Corporate customers	356,313	409,387	476,654	526,681
– Individual customers	87,476	114,016	127,290	140,870
Sub-total	<u>443,789</u>	<u>523,403</u>	<u>603,944</u>	<u>667,551</u>
Pledged deposits				
– Acceptances	118,187	139,927	184,085	206,259
– Letters of credit	9,481	18,854	20,134	21,902
– Letters of guarantees	7,387	8,882	8,902	10,889
– Others	5,596	7,780	8,841	10,094
Sub-total	<u>140,651</u>	<u>175,443</u>	<u>221,962</u>	<u>249,144</u>
Inward and outward remittances	<u>1,524</u>	<u>2,180</u>	<u>3,319</u>	<u>4,339</u>
Total deposits from customers at amortized cost	<u>1,029,527</u>	<u>1,178,445</u>	<u>1,383,916</u>	<u>1,505,995</u>
At fair value				
Structured deposits				
– Corporate customers	14,132	4,017	14,103	20,109
– Individual customers	19,338	42,461	28,514	27,924
Total deposits from customers at fair value	<u>33,470</u>	<u>46,478</u>	<u>42,617</u>	<u>48,033</u>
Total	<u>1,062,997</u>	<u>1,224,923</u>	<u>1,426,533</u>	<u>1,554,028</u>

35 Accrued staff costs

The Group

	Note	December 31,			June 30,
		2010	2011	2012	2013
Salary and welfare payable		4,888	5,857	7,087	6,858
Pension payable	35(a)	24	82	37	71
Supplementary retirement benefits payable	35(b)	275	318	281	281
Total		<u>5,187</u>	<u>6,257</u>	<u>7,405</u>	<u>7,210</u>

The Bank

	Note	December 31,			June 30,
		2010	2011	2012	2013
Salary and welfare payable		4,883	5,843	7,064	6,846
Pension payable	35(a)	24	82	36	71
Supplementary retirement benefits payable	35(b)	275	318	281	281
Total		<u>5,182</u>	<u>6,243</u>	<u>7,381</u>	<u>7,198</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

35 Accrued staff costs (continued)

(a) Pension scheme

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution scheme for the employees arranged by local government labor and social security organizations. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the relevant government organizations.

The Group also provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' gross wages in prior year, which are expensed in profit or loss when the contributions are made.

(b) Supplementary retirement benefits ("SRB")

The Group pays SRB for eligible employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the Relevant Periods. (The Group's obligations in respect of the SRB as at December 31, 2010, 2011 and 2012 were reviewed using projected unit credit method by qualified staff (a member of society of Actuaries in America) of an external independent actuary: Towers Watson Management Consulting (Shenzhen) Co., Ltd.)

(i) The balances of SRB of the Group are as follows:

	December 31,			June 30,
	2010	2011	2012	2013
Present value of SRB obligation	<u>275</u>	<u>318</u>	<u>281</u>	<u>281</u>

(ii) Movements of SRB of the Group are as follows:

	2010	2011	2012	2013
As at January 1	720	275	318	281
Expenses recognized in profit or loss				
– Current service cost	11	15	21	4
– Interest cost	11	12	12	–
– Plan amendment cost	(35)	–	–	–
– Actuarial loss	20	33	14	–
Payments made	(8)	(17)	(84)	(4)
Others	<u>(444)</u>	<u>–</u>	<u>–</u>	<u>–</u>
As at December 31/June 30	<u>275</u>	<u>318</u>	<u>281</u>	<u>281</u>

Interest cost was recognized in staff costs (Note 8).

(iii) Principal actuarial assumptions of the Group are as follow:

	December 31,			June 30,
	2010	2011	2012	2013
Discount rate	4.25%	4.20%	4.30%	4.30%
Medical expense increase rate	6.00%	6.00%	6.00%	6.00%
Average expected future lifetime	24.36	22.52	20.89	20.89

Except as mentioned in Note (a) and Note (b) above, the Group has no significant responsibilities to pay any other retirement benefits to retired employees.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

36 Taxes payable

The Group

	December 31,			June 30,
	2010	2011	2012	2013
Business tax and surcharges payable..	795	1,153	1,493	1,510
Income tax payable.....	752	1,266	1,568	774
Others	116	115	113	91
Total	<u>1,663</u>	<u>2,534</u>	<u>3,174</u>	<u>2,375</u>

The Bank

	December 31,			June 30,
	2010	2011	2012	2013
Business tax and surcharges payable..	794	1,151	1,491	1,508
Income tax payable.....	742	1,247	1,531	739
Others	115	114	112	96
Total	<u>1,651</u>	<u>2,512</u>	<u>3,134</u>	<u>2,343</u>

37 Interests payable

The Group

	December 31,			June 30,
	2010	2011	2012	2013
Deposits from customers	7,295	10,483	13,906	15,877
Debt securities issued.....	363	380	1,563	495
Others	878	1,762	2,945	2,197
Total	<u>8,536</u>	<u>12,625</u>	<u>18,414</u>	<u>18,569</u>

The Bank

	December 31,			June 30,
	2010	2011	2012	2013
Deposits from customers	7,295	10,482	13,903	15,872
Debt securities issued.....	363	380	1,563	495
Others	871	1,690	2,863	2,093
Total	<u>8,529</u>	<u>12,552</u>	<u>18,329</u>	<u>18,460</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

38 Debt securities issued

The Group and the Bank

	Note	December 31,			June 30,
		2010	2011	2012	2013
Subordinated debts issued.....	38(a)	16,000	16,000	22,700	14,700
Financial bonds issued.....	38(b)	—	—	30,000	30,000
Total.....		<u>16,000</u>	<u>16,000</u>	<u>52,700</u>	<u>44,700</u>

(a) Subordinated debts issued

The Group and the Bank

	Note	December 31,			June 30,
		2010	2011	2012	2013
Subordinated fixed rate debts maturing in April 2018.....	(i)	3,500	3,500	3,500	—
Subordinated floating rate debts maturing in April 2018.....	(ii)	2,500	2,500	2,500	—
Subordinated fixed rate debts maturing in June 2018.....	(iii)	2,000	2,000	2,000	—
Subordinated fixed rate debts maturing in December 2018 ...	(iv)	5,000	5,000	5,000	5,000
Subordinated fixed rate debts maturing in March 2019.....	(v)	3,000	3,000	3,000	3,000
Subordinated fixed rate debts maturing in June 2027.....	(vi)	—	—	6,700	6,700
Total.....	(vii)	<u>16,000</u>	<u>16,000</u>	<u>22,700</u>	<u>14,700</u>

Notes:

- (i) Fixed rate subordinated debts of RMB3.5 billion with a term of ten years was issued on April 25, 2008. The coupon rate for the first five years is 5.85%. The Group redeemed the debts on April 28, 2013.
- (ii) Floating rate subordinated debts of RMB2.5 billion with a term of ten years was issued on April 25, 2008. The subordinated debts bear interest at a floating rate based on the PBOC's one-year time deposits rate plus a margin of 1.66%. The Group redeemed the debts on April 28, 2013.
- (iii) Fixed rate subordinated debts of RMB2 billion with a term of ten years was issued on June 27, 2008. The coupon rate for the first five years is 5.92%. The Group redeemed the debts on June 30, 2013.
- (iv) Fixed rate subordinated debts of RMB5 billion with a term of ten years was issued on December 15, 2008. The coupon rate for the first five years is 4.05%. The Group has an option to redeem the debts on December 17, 2013 at the nominal amount. If the debts are not redeemed by the Group, the coupon rate will increase to 7.05% for the next five years.
- (v) Fixed rate subordinated debts of RMB3 billion with a term of ten years was issued on March 13, 2009. The coupon rate for the first five years is 3.75%. The Group has an option to redeem the debts on March 17, 2014 at the nominal amount. If the debts are not redeemed by the Group, the coupon rate will increase to 6.75% for the next five years.
- (vi) Fixed rate subordinated debts of RMB6.7 billion with a term of fifteen years was issued on June 7, 2012. The coupon rate is 5.25%. The Group has an option to redeem the debts on June 8, 2022 at the nominal amount.
- (vii) As at June 30, 2013, the fair value of the total subordinated debts issued amounts to RMB16,577 million (December 31, 2012: RMB22,486 million; December 31, 2011: RMB15,742 million; December 31, 2010: RMB15,889 million).

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

38 Debt securities issued (continued)

(b) Financial bonds issued

The Group and the Bank

	Note	December 31,			June 30,
		2010	2011	2012	2013
Financial fixed rate bonds					
maturing in March 2017	(i)	—	—	20,000	20,000
Financial floating rate bonds					
maturing in March 2017	(ii)	—	—	10,000	10,000
Total		—	—	30,000	30,000

Notes:

- (i) Fixed rate financial bonds of RMB20 billion with a term of five years was issued on March 28, 2012. The coupon rate is 4.20%.
- (ii) Floating rate financial bonds of RMB10 billion with a term of five years was issued on March 28, 2012. The bonds bear interest at a floating rate based on the PBOC's one-year time deposits rate plus a margin of 0.95%.
- (iii) As at June 30, 2013, the fair value of the total financial bond securities issued amounts to RMB29,530 million (December 31, 2012: RMB29,337 million; December 31, 2011: RMB nil; December 31, 2010: RMB nil).

39 Other liabilities

The Group

	Note	December 31,			June 30,
		2010	2011	2012	2013
Wealth management fund					
payable	39(a)	73,935	29,536	23,442	29,341
Finance lease payable		435	948	1,784	2,275
Deferred income		—	—	1,424	1,553
Payment and collection					
clearance accounts		970	540	854	1,906
Dormant accounts		340	343	338	299
Dividend payable		27	178	28	117
Provisions	39(b)	43	17	17	63
Others		1,104	1,280	1,540	2,726
Total		76,854	32,842	29,427	38,280

The Bank

	Note	December 31,			June 30,
		2010	2011	2012	2013
Wealth management fund					
payable	39(a)	73,935	29,536	23,442	29,341
Deferred income		—	—	1,424	1,553
Payment and collection					
clearance accounts		970	540	854	1,906
Dormant accounts		340	343	338	299
Dividend payable		27	178	28	117
Provisions	39(b)	43	17	17	63
Others		1,062	1,181	1,296	2,358
Total		76,377	31,795	27,399	35,637

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

39 Other liabilities (continued)

(a) Wealth management fund

Details of the assets relating to wealth management products are set out in Note 29(a) .

(b) Provisions

As at June 30, 2013, the accruals of litigation losses estimated by the Group and the Bank based on the status of litigation cases and the probability of losses were RMB17 million (December 31, 2012: RMB17 million; December 31, 2011: RMB17 million; December 31, 2010: RMB43 million).

40 Share capital

The Bank's shareholding structure as at the end of the Relevant Periods are as follows:

	Note	December 31,						June 30,	
		2010		2011		2012		2013	
		Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
Huijin and its affiliates	40(a)	21,025	52.00%	21,025	52.00%	21,025	52.00%	21,111	52.21%
China Everbright (Group).....		2,094	5.18%	2,094	5.18%	2,094	5.18%	2,094	5.18%
China Everbright Limited.....		1,758	4.35%	1,758	4.35%	1,758	4.35%	1,758	4.35%
National Council for Social Security Fund of the PRC		641	1.59%	641	1.59%	544	1.34%	544	1.34%
Other shareholders. 40(b)		14,917	36.88%	14,917	36.88%	15,014	37.13%	14,928	36.92%
Total		40,435	100.00%	40,435	100.00%	40,435	100.00%	40,435	100.00%

Notes:

- (a) As at June 30, 2013, Huijin holds 48.58% of equity interests in the Bank directly, and it also holds 3.63% of equity interests in the Bank indirectly through its subsidiary, China Reinsurance (Group) Corporation.
- (b) As at the end of the Relevant Periods, each of the other shareholders holds less than 5% of the total shares issued.

41 Capital reserve

The Group and the Bank

	December 31,			June 30,
	2010	2011	2012	2013
Fair value changes on available-for-sale financial assets	(652)	(225)	(295)	(175)
Share premium	20,553	20,553	20,553	20,553
Total	19,901	20,328	20,258	20,378

V NOTES TO THE FINANCIAL INFORMATION (continued)**(Expressed in millions of Renminbi, unless otherwise stated)****42 Surplus reserve and general reserve****(a) Surplus reserve**

The surplus reserve at the end of the each of the Relevant Periods represented statutory surplus reserve fund. The Bank is required to appropriate 10% of its net profit, after making good prior year's accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

(b) General reserve

Prior to July 1, 2012, the Bank pursuant to relevant regulations issued by the MOF is required to set aside a general reserve through appropriations of profit after tax according to a certain provision ratio of the ending balance of gross risk-bearing assets to cover potential losses against their assets. In principle, the general reserve balance should not be lower than 1% of the ending balance of gross risk-bearing assets.

With effect from July 1, 2012, pursuant to the "Administrative Measures on Accrual of Provisions by Financial Institutions" issued by the MOF in March 2012, the Bank is required, in principle, to set aside a general reserve not lower than 1.5% of the ending balance of its gross risk-bearing assets.

43 Appropriation of profits

- (1) In accordance with the resolution of the Bank's Annual General Meeting on May 30, 2011, the shareholders approved the following profit appropriations for the year ended December 31, 2010:
 - Appropriate 10% of the profit after tax, with the amount of RMB1.276 billion, for the statutory surplus reserve fund;
 - Appropriate RMB6.146 billion for the general reserve;
 - A cash dividend distribution of RMB0.946 per ten shares before tax, with the aggregate amount of RMB3.825 billion, to all existing shareholders.

- (2) In accordance with the resolution of the Bank's 2011 Annual General Meeting on May 15, 2012, the shareholders approved the following profit appropriations for the year ended December 31, 2011:
 - Appropriate statutory surplus reserve amounted to RMB1.792 billion, based on 10% of the net profit of the Bank.
 - Appropriate general reserve amounted to RMB2.245 billion.
 - Appropriate cash dividend RMB1.330 per 10 shares before tax and in aggregation amount of RMB5.378 billion to all shareholders.

- (3) In accordance with the resolution of the Bank's 2012 Annual General Meeting on May 17, 2013, the shareholders approved the following profit appropriations for the year ended December 31, 2012:
 - Appropriate statutory surplus reserve amounted to RMB2.334 billion, based on 10% of the net profit of the Bank.
 - Appropriate general reserve amounted to RMB7.248 billion.
 - Appropriate cash dividend RMB0.58 per 10 shares before tax and in aggregation amount of RMB2.345 billion to all shareholders.

V NOTES TO THE FINANCIAL INFORMATION (continued)**(Expressed in millions of Renminbi, unless otherwise stated)****43 Appropriation of profits (continued)**

On the Extraordinary General Meeting held on November 19, 2012, the shareholders approved the appropriation of general reserve amounted to RMB6.938 billion.

The appropriation amount of general reserve for the year of 2012 is RMB14.186 billion in total.

44 Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with the guidelines issued by the CBRC.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading global banks with reference to its own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio.

Capital allocation

The Group determines the allocation of its capital to businesses or activities with the objective of maximizing the return on risk-adjusted capital. The Group's policies in respect of capital management and allocation are reviewed regularly by the board of directors.

The amount of capital allocated to each business or activity is primarily determined based on regulatory requirements, however, in certain cases, regulatory requirements may not accurately address the varying degree of risks associated with different activities. In such cases, capital may be adjusted to an appropriate level to reflect the risk profiles. The Planning and Finance Department is responsible for the entire capital allocation process.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

44 Capital management (continued)

The Group's capital adequacy ratio and core capital adequacy ratio as at the end of the Relevant Periods, which were calculated in accordance with the Regulation Governing Capital Adequacy of Commercial Banks (商業銀行資本充足率管理辦法) issued by the CBRC, are as follows:

The Group

	Note	December 31,		
		2010	2011	2012
Core capital adequacy ratio.....		8.15%	7.89%	8.00%
Capital adequacy ratio.....		11.02%	10.57%	10.99%
Core capital				
– Share capital		40,435	40,435	40,435
– Capital reserve		19,901	20,328	20,258
– Surplus reserve and general reserve.....		14,066	18,103	34,623
– Retained earnings.....	44(a)	3,138	11,791	16,517
– Non-controlling interests.....		98	115	144
		77,638	90,772	111,977
Supplementary capital				
– General provision for doubtful debts		12,477	15,922	20,228
– Long term subordinated debts.....		16,000	16,000	22,700
		28,477	31,922	42,928
Total capital base before deductions		106,115	122,694	154,905
Deductions				
– Goodwill		1,281	1,281	1,281
– Unconsolidated equity investments		2	2	1
– Others		1,520	1,520	1,520
Total capital base after deductions		103,312	119,891	152,103
Risk weighted assets	44(b)	937,387	1,133,906	1,383,605

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

44 Capital management (continued)

The Group calculates the capital adequacy ratios in accordance with “Regulation Governing Capital of Commercial Banks (provisional)” and relevant requirements promulgated by the CBRC.

The Group

	Note	June 30, 2013
Total core tier-one capital		127,052
Share capital		40,435
Qualifying portion of capital reserve		20,378
Surplus reserve		6,560
General reserve		28,063
Retained earnings		31,434
Qualifying portions of non-controlling interests		182
Core tier-one capital deductions		(1,823)
Goodwill		(1,281)
Other intangible assets other than land use right		(542)
Net core tier-one capital		<u>125,229</u>
Other tier one capital		3
Net tier-one capital		<u>125,232</u>
Tier two capital		30,522
Qualifying portions of tier-two capital instruments issued and share premium		13,230
Surplus provision for loan impairment		17,270
Qualifying portions of non-controlling interests		<u>22</u>
Net capital base		<u>155,754</u>
Total risk weighted assets	44(c)	1,611,406
Core tier one capital adequacy ratio		7.77%
Tier one capital adequacy ratio		7.77%
Capital adequacy ratio		9.67%

- (a) Dividends proposed to be declared by the Bank have been deducted in calculating the net capital and net core capital.
- (b) The balances of risk-weighted assets include an amount equal to 12.5 times the Group's market risk capital.
- (c) The balances of risk-weighted assets include an amount equal to 12.5 times the Group's market risk capital and the Group's operating risk capital.
- (d) Pursuant to the Notification on Matters Related to the Implementation of the Rules Governing Capital Management of Commercial Banks (Provisional) in Transitional Period, the CBRC requires that the capital adequacy ratio, tier one capital adequacy ratio and core tier one capital adequacy ratio for commercial banks shall not fall below 8.5%, 6.5% and 5.5% respectively for the year ended December 31, 2013. The Group is in full compliance with all relevant regulatory requirements.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

45 Notes to consolidated cash flow statements

(a) Net (decrease)/increase in cash and cash equivalents

	Years ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	(Unaudited)				
Cash and cash equivalents as at December 31/June 30.....	91,065	156,645	137,913	115,664	104,202
Less: Cash and cash equivalents as at January 1	115,888	91,065	156,645	156,645	137,913
Net (decrease)/increase in cash and cash equivalents	<u>(24,823)</u>	<u>65,580</u>	<u>(18,732)</u>	<u>(40,981)</u>	<u>(33,711)</u>

(b) Cash and cash equivalents

	December 31,			June 30,
	2010	2011	2012	2013
Cash on hand.....	3,888	5,092	6,873	8,359
Deposits with the central bank	32,271	25,981	24,130	22,500
Deposits with banks and other financial institutions.....	41,199	81,421	42,600	41,390
Placements with banks and other financial institutions.....	13,707	44,151	64,310	31,953
Total	<u>91,065</u>	<u>156,645</u>	<u>137,913</u>	<u>104,202</u>

46 Related party relationships and transactions

(a) China Investment Corporation

Approved by the State Council of the PRC, China Investment Corporation (“CIC”) was established on September 29, 2007 with a registered capital of US\$200 billion. Huijin is a wholly owned subsidiary of CIC and exercises its rights and obligations as an investor on behalf of CIC.

(b) Huijin and its affiliates

Huijin was incorporated as a wholly state-owned investment company on December 16, 2003. It was registered in Beijing with a registered capital of RMB828,209 million. Apart from equity investments as authorized by the State Council of the PRC, it does not engage in any other commercial operations.

The Group’s transactions with Huijin and its affiliates mainly include deposit taking, purchase and sale of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under normal commercial terms.

The Group has issued subordinated debts and financial bonds with a nominal value of RMB22,700 million and RMB30,000 million respectively. These are bearer bonds and tradable in the secondary market. Accordingly, the Group has no information in respect of the amount of the debts held by these banks and other financial institutions as at the end of the Relevant Periods.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

46 Related party relationships and transactions (continued)

(b) Huijin and its affiliates (continued)

The Group's material transactions and balances with Huijin and its affiliates at the end of the Relevant Periods are summarized as follows:

	Years ended December 31,			Six months ended	
	2010	2011	2012	June 30,	2013
				(Unaudited)	
Interest income	406	1,965	2,278	1,307	837
Interest expense	(2,417)	(3,952)	(5,516)	(1,979)	(3,702)
	December 31,			June 30,	
	2010	2011	2012	2013	2013
Deposits with banks and other financial institutions.....	15,426	23,557	22,096		13,394
Placements with banks and other financial institutions.....	6,380	13,994	20,927		25,795
Financial assets held for trading.....	–	449	6,016		5,577
Financial assets held under resale agreements	1,600	1,702	9,640		3,867
Interests receivable	496	580	881		1,510
Loans and advances to customers.....	332	1,801	1,448		1,893
Available-for-sale financial assets	5,043	8,741	8,688		9,002
Held-to-maturity investments.....	31,421	24,198	20,430		17,899
Debt securities classified as receivables	–	–	29,978		76,084
Other assets	–	–	1,971		2,038
Deposits from banks and other financial institutions.....	64,026	56,714	431,095		136,562
Placements from banks and other financial institutions.....	1,133	7,498	6,404		15,886
Financial assets sold under repurchase agreements	1,490	19,432	33,060		10,425
Deposits from customers	11,645	11,499	15,051		17,518
Interests payable.....	621	1,275	1,646		1,119
Other liabilities.....	–	–	4,250		–
Guarantees received.....	2,264	200	–		–

(c) China Everbright (Group)

The transactions and balances with China Everbright (Group) and its affiliates are summarized in Note 46(d)(ii).

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

46 Related party relationships and transactions (continued)

- (d) Transactions between the Group and other related parties
 (i) Other related parties information

Other related parties having transactions with the Group:

Related party	Relationship with the Group
Affiliated companies	
– China Everbright Group Co., Ltd	Same chairman of the board of directors with China Everbright (Group)
– China Everbright Limited	Shareholder, affiliate of China Everbright Holdings
– Everbright Securities Co., Ltd. (“Everbright Securities”)	Affiliate of China Everbright (Group)
– Everbright Pramerica Fund Management Co., Ltd.	Affiliate of China Everbright (Group)
– Everbright Futures Co., Ltd.	Affiliate of China Everbright (Group)
– Dacheng Fund Management Co., Ltd.	Affiliate of China Everbright (Group)
– Shanghai Everbright Convention and Exhibition Centre Limited	Affiliate of China Everbright (Group)
– China Everbright Investment Management Corporation	Affiliate of China Everbright (Group)
– Everbright International Hotel and Property Management Company Limited	Affiliate of China Everbright (Group)
– Everbright Real Estate Co., Ltd.	Affiliate of China Everbright (Group)
– Everbright Financial Holding Asset Management Co., Ltd.	Affiliate of China Everbright (Group)
– China Everbright Travel, Inc	Affiliate of China Everbright (Group)
– China Everbright International Trust and Investment Company Limited	Affiliate of China Everbright (Group)
– China Everbright Petroleum Exploitation & Investment Co., Ltd.	Affiliate of China Everbright (Group)
– Sun Life Everbright Asset Management Co., Ltd.	Affiliate of China Everbright (Group)
– Everbright Fortune Investment Co., Ltd.	Affiliate of China Everbright (Group)
– Everbright Capital Investment Management Co., Ltd.	Affiliate of China Everbright (Group)
– Everbright Securities Financial Holdings Limited	Affiliate of China Everbright (Group)
– Sun Life Everbright Life Insurance Co., Ltd.	Affiliate of China Everbright (Group)
Other related parties	
– China M&A Group	Common key management
– First-trust Fund Management Co., Ltd.	Common key management
– Lifan Industry (Group) Co., Ltd.	Common key management
– Shanghai Chengtou Holding Co., Ltd	Common key management
– Fujian Hongbo Printing Co., Ltd.	Common key management
– Lubin Shuwei Management consulting (Beijing) Co., Ltd.	Common key management
– China Economic-Value-Added for Practical use Association	Common key management
– China Everbright International Ltd.	Common key management
– China UnionPay Co., Ltd	Common key management
– China Power Finance Co., Ltd.	Common key management
– Orient Securities Company Limited	Common key management
– Happy Life Insurance Co., Ltd.	Common key management
– Tianjin Capital Environmental Protection Group Company Limited	Common key management
– Sinopharm Group Co., Ltd.	Common key management
– Shanghai Baosight Software Co., Ltd.	Common key management
– SAIC Motor Corporation, Ltd.	Common key management

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

46 Related party relationships and transactions (continued)

(d) Transactions between the Group and other related parties (continued)

(i) Other related parties information (continued)

Related party	Relationship with the Group
- Shanghai Electric Group Company Limited	Common key management
- Winteam Pharmaceutical Group Limited	Common key management
- Shanghai ICY New Energy Venture Capital Co., Ltd.	Common key management
- Chengdu Xinshen Venture Capital Co., Ltd.	Common key management
- Shanghai Jiulian Group Co., Ltd.	Common key management
- China Pacific Insurance (group) Co., Ltd.	Common key management
- China Pacific Property Insurance Co., Ltd.	Common key management
- China Pacific Life Insurance Co., Ltd.	Common key management
- TMB Bank Public Company Limited	Common key management
- Noah Holdings Limited	Common key management
- China Nonferrous Mining Corporation Limited	Common key management

(ii) Related party transactions

The Group's material transactions and balances with China Everbright (Group) and the above related parties at the end of the Relevant Periods are summarized as follows:

	China Everbright (Group)	China Everbright Limited	Affiliated Companies	Others	Total
	(Note 46(c))				
Transactions with related parties for the year ended December 31, 2010:					
Interest income	-	8	-	29	37
Interest expense	-	(3)	(285)	(1)	(289)
Operating expenses	(1)	-	(77)	(1)	(79)
Balances with related parties as at December 31, 2010:					
Loans and advances to customers	-	150	-	-	150
Interests receivable	-	-	-	4	4
Available-for-sale financial assets	-	-	-	1,479	1,479
	<u>-</u>	<u>150</u>	<u>-</u>	<u>1,483</u>	<u>1,633</u>
Deposits from banks and other financial institutions..	-	-	8,592	1	8,593
Deposits from customers	33	143	1,166	79	1,421
Interests payable	-	-	6	-	6
	<u>33</u>	<u>143</u>	<u>9,764</u>	<u>80</u>	<u>10,020</u>
Significant off-balance sheet items with related parties as at December 31, 2010:					
Guarantee granted (Note).....	180	-	-	-	180
	<u>180</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>180</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

46 Related party relationships and transactions (continued)

(d) Transactions between the Group and other related parties (continued)

(ii) Related party transactions (continued)

	China Everbright (Group)	China Everbright Limited	Affiliated Companies	Others	Total
	(Note 46(c))				
Transactions with related parties for the year ended December 31, 2011:					
Interest income	–	1	–	104	105
Interest expense	(9)	(3)	(281)	(6)	(299)
Operating expenses	(1)	–	(5)	(5)	(11)
Balances with related parties as at December 31, 2011:					
Financial assets held under resale agreements	–	–	198	–	198
Loans and advances to customers	–	15	–	10	25
Interest receivable	–	–	–	3	3
Available-for-sale financial assets	–	–	–	1,423	1,423
	<u>–</u>	<u>15</u>	<u>198</u>	<u>1,436</u>	<u>1,649</u>
Deposits from banks and other financial institutions..	–	–	3,054	4	3,058
Financial liabilities held for trading	–	–	5	–	5
Deposits from customers	113	18	1,612	933	2,676
Interest payable	1	–	28	7	36
	<u>114</u>	<u>18</u>	<u>4,699</u>	<u>944</u>	<u>5,775</u>
Significant off-balance sheet items with related parties as at December 31, 2011:					
Guarantee granted (Note).....	<u>180</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>180</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

46 Related party relationships and transactions (continued)

(d) Transactions between the Group and other related parties (continued)

(ii) Related party transactions (continued)

	China Everbright (Group)	China Everbright Limited	Affiliated Companies	Others	Total
	(Note 46(c))				
Transactions with related parties for the year ended December 31, 2012:					
Interest income	-	-	-	62	62
Interest expense	-	-	(198)	(46)	(244)
Operating expenses	-	-	(6)	(8)	(14)
Balances with related parties as at December 31, 2012:					
Financial assets held under resale agreements	-	-	485	-	485
Loans and advances to customers	-	-	-	98	98
Interest receivable	-	-	-	1	1
Available-for-sale financial assets	-	-	-	1,403	1,403
Other assets	-	-	6,632	-	6,632
	<u>-</u>	<u>-</u>	<u>7,117</u>	<u>1,502</u>	<u>8,619</u>
Deposits from banks and other financial institutions..	-	-	7,707	65	7,772
Deposits from customers	10	1	1,266	874	2,151
Interest payable	-	-	22	9	31
Other liabilities	9	-	-	-	9
	<u>19</u>	<u>1</u>	<u>8,995</u>	<u>948</u>	<u>9,963</u>
Significant off-balance sheet items with related parties as at December 31, 2012:					
Guarantee granted (Note).....	<u>180</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>180</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

46 Related party relationships and transactions (continued)

(d) Transactions between the Group and other related parties (continued)

(ii) Related party transactions (continued)

	China Everbright (Group) (Note 46(c))	China Everbright Limited	Affiliated Companies	Others	Total
Transactions with related parties for the Six months ended June 30, 2013:					
Interest income	–	–	1	96	97
Interest expense	–	–	(103)	(399)	(502)
Balances with related parties as at June 30, 2013:					
Financial assets held under resale agreements	–	–	750	4,490	5,240
Loans and advances to customers	–	–	–	170	170
Held-to-maturity investments ...	–	–	–	900	900
Interests receivable	–	–	–	36	36
Other assets	–	–	7,018	–	7,018
	<u>–</u>	<u>–</u>	<u>7,768</u>	<u>5,596</u>	<u>13,364</u>
Deposits from banks and other financial institutions	–	–	21,557	60	21,617
Deposits from customers	18	1	1,972	19,615	21,606
Interest payable	–	–	32	296	328
	<u>18</u>	<u>1</u>	<u>23,561</u>	<u>19,971</u>	<u>43,551</u>
Significant off-balance sheet items with related parties as at June 30, 2013:					
Guarantee granted (Note)	<u>180</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>180</u>

Note: As at the end of the Relevant Periods, the Bank has guarantee obligations relating to the China Everbright (Group)'s outstanding interest obligation of RMB180 million due to one of the state-owned commercial banks.

(e) Transactions with other PRC state-owned entities

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organizations (“state-owned entities”). Transactions with other state-owned entities include but are not limited to: lending and deposit taking; taking and placing of inter-bank balances; entrusted lending and other custody services; insurance and securities agency, and other intermediary services; sale, purchase, underwriting and redemption of bonds issued by other state-owned entities; purchase, sale and leases of property and other assets; and rendering and receiving of utilities and other services.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

46 Related party relationships and transactions (continued)

(e) Transactions with other PRC state-owned entities (continued)

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group's pricing strategy and approval processes for major products and services, such as loans, deposits and commission income, do not depend on whether the customers are state-owned entities or not. Having considered the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(f) Key management personnel

	Years ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Remuneration.....	13,483	22,518	15,132	7,460	8,415
Retirement benefits.....	946	919	823	395	464
Basic social pension insurance.....	411	419	465	224	257

Note:

- (i) The total compensation package for these key management personnel for the year ended December 31, 2012 has not been finalized in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact on the Group's financial statements for the year ended December 31, 2012.

(g) Loans and advances to directors, supervisors and officers

Loans and advances to directors, supervisors and officers of the Group disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	December 31,			June 30,
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Aggregate amount of relevant loans outstanding at the year/period end..	6,136	6,886	7,537	9,524
Maximum aggregate amount of relevant loans outstanding during the Relevant Periods	8,944	10,212	14,122	14,892

V NOTES TO THE FINANCIAL INFORMATION (continued)**(Expressed in millions of Renminbi, unless otherwise stated)****47 Segment reporting**

The Group manages its business by business lines and geographical areas. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. These products and services include corporate loans and advances, trade financing and deposit taking activities, agency services, cash management services, financing consulting and advisory services, remittance and settlement services, custody services, and guarantee services.

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans and deposit taking activities, bank card business, personal wealth management services, remittance services, and securities agency services.

Treasury business

This segment covers the Group's treasury operations. The treasury business enters into inter-bank money market transactions, repurchases transactions and investments. It also trades in debt securities, derivatives and foreign currency trading for its own accounts. The treasury segment also covers customer-driven derivatives and foreign currency trading, as well as management of the Group's overall liquidity position, including the issuance of subordinated debts.

Others

These represent equity investments and related income.

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income/expense". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the Relevant Periods to acquire fixed assets, intangible assets and other long-term assets.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

47 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

The Group

	Year ended December 31, 2012				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income.....	25,586	12,686	11,991	–	50,263
Internal net interest income/(expense).....	10,536	(2,115)	(8,421)	–	–
Net interest income.....	36,122	10,571	3,570	–	50,263
Net fee and commission income.....	3,928	5,419	132	–	9,479
Net trading losses.....	–	(86)	(152)	–	(238)
Dividend income.....	–	–	–	3	3
Net gains arising from investment securities.....	58	–	17	–	75
Foreign exchange gains/(losses).....	281	42	(115)	–	208
Other operating income.....	121	43	–	116	280
Operating income.....	40,510	15,989	3,452	119	60,070
Operating expenses.....	(13,925)	(8,268)	(449)	(43)	(22,685)
Operating profit before impairment.....	26,585	7,721	3,003	76	37,385
Impairment losses on assets...	(4,431)	(1,334)	(30)	–	(5,795)
Profit before tax.....	22,154	6,387	2,973	76	31,590
Other segment information					
– Depreciation and amortization.....	(837)	(549)	(8)	–	(1,394)
– Capital expenditure.....	1,651	1,083	16	–	2,750
	December 31, 2012				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets.....	1,510,900	387,495	377,067	98	2,275,560
Segment liabilities.....	1,736,394	325,080	103,467	4	2,164,945

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

47 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

The Group

	Six months ended June 30, 2012 (Unaudited)				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income	13,821	5,599	5,888	–	25,308
Internal net interest income/(expense)	4,059	(347)	(3,712)	–	–
Net interest income	17,880	5,252	2,176	–	25,308
Net fee and commission income	2,250	2,611	77	–	4,938
Net trading gains	–	53	447	–	500
Dividend income	–	–	–	3	3
Net gains arising from investment securities	–	–	29	–	29
Foreign exchange gains/(losses)	157	24	(531)	–	(350)
Other operating income	33	20	–	50	103
Operating income	20,320	7,960	2,198	53	30,531
Operating expenses	(6,759)	(3,873)	(160)	(10)	(10,802)
Operating profit before impairment	13,561	4,087	2,038	43	19,729
Impairment losses on assets	(1,796)	(635)	(8)	–	(2,439)
Profit before tax	11,765	3,452	2,030	43	17,290
Other segment information					
– Depreciation and amortisation	(411)	(254)	(4)	–	(669)
– Capital expenditure	271	168	3	–	442

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

47 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

Reconciliation between segment assets, liabilities and total assets and total liabilities:

	Note	December 31,			June 30,
		2010	2011	2012	2013
Segment assets		1,481,363	1,730,208	2,275,560	2,467,391
Goodwill	27	1,281	1,281	1,281	1,281
Deferred tax assets	28	1,306	1,857	2,454	2,496
Total assets		<u>1,483,950</u>	<u>1,733,346</u>	<u>2,279,295</u>	<u>2,471,168</u>
Segment liabilities		1,402,460	1,637,018	2,164,945	2,343,985
Dividend payable	39	27	178	28	117
Total liabilities		<u>1,402,487</u>	<u>1,637,196</u>	<u>2,164,973</u>	<u>2,344,102</u>

(b) Geographical information

The Group operates principally in mainland China with branches located in 28 provinces, autonomous regions and municipalities directly under the central government, with subsidiaries located in Wuhan city of Hubei Province, Shaoshan city of Hunan Province and Huai'an city of Jiangsu Province.

Non-current assets include fixed assets, land use rights and intangible assets. In presenting of geographical information, non-current assets are allocated based on geographical location of the underlying assets. Operating income is allocated based on the locations of the branches which generate income. Geographical areas, as defined for management reporting purposes, are as follows:

- “Yangtze River Delta” refers to the following areas serviced by subsidiary and branches of the Bank: Huai'an Everbright; Shanghai, Nanjing, Hangzhou, Suzhou, Ningbo and Wuxi;
- “Pearl River Delta” refers to the following areas serviced by branches of the Bank: Guangzhou, Shenzhen, Fuzhou, Xiamen and Haikou;
- “Bohai Rim” refers to the following areas serviced by branches of the Bank: Beijing, Tianjin, Shijiazhuang, Jinan, Qingdao and Yantai;
- “Central” refers to the following areas serviced by subsidiaries and branches of the Bank: Everbright Financial Leasing and Shaoshan Everbright; Zhengzhou, Taiyuan, Changsha, Wuhan, Hefei and Nanchang;
- “Western” refers to the following areas serviced by branches of the Bank: Xi'an, Chengdu, Chongqing, Kunming, Nanning, Hohhot, Urumqi, Guiyang and Lanzhou;
- “Northeastern” refers to the following areas serviced by branches of the Bank: Heilongjiang, Changchun, Shenyang and Dalian;
- “Hong Kong” refers to the Hong Kong special administrative region serviced by branch of the Bank; and
- “Head Office” refers to the headquarter of the Group.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

47 Segment reporting (continued)

(b) Geographical information (continued)

The Group

	Operating Income				
	Years ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(Unaudited)	
Yangtze River Delta.....	8,496	10,017	11,982	6,032	6,347
Bohai Rim	8,090	9,784	11,721	5,794	6,513
Central	4,965	6,336	8,259	4,096	4,426
Pearl River Delta	4,697	6,086	7,603	3,867	4,094
Western	4,451	5,493	7,189	3,512	4,221
Head Office	2,708	5,477	9,602	5,372	6,343
Northeastern	2,321	3,005	3,714	1,858	1,879
Hong Kong	—	—	—	—	15
Total	<u>35,728</u>	<u>46,198</u>	<u>60,070</u>	<u>30,531</u>	<u>33,838</u>

	Non-current assets			
	December 31,			June 30,
	2010	2011	2012	2013
Head Office	3,556	4,129	4,531	4,589
Yangtze River Delta	3,228	3,242	3,143	3,062
Pearl River Delta	880	968	952	1,049
Bohai Rim	849	852	877	857
Northeastern	796	779	999	970
Central	697	856	1,064	1,080
Western	527	514	963	944
Hong Kong	—	—	—	11
Total	<u>10,533</u>	<u>11,340</u>	<u>12,529</u>	<u>12,562</u>

48 Risk management

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

The Group's risk management policies were established to identify and analyze the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit Department of the Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

V NOTES TO THE FINANCIAL INFORMATION (continued)**(Expressed in millions of Renminbi, unless otherwise stated)****48 Risk management (continued)****(a) Credit risk**

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

Credit business

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. The responsible department for credit risk management include the Risk Management Department, Credit Approval Department, Special Assets Resolution Department and Legal and Compliance Department, and the Group dispatch Credit Officer to Retail Banking Department of Head office, the business line of medium-sized and small enterprises and the first-level branches. The Risk Management Department is responsible for implementing the Group's overall risk management system. Besides risk monitoring and control, the Risk Management Department is also responsible for formulating risk management policies. To ensure the independence of credit approval, the Credit Approval Department is independent from customer relationship and product management departments. Front-office departments such as the Corporate Banking Department and the Retail Banking Department carry out credit businesses according to the Group's risk management policies and procedures.

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

For corporate and institutional businesses, the Group has established industry-specific limits for credit approval. It has put in place continuous monitoring mechanism, with regular reporting of credit exposures to the board. The Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, all credit applications are approved by designated credit officers. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks. The Group has further enhanced the parallel operating mechanism. Customer relationship managers and risk managers work independently to manage the key risk points throughout the process of credit business.

For personal credit operation business, credit assessment of applicants is used as the basis for loan approval. In the credit assessment, customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and their recommendations to the loan-approval departments for further approval. The Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process according to standardized loan recovery procedures.

V NOTES TO THE FINANCIAL INFORMATION (continued)**(Expressed in millions of Renminbi, unless otherwise stated)****48 Risk management (continued)****(a) Credit risk (continued)**

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate.

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognized even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

Treasury Business

The Group sets credit limits for treasury operations based on the credit risk inherent in the products, counterparties and geographical areas. Credit risk exposure is closely monitored on a systematic, real-time basis, and credit risk limits are reviewed and updated regularly.

(i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at the end of the Relevant Periods, including derivative financial instruments. The maximum exposure to credit risk in respect of these off-balance sheet items as at the end of each of the Relevant Periods is disclosed in Note 51(a).

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(a) Credit risk (continued)

(ii) Financial assets analyzed by credit quality are summarized as follows:

The Group

	December 31, 2010				
	Loans and advances	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreements	Investment (*)	Others (**)
<i>Impaired</i>					
Individually assessed					
Gross amount	4,729	16	-	2	474
Provision for impairment losses.....	(4,293)	(16)	-	(2)	(412)
Sub-total	436	-	-	-	62
Collectively assessed					
Gross amount	1,100	-	-	-	98
Provision for impairment losses.....	(752)	-	-	-	(47)
Sub-total	348	-	-	-	51
<i>Overdue but not impaired</i>					
Less than 3 months (inclusive)					
Gross amount	4,284	-	-	-	-
Provision for impairment losses.....	(230)	-	-	-	-
Sub-total	4,054	-	-	-	-
<i>Neither overdue nor impaired</i>					
Gross amount	768,715	77,120	170,037	187,554	89,237
Provision for impairment losses.....	(12,998)	(12)	-	(123)	(225)
Sub-total	755,717	77,108	170,037	187,431	89,012
Total	<u>760,555</u>	<u>77,108</u>	<u>170,037</u>	<u>187,431</u>	<u>89,125</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(a) Credit risk (continued)

(ii) Financial assets analyzed by credit quality are summarized as follows: (continued)

The Group

	December 31, 2011				
	Loans and advances	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreements	Investment (*)	Others (**)
<i>Impaired</i>					
Individually assessed					
Gross amount	4,747	16	–	2	471
Provision for impairment losses.....	(3,823)	(16)	–	(2)	(461)
Sub-total	924	–	–	–	10
Collectively assessed					
Gross amount	980	–	–	–	94
Provision for impairment losses.....	(711)	–	–	–	(40)
Sub-total	269	–	–	–	54
<i>Overdue but not impaired</i>					
Gross amount					
– Less than 3 months (inclusive).....	4,717	–	–	–	–
Gross amount	4,717	–	–	–	–
Provision for impairment losses.....	(280)	–	–	–	–
Sub-total	4,437	–	–	–	–
<i>Neither overdue nor impaired</i>					
Gross amount	879,381	187,009	206,941	161,480	65,540
Provision for impairment losses.....	(16,229)	–	–	(266)	(325)
Sub-total	863,152	187,009	206,941	161,214	65,215
Total	868,782	187,009	206,941	161,214	65,279

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(a) Credit risk (continued)

(ii) Financial assets analyzed by credit quality are summarized as follows: (continued)

The Group

	December 31, 2012				
	Loans and advances	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreements	Investment (*)	Others (**)
<i>Impaired</i>					
Individually assessed					
Gross amount	6,013	16	–	2	1,166
Provision for impairment losses.....	(3,487)	(16)	–	(2)	(85)
Sub-total	2,526	–	–	–	1,081
Collectively assessed					
Gross amount	1,600	–	–	–	222
Provision for impairment losses.....	(1,132)	–	–	–	(29)
Sub-total	468	–	–	–	193
<i>Overdue but not impaired</i>					
Gross amount					
– Less than 3 months (inclusive).....	9,424	–	–	–	–
Gross amount	9,424	–	–	–	–
Provision for impairment losses.....	(797)	–	–	–	–
Sub-total	8,627	–	–	–	–
<i>Neither overdue nor impaired</i>					
Gross amount	1,006,150	183,020	230,726	478,680	86,321
Provision for impairment losses.....	(20,440)	(22)	–	(296)	(775)
Sub-total	985,710	182,998	230,726	478,384	85,546
Total	997,331	182,998	230,726	478,384	86,820

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(a) Credit risk (continued)

(ii) Financial assets analyzed by credit quality are summarized as follows: (continued)

The Group

	June 30, 2013				
	Loans and advances	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreements	Investment (*)	Others (**)
<i>Impaired</i>					
Individually assessed					
Gross amount	6,678	16	–	2	995
Provision for impairment losses	(3,241)	(16)	–	(2)	(82)
Sub-total	3,437	–	–	–	913
Collectively assessed					
Gross amount	2,163	–	–	–	241
Provision for impairment losses	(1,333)	–	–	–	(36)
Sub-total	830	–	–	–	205
<i>Overdue but not impaired</i>					
Gross amount					
– Less than 3 months (inclusive)	12,956	–	–	–	–
Gross amount	12,956	–	–	–	–
Provision for impairment losses	(1,023)	–	–	–	–
Sub-total	11,933	–	–	–	–
<i>Neither overdue nor impaired</i>					
Gross amount	1,082,757	210,949	181,384	574,831	94,985
Provision for impairment losses	(20,292)	(19)	–	(262)	(737)
Sub-total	1,062,465	210,930	181,384	574,569	94,248
Total	1,078,665	210,930	181,384	574,569	95,366

* Investments comprise financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.

** Others comprise positive fair value of derivatives, interests receivable, assets from wealth management business recorded in other assets, and other receivables.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(a) Credit risk (continued)

(iii) Credit rating

The distribution according to the credit quality of amounts due from banks and non-bank financial institutions (including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions) is as follows:

The Group

	December 31,			June 30,
	2010	2011	2012	2013
Carrying amount				
<i>Individually assessed and impaired</i>				
Gross amount.....	16	16	16	16
Provision for impairment losses	(16)	(16)	(16)	(16)
Sub-total	—	—	—	—
<i>Neither overdue nor impaired</i>				
– grade A to AAA	68,638	216,507	177,557	193,716
– grade B to BBB	53,047	14,461	13,531	26,340
– unrated	125,460	162,982	222,636	172,258
Sub-total	247,145	393,950	413,724	392,314
Total	247,145	393,950	413,724	392,314

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to Bloomberg Composite, or the major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analyzed by the rating agency designations as at the end of the Relevant Periods are as follows:

The Group

	December 31,			June 30,
	2010	2011	2012	2013
Carrying amount				
<i>Individually assessed and impaired</i>				
Gross amount.....	1	1	1	1
Provision for impairment losses	(1)	(1)	(1)	(1)
Sub-total	—	—	—	—
<i>Neither overdue nor impaired</i>				
<i>Bloomberg Composite</i>				
– grade AAA	72	—	—	—
– grade AA- to AA+	18	18	18	44
– grade A- to A+	1,018	1,118	1,172	1,042
– grade lower than A-	128	123	121	505
Sub-total	1,236	1,259	1,311	1,591

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(a) Credit risk (continued)

(iii) Credit rating (continued)

	December 31,			June 30,
	2010	2011	2012	2013
<i>Other agency ratings</i>				
– grade AAA	92,409	64,275	71,962	59,535
– grade AA- to AA+	11,223	14,652	19,632	40,376
– grade A- to A+	79,895	78,472	120,604	119,430
– grade lower than A-	1,900	1,900	3,200	2,898
Sub-total	<u>185,427</u>	<u>159,299</u>	<u>215,398</u>	<u>222,239</u>
Total	<u>186,663</u>	<u>160,558</u>	<u>216,709</u>	<u>223,830</u>

(b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured and monitored all types of market risk. The Risk Management Committee monitors the market risk management process within the scope authorized by the board of directors, which include review and approval of market risk management strategies, policies and procedures. The Group is primarily exposed to market risk in its treasury business. The Treasury Department is responsible for the Group's investments and proprietary trading business. The Planning and Finance Department is responsible for monitoring and managing the interest rate risk and foreign exchange risk on the daily basis. The Market Risk Management Division in the Treasury Department is responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring the Group's market risk.

The Group classified the transactions as the banking book transactions and trading book transactions. The identification, measurement, monitoring and controls over the relevant market risks are based on the nature and characteristics of these books. The trading book transactions consist of the Group's investments which are acquired or incurred primarily for the purpose of selling in the near term, or for the purpose of short-term profit taking. The banking book transactions represent non-trading businesses. Sensitivity analysis, scenario analysis and foreign currency gap analysis are the major tools employed by the Group to measure and monitor the market risk in its trading book transactions. Sensitivity gap analysis, stress testing and effective duration analysis are the major tools used by the Group to measure and monitor the market risk of its non-trading businesses.

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration of the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on/off-balance sheet items.

V NOTES TO THE FINANCIAL INFORMATION (continued)**(Expressed in millions of Renminbi, unless otherwise stated)****48 Risk management (continued)****(b) Market risk (continued)**

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorizing each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

The results of stress testing are assessed against a set of forward-looking scenarios using stress moves in market variables. The results are used to estimate the impact on profit or loss.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.

Interest rate risk

The Group is primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of treasury position.

Repricing risk

Repricing risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes the Group's income or its inherent economic value to vary with the movement in interest rates.

The Planning and Finance Department is responsible for measuring, monitoring and managing interest rate risk. The Group regularly performs assessment on the interest rate repricing gap between the assets and liabilities that are sensitive to changes in interest rates and sensitivity analysis on the net interest income as a result of changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on its net interest income or its inherent economic value caused by interest rate volatility.

Trading interest rate risk

Trading interest rate risk mainly arises from the treasury's investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs other supplementary methods to measure its interest rate sensitivity, which is expressed as changes in the investment portfolios' fair value given a 100 basis points (1%) movement in the interest rates.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the Relevant Periods and the assets and liabilities as at the end of the Relevant Periods by the expected next repricing dates or by maturity dates, depending on which is earlier:

The Group

	Effective interest rate (Note (i))	December 31, 2010					
		Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.44%	185,745	8,103	177,642	–	–	–
Deposits with banks and other financial institutions	2.28%	53,275	118	46,381	6,776	–	–
Placements with banks and other financial institutions	2.06%	23,833	–	17,368	6,465	–	–
Financial assets held under resale agreements	2.80%	170,037	–	149,567	20,439	31	–
Loans and advances to customers (Note (ii)).....	5.03%	760,555	–	532,313	198,725	24,497	5,020
Investments (Note (iii)).....	3.42%	187,431	334	8,989	78,517	58,003	41,588
Others.....	–	103,074	19,134	3,633	7,860	72,447	–
Total assets	3.87%	1,483,950	27,689	935,893	318,782	154,978	46,608
Liabilities							
Deposits from banks and other financial institutions	2.36%	197,214	–	158,430	38,784	–	–
Placements from banks and other financial institutions	1.56%	18,214	22	5,953	12,239	–	–
Financial assets sold under repurchase agreements ..	2.34%	12,679	4	12,675	–	–	–
Deposits from customers ...	1.54%	1,063,180	4,356	755,770	231,377	67,821	3,856
Debt securities issued.....	4.63%	16,000	–	–	2,500	13,500	–
Others.....	–	95,200	18,305	72,318	3,768	809	–
Total liabilities	1.79%	1,402,487	22,687	1,005,146	288,668	82,130	3,856
Asset-liability gap	2.08%	81,463	5,002	(69,253)	30,114	72,848	42,752

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the Relevant Periods and the assets and liabilities as at the end of the Relevant Periods by the expected next repricing dates or by maturity dates, depending on which is earlier: (continued)

The Group

	Effective interest rate (Note (i))	December 31, 2011					More than five years
		Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	
Assets							
Cash and deposits with the central bank.....	1.49%	228,666	11,222	217,444	–	–	–
Deposits with banks and other financial institutions.....	4.92%	105,263	290	95,770	6,683	2,520	–
Placements with banks and other financial institutions.....	4.01%	81,746	–	55,520	26,226	–	–
Financial assets held under resale agreements	5.43%	206,941	–	156,951	49,960	30	–
Loans and advances to customers (Note (ii))..	6.00%	868,782	–	619,341	229,241	15,292	4,908
Investments (Note (iii)) ..	3.71%	161,214	276	10,352	41,235	72,028	37,323
Others	–	80,734	22,331	12,705	12,202	33,496	–
Total assets	4.92%	1,733,346	34,119	1,168,083	365,547	123,366	42,231
Liabilities							
Deposits from banks and other financial institutions.....	4.52%	270,627	–	240,349	30,278	–	–
Placements from banks and other financial institutions.....	3.03%	27,362	22	8,083	19,257	–	–
Financial assets sold under repurchase agreements	4.15%	40,609	4	40,605	–	–	–
Deposits from customers	2.10%	1,225,278	4,944	927,016	201,782	86,237	5,299
Debt securities issued	4.71%	16,000	–	–	2,500	13,500	–
Others	–	57,320	24,727	29,242	3,351	–	–
Total liabilities	2.62%	1,637,196	29,697	1,245,295	257,168	99,737	5,299
Asset-liability gap	2.30%	96,150	4,422	(77,212)	108,379	23,629	36,932

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the Relevant Periods and the assets and liabilities as at the end of the Relevant Periods by the expected next repricing dates or by maturity dates, depending on which is earlier: (continued)

The Group

	Effective interest rate (Note (i))	December 31, 2012					
		Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank.....	1.49%	285,478	13,537	271,941	–	–	–
Deposits with banks and other financial institutions.....	3.55%	47,019	69	44,250	2,700	–	–
Placements with banks and other financial institutions.....	5.17%	135,979	–	64,897	58,333	12,749	–
Financial assets held under resale agreements	5.08%	230,726	–	192,952	37,745	29	–
Loans and advances to customers (Note (ii))..	6.66%	997,331	–	651,238	322,451	21,082	2,560
Investments (Note (iii)) ..	4.63%	478,384	191	25,699	137,528	155,797	159,169
Others	–	104,378	29,391	18,695	14,122	42,170	–
Total assets	5.29%	2,279,295	43,188	1,269,672	572,879	231,827	161,729
Liabilities							
Deposits from banks and other financial institutions.....	4.19%	527,561	–	512,481	15,080	–	–
Placements from banks and other financial institutions.....	3.00%	23,205	18	16,831	6,206	150	–
Financial assets sold under repurchase agreements	3.72%	74,285	4	73,795	486	–	–
Deposits from customers	2.47%	1,426,941	3,867	931,816	322,079	167,750	1,429
Debt securities issued	4.59%	52,700	–	–	18,000	28,000	6,700
Others	–	60,281	34,978	20,701	4,602	–	–
Total liabilities	2.95%	2,164,973	38,867	1,555,624	366,453	195,900	8,129
Asset-liability gap	2.34%	114,322	4,321	(285,952)	206,426	35,927	153,600

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the Relevant Periods and the assets and liabilities as at the end of the Relevant Periods by the expected next repricing dates or by maturity dates, depending on which is earlier: (continued)

The Group

	Effective interest rate (Note (i))	June 30, 2013					More than five years
		Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	
Assets							
Cash and deposits with the central bank	1.47%	311,708	16,800	294,908	–	–	–
Deposits with banks and other financial institutions	2.49%	73,870	67	62,783	11,020	–	–
Placements with banks and other financial institutions	4.38%	137,060	–	74,176	53,792	9,092	–
Financial assets held under resale agreements	4.56%	181,384	–	148,723	32,661	–	–
Loans and advances to customers (Note (ii)) .	6.19%	1,078,665	–	364,515	688,705	21,998	3,447
Investments (Note (iii)) .	4.99%	574,569	207	86,236	113,247	290,353	84,526
Others	–	113,912	34,499	35,971	15,082	28,360	–
Total assets	4.99%	2,471,168	51,573	1,067,312	914,507	349,803	87,973
Liabilities							
Deposits from banks and other financial institutions	4.13%	564,122	–	559,100	5,022	–	–
Placements from banks and other financial institutions	2.40%	40,222	21	30,016	10,185	–	–
Financial assets sold under repurchase agreements	3.81%	72,217	4	72,040	173	–	–
Deposits from customers	2.41%	1,554,691	4,885	982,285	376,321	189,520	1,680
Debt securities issued	4.51%	44,700	–	–	18,000	20,000	6,700
Others	–	68,150	37,093	28,791	1,325	941	–
Total liabilities	2.95%	2,344,102	42,003	1,672,232	411,026	210,461	8,380
Asset-liability gap	2.04%	127,066	9,570	(604,920)	503,481	139,342	79,593

V NOTES TO THE FINANCIAL INFORMATION (continued)**(Expressed in millions of Renminbi, unless otherwise stated)****48 Risk management (continued)****(b) Market risk (continued)****Interest rate risk (continued)**

- (i) The following tables indicate the effective interest rates for the Relevant Periods and the assets and liabilities as at the end of the Relevant Periods by the expected next repricing dates or by maturity dates, depending on which is earlier: (continued)

Note:

- (i) Effective interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.
- (ii) For loans and advances to customers, the category "Less than three months" includes overdue amounts (net of provision for impairment losses) of RMB16,172 million as at June 30, 2013 (December 31, 2012: RMB11,582 million; December 31, 2011: RMB5,440 million; December 31, 2010: RMB4,735 million). Overdue amounts represent loans for which the principal or interest is overdue one day or more.
- (iii) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.

(ii) Interest rate sensitivity analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. As at June 30, 2013, assuming other variables remain unchanged, an increase in estimated interest rate of one hundred basis points will cause the Group's net profit to decrease by RMB4,584 million (December 31, 2012: RMB3,333 million; December 31, 2011: RMB1,224 million; December 31, 2010: RMB1,166 million), and equity to decrease by RMB7,402 million (December 31, 2012: RMB5,978 million; December 31, 2011: RMB2,286 million; December 31, 2010: RMB2,240 million); a decrease in estimated interest rate of one hundred basis points will cause the Group's net profit to increase by RMB4,610 million (December 31, 2012: RMB3,351 million; December 31, 2011: RMB1,227 million; December 31, 2010: RMB1,150 million), and equity to increase by RMB7,618 million (December 31, 2012: RMB6,190 million; December 31, 2011: RMB2,344 million; December 31, 2010: RMB2,264 million).

The sensitivity analysis above is based on a static interest rate risk profile of the Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualized net profit or loss and equity would have been affected by repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

- Interest rate movements at the end of the Relevant Periods apply to all derivative and non-derivative financial instruments of the Group;
- At the end of the Relevant Periods, an interest rate movement of one hundred basis points is based on the assumption of interest rates movement over the next 12 months;
- There is a parallel shift in the yield curve with the changes in interest rates;
- There are no other changes to the assets and liabilities portfolio;
- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk

The Group's foreign currency risk mainly arises from the foreign currency portfolio within the treasury's proprietary investments, and other foreign currency exposures. The Group manages foreign currency risk by spot and forward foreign exchange transactions, swap transactions and matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The Group's currency exposures as at the end of the Relevant Periods are as follows:

The Group

	December 31, 2010			
	RMB	USD	Others	Total
		(RMB Equivalent)	(RMB Equivalent)	(RMB Equivalent)
Assets				
Cash and deposits with the central bank ...	183,958	1,383	404	185,745
Deposits with banks and other financial institutions	48,976	2,330	1,969	53,275
Placements with banks and other financial institutions	19,247	3,592	994	23,833
Financial assets held under resale agreements	170,006	—	31	170,037
Loans and advances to customers	738,486	21,781	288	760,555
Investments (Note (i))	185,490	1,809	132	187,431
Others	101,563	248	1,263	103,074
Total assets	<u>1,447,726</u>	<u>31,143</u>	<u>5,081</u>	<u>1,483,950</u>
Liabilities				
Deposits from banks and other financial institutions	191,653	5,269	292	197,214
Placements from banks and other financial institutions	10,996	7,045	173	18,214
Financial assets sold under repurchase agreements	12,679	—	—	12,679
Deposits from customers	1,038,147	18,973	6,060	1,063,180
Debt securities issued	16,000	—	—	16,000
Others	89,422	2,912	2,866	95,200
Total liabilities	<u>1,358,897</u>	<u>34,199</u>	<u>9,391</u>	<u>1,402,487</u>
Net position	<u>88,829</u>	<u>(3,056)</u>	<u>(4,310)</u>	<u>81,463</u>
Off-balance sheet credit commitments	<u>423,756</u>	<u>24,220</u>	<u>3,016</u>	<u>450,992</u>
Derivative financial instruments (Note (ii))	<u>(8,955)</u>	<u>4,814</u>	<u>4,075</u>	<u>(66)</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group's currency exposures as at the end of the Relevant Periods are as follows: (continued)

The Group

	December 31, 2011			
	RMB	USD	Others	Total
		(RMB Equivalent)	(RMB Equivalent)	(RMB Equivalent)
Assets				
Cash and deposits with the central bank ...	225,781	2,377	508	228,666
Deposits with banks and other financial institutions	97,925	4,391	2,947	105,263
Placements with banks and other financial institutions.....	74,414	3,210	4,122	81,746
Financial assets held under resale agreements	206,912	–	29	206,941
Loans and advances to customers	845,205	23,245	332	868,782
Investments (Note (i))	159,600	1,491	123	161,214
Others.....	77,229	2,261	1,244	80,734
Total assets	<u>1,687,066</u>	<u>36,975</u>	<u>9,305</u>	<u>1,733,346</u>
Liabilities				
Deposits from banks and other financial institutions.....	261,461	8,579	587	270,627
Placements from banks and other financial institutions.....	19,796	7,175	391	27,362
Financial assets sold under repurchase agreements	40,609	–	–	40,609
Deposits from customers	1,192,667	25,808	6,803	1,225,278
Debt securities issued.....	16,000	–	–	16,000
Others	53,062	2,243	2,015	57,320
Total liabilities	<u>1,583,595</u>	<u>43,805</u>	<u>9,796</u>	<u>1,637,196</u>
Net position	<u>103,471</u>	<u>(6,830)</u>	<u>(491)</u>	<u>96,150</u>
Off-balance sheet credit commitments	<u>520,593</u>	<u>30,089</u>	<u>3,042</u>	<u>553,724</u>
Derivative financial instruments (Note (ii)).....	<u>(9,544)</u>	<u>8,548</u>	<u>636</u>	<u>(360)</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group's currency exposures as at the end of the Relevant Periods are as follows: (continued)

The Group

	December 31, 2012			
	RMB	USD	Others	Total
		(RMB Equivalent)	(RMB Equivalent)	(RMB Equivalent)
Assets				
Cash and deposits with the central bank ...	282,402	2,596	480	285,478
Deposits with banks and other financial institutions	41,447	3,772	1,800	47,019
Placements with banks and other financial institutions.....	133,985	1,532	462	135,979
Financial assets held under resale agreements	230,697	–	29	230,726
Loans and advances to customers	961,798	34,875	658	997,331
Investments (Note (i))	476,906	1,354	124	478,384
Others.....	103,706	96	576	104,378
Total assets	<u>2,230,941</u>	<u>44,225</u>	<u>4,129</u>	<u>2,279,295</u>
Liabilities				
Deposits from banks and other financial institutions.....	526,245	1,296	20	527,561
Placements from banks and other financial institutions.....	12,819	9,688	698	23,205
Financial assets sold under repurchase agreements	74,285	–	–	74,285
Deposits from customers	1,375,598	41,891	9,452	1,426,941
Debt securities issued.....	52,700	–	–	52,700
Others	58,204	1,117	960	60,281
Total liabilities	<u>2,099,851</u>	<u>53,992</u>	<u>11,130</u>	<u>2,164,973</u>
Net position	<u>131,090</u>	<u>(9,767)</u>	<u>(7,001)</u>	<u>114,322</u>
Off-balance sheet credit commitments	<u>640,053</u>	<u>32,075</u>	<u>3,993</u>	<u>676,121</u>
Derivative financial instruments (Note (ii)).....	<u>957</u>	<u>(1,311)</u>	<u>167</u>	<u>(187)</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group's currency exposures as at the end of the Relevant Periods are as follows: (continued)

The Group

	June 30, 2013			
	RMB	USD	Others	Total
		(RMB Equivalent)	(RMB Equivalent)	(RMB Equivalent)
Assets				
Cash and deposits with the central bank ..	308,058	3,236	414	311,708
Deposits with banks and other financial institutions	68,909	2,634	2,327	73,870
Placements with banks and other financial institutions	124,684	11,478	898	137,060
Financial assets held under resale agreements	181,355	–	29	181,384
Loans and advances to customers	1,034,927	42,545	1,193	1,078,665
Investments (Note (i))	572,811	1,638	120	574,569
Others	107,113	–	6,799	113,912
Total assets	<u>2,397,857</u>	<u>61,531</u>	<u>11,780</u>	<u>2,471,168</u>
Liabilities				
Deposits from banks and other financial institutions	563,441	659	22	564,122
Placements from banks and other financial institutions	13,179	24,660	2,383	40,222
Financial assets sold under repurchase agreements	72,217	–	–	72,217
Deposits from customers	1,495,631	50,034	9,026	1,554,691
Debt securities issued	44,700	–	–	44,700
Others	59,663	8,196	291	68,150
Total liabilities	<u>2,248,831</u>	<u>83,549</u>	<u>11,722</u>	<u>2,344,102</u>
Net position	<u>149,026</u>	<u>(22,018)</u>	<u>58</u>	<u>127,066</u>
Off-balance sheet credit commitments	<u>695,773</u>	<u>33,539</u>	<u>3,007</u>	<u>732,319</u>
Derivative financial instruments (Note (ii)).....	<u>(20,374)</u>	<u>12,901</u>	<u>6,924</u>	<u>(549)</u>

Notes:

- (i) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, and debt securities classified as receivables.
- (ii) Derivative financial instruments reflect the net notional amounts of derivatives.

V NOTES TO THE FINANCIAL INFORMATION (continued)**(Expressed in millions of Renminbi, unless otherwise stated)****48 Risk management (continued)****(b) Market risk (continued)****Foreign currency risk (continued)**

The Group uses sensitivity analysis to measure the potential effect of changes in the exchange rates on the Group's net profit or loss and equity. As at June 30, 2013, assuming other variables remain unchanged, an appreciation of one hundred basis points of the US dollar against the RMB would decrease both the Group's net profit and equity by RMB3 million (December 31, 2012: decrease by RMB22 million; December 31, 2011: increase by RMB2 million; December 31, 2010: increase by RMB2 million); a depreciation of one hundred basis points of the US dollar against the RMB would increase both the Group's net profit and equity by RMB3 million (December 31, 2012: increase by RMB22 million; December 31, 2011: decrease by RMB2 million; December 31, 2010: decrease by RMB2 million).

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions as set out below:

- The foreign exchange sensitivity is the gain and loss recognized as a result of one hundred basis points fluctuation in the foreign currency exchange rates against RMB;
- The fluctuation of exchange rates by one hundred basis points is based on the assumption of exchange rates movement over the next 12 months;
- The exchange rates against RMB for the US dollars and HK dollars change in the same direction simultaneously. Due to the immaterial proportion of the Group's total assets and liabilities denominated in currencies other than US dollars and HK dollars, other foreign currencies are converted into US dollars through sensitivity analysis;
- The foreign exchange exposures calculated include spot and forward foreign exchange exposures and swaps;
- Other variables (including interest rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the Group.

Due to the assumptions adopted, actual changes in the Group's net profit or loss and equity resulting from the increase or decrease in foreign exchange rates may vary from the results of this sensitivity analysis.

V NOTES TO THE FINANCIAL INFORMATION (continued)**(Expressed in millions of Renminbi, unless otherwise stated)****48 Risk management (continued)****(c) Liquidity risk**

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business. This risk exists even if a bank's solvency remains strong. In accordance with liquidity policies, the Group monitors the future cash flows and maintains an appropriate level of highly liquid assets.

The Asset and Liability Management Committee ("ALMC") is responsible for managing the Group's overall liquidity risk. The ALMC, chaired by the President of the Bank, is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

- Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting on a timely basis of liquidity requirements and the payment of assets, liabilities, and off-balance sheet business, whether under a normal operating environment or a state of stress; balancing the effectiveness and security of funds in an efficient manner; and
- Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; pursuing profit maximization and cost minimization to a modest extent while ensuring appropriate liquidity; achieving the integration of the security, liquidity, and effectiveness of the Bank's funds.

The Planning and Finance Department is responsible for executing liquidity risk management policies. It is also responsible for identifying, measuring, monitoring and managing medium- and long-term working capital on a regular basis, and for formulating liquidity management strategies. The Treasury Department is responsible for monitoring working capital on a daily basis and ensuring the liquidity of working capital meets management requirements based on the liquidity strategies outlined above. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

A substantial portion of the Group's assets are funded by deposits from customers. These deposits from customers, which have been growing in recent years, are widely diversified in terms of type and duration and represent a stable source of funds.

The Group principally uses liquidity gap analysis to measure liquidity risk. Scenario analysis and stress testing are also adopted to assess the impact of liquidity risk.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the Relevant Periods:

The Group

	December 31, 2010							Total
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with the central bank	149,585	36,160	-	-	-	-	-	185,745
Deposit with banks and other financial institutions	-	14,429	30,146	7,000	1,700	-	-	53,275
Placement with banks and other financial institutions	-	-	13,951	3,417	6,246	219	-	23,833
Financial asset held under resale agreements	-	-	106,926	42,641	20,439	31	-	170,037
Loans and advances to customers	2,369	14,752	34,450	62,871	247,959	252,426	145,728	760,555
Investments (*)	99	-	1,639	4,114	69,038	68,625	43,916	187,431
Others.....	12,644	2,113	353	2,271	8,448	72,873	4,372	103,074
Total assets.....	164,697	67,454	187,465	122,314	353,830	394,174	194,016	1,483,950
Liabilities								
Deposits from banks and other financial institutions	-	63,901	36,845	46,684	38,784	11,000	-	197,214
Placements from banks and other financial institutions	-	22	2,053	3,900	12,239	-	-	18,214
Financial assets sold under repurchase agreements	-	4	12,121	554	-	-	-	12,679
Deposit from customers ..	-	482,263	131,161	106,571	232,527	104,302	6,356	1,063,180
Debt securities issued.....	-	-	-	-	-	16,000	-	16,000
Others.....	-	3,257	49,896	28,734	8,565	3,154	1,594	95,200
Total liabilities	-	549,447	232,076	186,443	292,115	134,456	7,950	1,402,487
Long/(Short) position	164,697	(481,993)	(44,611)	(64,129)	61,715	259,718	186,066	81,463
Notional amount of derivative financial instruments.....	-	-	32,441	22,333	46,868	74,234	5,245	181,121

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the Relevant Periods: (continued)

The Group

	December 31, 2011							Total
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with the central bank	197,592	31,074	-	-	-	-	-	228,666
Deposit with banks and other financial institutions	-	15,021	37,980	43,059	6,683	2,520	-	105,263
Placement with banks and other financial institutions	-	-	37,983	12,422	31,341	-	-	81,746
Financial asset held under resale agreements	-	-	98,593	58,358	49,960	30	-	206,941
Loans and advances to customers	2,856	26,737	51,033	83,705	326,782	225,117	152,552	868,782
Investments (*)	99	-	1	3,099	33,983	82,829	41,203	161,214
Others.....	15,455	1,142	918	6,023	17,447	38,804	945	80,734
Total assets.....	216,002	73,974	226,508	206,666	466,196	349,300	194,700	1,733,346
Liabilities								
Deposits from banks and other financial institutions	-	48,221	121,532	59,596	36,278	5,000	-	270,627
Placements from banks and other financial institutions	-	22	2,757	4,976	19,457	150	-	27,362
Financial assets sold under repurchase agreements	-	4	32,459	8,146	-	-	-	40,609
Deposit from customers ..	-	520,257	180,057	153,834	221,990	143,201	5,939	1,225,278
Debt securities issued.....	-	-	-	-	-	16,000	-	16,000
Others.....	-	3,791	24,648	16,382	7,825	3,071	1,603	57,320
Total liabilities	-	572,295	361,453	242,934	285,550	167,422	7,542	1,637,196
Long/(Short) position	216,002	(498,321)	(134,945)	(36,268)	180,646	181,878	187,158	96,150
Notional amount of derivative financial instruments.....	-	-	48,475	37,159	98,979	68,567	4,876	258,056

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the Relevant Periods: (continued)

The Group

	December 31, 2012							Total
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with the central bank	254,475	31,003	-	-	-	-	-	285,478
Deposit with banks and other financial institutions	-	13,689	24,265	6,365	2,700	-	-	47,019
Placement with banks and other financial institutions	-	-	32,214	32,683	58,333	12,749	-	135,979
Financial asset held under resale agreements	-	-	87,770	105,182	37,745	29	-	230,726
Loans and advances to customers	7,200	70,580	56,381	109,970	378,872	208,460	165,868	997,331
Investments (*)	99	-	2,985	13,494	131,573	165,966	164,267	478,384
Others.....	17,558	47	2,339	10,625	19,380	54,100	329	104,378
Total assets.....	279,332	115,319	205,954	278,319	628,603	441,304	330,464	2,279,295
Liabilities								
Deposits from banks and other financial institutions	-	76,226	199,606	190,018	58,411	3,300	-	527,561
Placements from banks and other financial institutions	-	18	11,881	4,950	6,206	150	-	23,205
Financial assets sold under repurchase agreements	-	4	45,623	28,172	486	-	-	74,285
Deposit from customers ..	-	601,497	168,422	165,564	300,926	189,103	1,429	1,426,941
Debt securities issued.....	-	-	-	-	13,000	33,000	6,700	52,700
Others.....	-	6,691	30,367	7,025	11,905	3,823	470	60,281
Total liabilities	-	684,436	455,899	395,729	390,934	229,376	8,599	2,164,973
Long/(Short) position	279,332	(569,117)	(249,945)	(117,410)	237,669	211,928	321,865	114,322
Notional amount of derivative financial instruments.....	-	-	55,562	49,820	105,060	58,800	3,440	272,682

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the Relevant Periods: (continued)

The Group

	June 30, 2013							Total
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with the central bank	280,850	30,858	-	-	-	-	-	311,708
Deposit with banks and other financial institutions	-	12,425	8,360	33,336	13,129	6,620	-	73,870
Placement with banks and other financial institutions	-	-	27,081	47,603	53,304	9,072	-	137,060
Financial asset held under resale agreements	-	-	101,955	46,768	32,661	-	-	181,384
Loans and advances to customers	9,672	92,185	58,713	119,109	400,799	216,232	181,955	1,078,665
Investments (*)	99	-	10,163	60,776	109,270	307,543	86,718	574,569
Others	18,546	17	7,911	22,298	23,332	40,596	1,212	113,912
Total assets	<u>309,167</u>	<u>135,485</u>	<u>214,183</u>	<u>329,890</u>	<u>632,495</u>	<u>580,063</u>	<u>269,885</u>	<u>2,471,168</u>
Liabilities								
Deposits from banks and other financial institutions	-	106,390	318,389	78,739	57,804	2,800	-	564,122
Placements from banks and other financial institutions	-	21	19,922	10,094	10,185	-	-	40,222
Financial assets sold under repurchase agreements	-	4	71,723	317	173	-	-	72,217
Deposit from customers ..	-	630,378	186,620	168,673	352,367	214,973	1,680	1,554,691
Debt securities issued.....	-	-	-	-	8,000	30,000	6,700	44,700
Others	8,759	1,083	19,292	25,046	8,849	4,938	183	68,150
Total liabilities	<u>8,759</u>	<u>737,876</u>	<u>615,946</u>	<u>282,869</u>	<u>437,378</u>	<u>252,711</u>	<u>8,563</u>	<u>2,344,102</u>
Long/(Short) position	<u>300,408</u>	<u>(602,391)</u>	<u>(401,763)</u>	<u>47,021</u>	<u>195,117</u>	<u>327,352</u>	<u>261,322</u>	<u>127,066</u>
Notional amount of derivative financial instruments.....	<u>-</u>	<u>-</u>	<u>48,771</u>	<u>33,592</u>	<u>98,733</u>	<u>56,000</u>	<u>2,497</u>	<u>239,593</u>

* Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, and debt securities classified as receivables.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities, loan commitments and credit card commitments at the end of the Relevant Periods:

The Group

	December 31, 2010							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Deposits from banks and other financial institutions.....	197,214	199,859	63,928	37,101	47,413	39,860	11,557	–
Placements from banks and other financial institutions.....	18,214	18,441	28	2,059	3,918	12,436	–	–
Financial assets sold under repurchase agreements..	12,679	12,696	4	12,135	557	–	–	–
Deposits from customers....	1,063,180	1,086,253	482,316	132,445	108,030	241,096	115,755	6,611
Debt securities issued.....	16,000	18,326	–	–	–	738	17,588	–
Other financial liabilities....	83,704	85,620	3,136	50,092	27,643	3,904	845	–
Total non-derivative financial liabilities	<u>1,390,991</u>	<u>1,421,195</u>	<u>549,412</u>	<u>233,832</u>	<u>187,561</u>	<u>298,034</u>	<u>145,745</u>	<u>6,611</u>
Loan commitments and credit card commitments.....		<u>84,409</u>	<u>57,676</u>	<u>4,192</u>	<u>5,316</u>	<u>13,119</u>	<u>3,664</u>	<u>442</u>

The Group

	December 31, 2011							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Deposits from banks and other financial institutions.....	270,627	274,836	48,272	122,638	60,929	37,924	5,073	–
Placements from banks and other financial institutions.....	27,362	27,906	22	2,795	5,047	19,879	163	–
Financial assets sold under repurchase agreements..	40,609	40,825	4	32,488	8,333	–	–	–
Deposits from customers....	1,225,278	1,255,828	520,324	180,227	154,775	226,121	166,701	7,680
Debt securities issued.....	16,000	17,634	–	–	113	648	16,873	–
Other financial liabilities....	41,632	42,086	3,383	21,200	13,743	3,481	–	279
Total non-derivative financial liabilities	<u>1,621,508</u>	<u>1,659,115</u>	<u>572,005</u>	<u>359,348</u>	<u>242,940</u>	<u>288,053</u>	<u>188,810</u>	<u>7,959</u>
Loan commitments and credit card commitments.....		<u>87,643</u>	<u>71,351</u>	<u>3,535</u>	<u>4,337</u>	<u>3,917</u>	<u>2,285</u>	<u>2,218</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities, loan commitments and credit card commitments at the end of the Relevant Periods: (continued)

The Group

	December 31, 2012							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Deposits from banks and other financial institutions	527,561	533,496	76,264	201,044	192,731	59,776	3,681	-
Placements from banks and other financial institutions	23,205	23,601	18	11,945	5,033	6,439	166	-
Financial assets sold under repurchase agreements ..	74,285	78,524	4	46,261	31,710	549	-	-
Deposits from customers	1,426,941	1,462,168	601,567	168,722	166,622	306,322	217,356	1,579
Debt securities issued	52,700	63,523	-	-	-	15,404	39,660	8,459
Other financial liabilities	40,006	40,296	6,195	26,288	3,061	4,752	-	-
Total non-derivative financial liabilities	<u>2,144,698</u>	<u>2,201,608</u>	<u>684,048</u>	<u>454,260</u>	<u>399,157</u>	<u>393,242</u>	<u>260,863</u>	<u>10,038</u>
Loan commitments and credit card commitments		<u>108,355</u>	<u>85,155</u>	<u>3,166</u>	<u>6,831</u>	<u>8,265</u>	<u>3,871</u>	<u>1,067</u>
June 30, 2013								
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Deposits from banks and other financial institutions	564,122	570,355	106,479	320,384	79,826	60,531	3,135	-
Placements from banks and other financial institutions	40,222	40,739	56	20,019	10,479	10,185	-	-
Financial assets sold under repurchase agreements	72,217	72,390	4	71,894	318	174	-	-
Deposits from customers	1,554,691	1,589,920	630,446	186,923	169,639	357,817	243,019	2,076
Debt securities issued	44,700	53,321	-	-	-	9,952	35,262	8,107
Other financial liabilities	47,865	48,351	9,186	14,893	21,850	1,394	1,028	-
Total non-derivative financial liabilities	<u>2,323,817</u>	<u>2,375,076</u>	<u>746,171</u>	<u>614,113</u>	<u>282,112</u>	<u>440,053</u>	<u>282,444</u>	<u>10,183</u>
Loan and credit card commitments		<u>110,539</u>	<u>84,075</u>	<u>4,847</u>	<u>5,163</u>	<u>5,824</u>	<u>7,966</u>	<u>2,664</u>

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.

V NOTES TO THE FINANCIAL INFORMATION (continued)**(Expressed in millions of Renminbi, unless otherwise stated)****48 Risk management (continued)****(d) Operational risk**

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Group establishes a framework of policies and procedures to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as below:

- A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;
- A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;
- A set of standard operational procedures covering all products and services, which is practical, traceable and can be re-performed, investigated and remedied;
- A series of operational risk management tools, including Risk Control Self-Assessment (RCSA), Key Risk Index (KRI), Loss Event Collection and IT system monitoring;
- An operational risk management culture, the core values of the culture is that effective risk management could create value. It is supported with a team of operational risk management professionals across all branches, businesses and functions;
- An emergency plan and a business continuity system designed to deal with emergent and adverse circumstances, including public relation issues, natural disasters, IT system errors, bank runs, robberies, etc.;
- An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and
- An independent risk assessment framework based on the internal audit and the compliance review.

49 Fair value**(a) Methods and assumptions for measurement of fair value**

The Group adopts the following methods and assumptions when evaluating fair values:

(i) Debt securities and equity investments

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of the Relevant Periods. The fair values of unlisted equity investments are estimated using the applicable price/earning ratios of comparable listed companies, after adjustment for the specific circumstances of the issuers.

(ii) Receivables and other non-derivative financial assets

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the Relevant Periods.

V NOTES TO THE FINANCIAL INFORMATION (continued)**(Expressed in millions of Renminbi, unless otherwise stated)****49 Fair value (continued)**

- (a) Methods and assumptions for measurement of fair value (continued)
- (iii) Debt securities issued and other non-derivative financial liabilities

Fair values of debt securities issued are based on their quoted market prices at the end of the Relevant Periods, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the Relevant Periods.

- (iv) Derivative financial instruments

The fair values of foreign currency forward and swap contracts are determined by the difference between the present value of the forward price and the contractual price at the end of the Relevant Periods, or is based on quoted market prices. The fair values of interest rate swaps are estimated as the present value of estimated future cash flows. The yield curve is based on the optimized price between the broker's quoted price and Reuters' quoted price.

- (b) Fair value measurement

- (i) Financial assets

The Group's financial assets mainly consist of cash and deposits with the central bank, receivables with banks and other financial institutions, loans and advances to customers, and investments.

Deposits with the central bank and receivables with banks and other financial institutions are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Loans and advances to customers are mostly priced at floating rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values.

Available-for-sale investments and held for trading investments are stated at fair value. The carrying amount and fair value of held-to-maturity investments are disclosed in Note 23.

- (ii) Financial liabilities

The Group's financial liabilities mainly include payables to banks and other financial institutions, financial liabilities at fair value through profit or loss, deposits from customers and subordinated debts issued.

Financial liabilities at fair value through profit or loss are stated at fair value in the statements of financial position. The carrying amount and fair value of subordinated debts issued are disclosed in Note 38. The carrying amounts of other financial liabilities approximate their fair values.

- (c) Fair value hierarchy

The following table presents the carrying value of financial instruments measured at fair value in the statements of financial position across the three levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The levels are defined as follows:

Level One: quoted prices (unadjusted) in active markets for identical assets or liabilities;

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

Level Two: inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level Three: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

The Group and the Bank

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Assets				
<i>Financial assets at fair value through profit or loss</i>				
Held for trading				
– debt instruments.....	–	21,728	–	21,728
Financial assets designated at fair value through profit or loss	–	–	669	669
<i>Positive fair value of derivatives</i>				
– foreign currency derivatives	–	744	–	744
– interest rate derivatives.....	–	1,095	1,182	2,277
– credit derivatives	–	–	4	4
<i>Available-for-sale financial assets</i>				
– debt instruments.....	73	77,007	62	77,142
Total	<u>73</u>	<u>100,574</u>	<u>1,917</u>	<u>102,564</u>
Liabilities				
<i>Deposits from customers</i>				
Structured deposits designated at fair value through profit or loss	–	–	33,470	33,470
<i>Negative fair value of derivatives</i>				
– foreign currency derivatives	–	744	–	744
– interest rate derivatives.....	–	503	1,710	2,213
– credit derivatives	–	–	3	3
Total	<u>–</u>	<u>1,247</u>	<u>35,183</u>	<u>36,430</u>

During the year ended December 31, 2010, there were no significant transfers between instruments in Level 1 and Level 2.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

The Group and the Bank

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Assets				
<i>Financial assets at fair value through profit or loss</i>				
<i>Held for trading</i>				
– debt instruments.....	–	22,170	–	22,170
<i>Financial assets designated at fair value through profit or loss</i>				
–	–	–	557	557
<i>Positive fair value of derivatives</i>				
– foreign currency derivatives	–	654	–	654
– interest rate derivatives.....	–	649	955	1,604
– credit derivatives	–	–	4	4
<i>Available-for-sale financial assets</i>				
– debt instruments.....	–	54,343	60	54,403
Total	–	77,816	1,576	79,392
	=	=	=	=
Liabilities				
<i>Deposits from customers</i>				
<i>Structured deposits designated at fair value through profit or loss</i>				
–	–	–	46,478	46,478
<i>Negative fair value of derivatives</i>				
– foreign currency derivatives	–	979	–	979
– interest rate derivatives.....	–	821	1,259	2,080
– credit derivatives	–	–	3	3
Total	–	1,800	47,740	49,540
	=	=	=	=

During the year ended December 31, 2011, there were no significant transfers between instruments in Level 1 and Level 2.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

The Group and the Bank

	December 31, 2012			Total
	Level 1	Level 2	Level 3	
Assets				
<i>Financial assets at fair value through profit or loss</i>				
Held for trading				
– debt instruments.....	–	29,084	–	29,084
Financial assets designated at fair value through profit or loss				
–	–	–	369	369
<i>Positive fair value of derivatives</i>				
– foreign currency derivatives	–	733	–	733
– interest rate derivatives.....	–	470	474	944
<i>Available-for-sale financial assets</i>				
– debt instruments.....	–	91,801	–	91,801
Total	–	122,088	843	122,931
	=	=	=	=
Liabilities				
<i>Deposits from customers</i>				
Structured deposits designated at fair value through profit or loss				
–	–	–	42,617	42,617
<i>Negative fair value of derivatives</i>				
– foreign currency derivatives	–	796	–	796
– interest rate derivatives.....	–	496	569	1,065
Total	–	1,292	43,186	44,478
	=	=	=	=

During the year ended December 31, 2012, there were no significant transfers between instruments in Level 1 and Level 2.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

The Group and the Bank

	June 30, 2013			
	Level 1	Level 2	Level 3	Total
Assets				
<i>Financial assets at fair value through profit or loss</i>				
Held for trading				
– debt instruments	–	31,473	–	31,473
Financial assets designated at fair value through profit or loss	–	–	306	306
<i>Positive fair value of derivatives</i>				
– foreign currency derivatives	–	928	–	928
– interest rate derivatives.....	–	461	171	632
<i>Available-for-sale financial assets</i>				
– debt instruments.....	–	99,309	–	99,309
Total	–	132,171	477	132,648
Liabilities				
<i>Deposits from customers</i>				
Structured deposits designated at fair value through profit or loss	–	–	48,033	48,033
<i>Negative fair value of derivatives</i>				
– foreign currency derivatives	–	1,136	–	1,136
– interest rate derivatives	–	387	193	580
Total	–	1,523	48,226	49,749

During the six months ended June 30, 2013, there were no significant transfers between instruments in Level 1 and Level 2.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

The movement during the year ended December 31, 2010 in the balance of Level 3 fair value measurements is as follows:

The Group and the Bank

	Financial assets Designated at fair Value through Profit or loss	Derivative Financial Assets	Available-for- sale Financial Assets	Total	Non-derivative Financial Liabilities	Derivative Financial Liabilities	Total
January 1, 2010.....	1,051	1,179	67	2,297	(8,059)	(1,612)	(9,671)
Total gains or losses:							
In profit or loss for the current year ..	(19)	25	(2)	4	(158)	(119)	(277)
In other comprehensive income	-	-	(3)	(3)	-	-	-
Purchases	3	-	-	3	(33,241)	-	(33,241)
Settlements.....	(366)	(18)	-	(384)	7,988	18	8,006
December 31, 2010.....	<u>669</u>	<u>1,186</u>	<u>62</u>	<u>1,917</u>	<u>(33,470)</u>	<u>(1,713)</u>	<u>(35,183)</u>
Total gains or losses for the year included in profit or loss for assets and liabilities held at December 31, 2010	<u>(19)</u>	<u>24</u>	<u>(2)</u>	<u>3</u>	<u>(227)</u>	<u>(120)</u>	<u>(347)</u>

The movement during the year ended December 31, 2011 in the balance of Level 3 fair value measurements is as follows:

The Group and the Bank

	Financial assets Designated at fair Value through Profit or loss	Derivative Financial Assets	Available-for- sale Financial Assets	Total	Non-derivative Financial Liabilities	Derivative Financial Liabilities	Total
January 1, 2011.....	669	1,186	62	1,917	(33,470)	(1,713)	(35,183)
Total gains or losses:							
In profit or loss for the current year ..	38	(227)	(3)	(192)	(195)	452	257
In other comprehensive income	-	-	1	1	-	-	-
Purchases	2	9	-	11	(45,640)	(4)	(45,644)
Settlements.....	(152)	(9)	-	(161)	32,827	3	32,830
December 31, 2011.....	<u>557</u>	<u>959</u>	<u>60</u>	<u>1,576</u>	<u>(46,478)</u>	<u>(1,262)</u>	<u>(47,740)</u>
Total gains or losses for the year included in profit or loss for assets and liabilities held at December 31, 2011.....	<u>36</u>	<u>(226)</u>	<u>(3)</u>	<u>(193)</u>	<u>(451)</u>	<u>450</u>	<u>(1)</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

The movement during the year ended December 31, 2012 in the balance of Level 3 fair value measurements is as follows:

The Group and the Bank

	Financial assets			Total	Non-derivative Financial Liabilities	Derivative Financial Liabilities	Total
	Designated at fair Value through Profit or loss	Derivative Financial Assets	Available-for- sale Financial Assets				
January 1, 2012.....	557	959	60	1,576	(46,478)	(1,262)	(47,740)
Total gains or losses:							
In profit or loss for the current year ..	(10)	(448)	3	(455)	(288)	602	314
Purchases	16	54	-	70	(41,727)	(7)	(41,734)
Settlements.....	(194)	(91)	(63)	(348)	45,876	98	45,974
December 31, 2012.....	<u>369</u>	<u>474</u>	<u>-</u>	<u>843</u>	<u>(42,617)</u>	<u>(569)</u>	<u>(43,186)</u>
Total gains or losses for the year included in profit or loss for assets and liabilities held at December 31, 2012	<u>(6)</u>	<u>(394)</u>	<u>-</u>	<u>(400)</u>	<u>(729)</u>	<u>595</u>	<u>(134)</u>

The movement during the six months ended June 30, 2013 in the balance of Level 3 fair value measurements is as follows:

The Group and the Bank

	Financial assets			Total	Non-derivative Financial Liabilities	Derivative Financial Liabilities	Total
	Designated at fair Value through Profit or loss	Derivative Financial Assets	Available-for- sale Financial Assets				
January 1, 2013	369	474	-	843	(42,617)	(569)	(43,186)
Total gains or losses:							
In profit or loss for the current period.....	(12)	(251)	-	(263)	183	338	521
Purchases	9	1	-	10	(43,184)	3	(43,181)
Settlements.....	(60)	(53)	-	(113)	37,585	35	37,620
June 30, 2013	<u>306</u>	<u>171</u>	<u>-</u>	<u>477</u>	<u>(48,033)</u>	<u>(193)</u>	<u>(48,226)</u>
Total gains or losses for the period included in profit or loss for assets and liabilities held at June 30, 2013...	<u>(11)</u>	<u>(251)</u>	<u>-</u>	<u>(262)</u>	<u>(468)</u>	<u>341</u>	<u>(127)</u>

During the Relevant Periods, there were no significant transfers into or out of Level 3.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

50 Entrusted lending business

The Group provides entrusted lending business services to government agencies, corporations and individuals. All entrusted loans are funded by entrusted funds from these entities and individuals. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognized in the statements of financial position.

The Group and the Bank

	December 31,			June 30,
	2010	2011	2012	2013
Entrusted loans	39,239	37,112	41,822	53,596
Entrusted funds.....	39,239	37,112	41,822	53,596

51 Commitments and contingent liabilities

(a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, credit card limits, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans and credit card commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The Group and the Bank

	December 31,			June 30,
	2010	2011	2012	2013
Loan commitments				
– Original contractual maturity within one year	19,115	13,709	8,249	12,797
– Original contractual maturity more than one year (inclusive)	33,913	30,508	38,267	40,014
Credit card commitments.....	31,381	43,426	61,839	57,728
Sub-total	84,409	87,643	108,355	110,539
Acceptances	262,318	318,730	407,585	449,404
Letters of guarantees	46,898	59,280	45,417	48,629
Letters of credit.....	56,206	86,910	114,003	123,386
Guarantees	1,161	1,161	761	361
Total	450,992	553,724	676,121	732,319

The Group may be exposed to credit risk in all the above credit businesses. Group Management periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

51 Commitments and contingent liabilities (continued)

(b) Credit risk-weighted amount

The Group and the Bank

	December 31,		
	2010	2011	2012
Credit risk-weighted amount of contingent liabilities and commitments	189,344	245,994	298,095

The credit risk weighted amount represent to the amount calculated with reference to the guidelines issued by the CBRC. The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights ranged from 0% to 150% for credit commitments.

	June 30, 2013
Credit risk-weighted amount of credit commitments	296,467

(c) Operating lease commitments

As at the end of the Relevant Periods, the Group's future minimum lease payments under non-cancellable operating leases for properties are as follows:

The Group

	December 31,			June 30,
	2010	2011	2012	2013
Within one year (inclusive)	664	1,039	1,297	1,356
After one year but within two years (inclusive)	617	974	1,109	1,684
After two years but within three years (inclusive)	539	878	1,056	1,206
After three years but within five years (inclusive)	968	1,542	1,777	2,141
After five years	1,716	1,788	2,009	2,662
Total	4,504	6,221	7,248	9,049

The Bank

	December 31,			June 30,
	2010	2011	2012	2013
Within one year (inclusive)	664	1,035	1,293	1,354
After one year but within two years (inclusive)	617	970	1,109	1,684
After two years but within three years (inclusive)	539	878	1,056	1,206
After three years but within five years (inclusive)	968	1,542	1,777	2,141
After five years	1,716	1,788	2,009	2,662
Total	4,504	6,213	7,244	9,047

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

51 Commitments and contingent liabilities (continued)

(d) Capital commitments

As at the end of the Relevant Periods, the Group and the Bank's authorized capital commitments are as follows:

	December 31,			June 30,
	2010	2011	2012	2013
Contracted for				
– Purchase of property and equipment	470	143	1,561	416
Approved but not contracted for				
– Purchase of property and equipment	<u>139</u>	<u>779</u>	<u>667</u>	<u>807</u>
Total	<u>609</u>	<u>922</u>	<u>2,228</u>	<u>1,223</u>

(e) Underwriting and redemption commitments

The Group and the Bank has unexpired commitments for underwriting bonds as follows:

	December 31,			June 30,
	2010	2011	2012	2013
Underwriting commitments.....	<u>1,200</u>	<u>3,990</u>	<u>2,010</u>	<u>3,050</u>

As an underwriting agent of the PRC government bonds, the Group has the responsibility to buy back those bonds it previously sold should the holders decide to make an early redemption of the bonds held. The redemption price for a bond at any time before its maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interests payable to the bond holders is calculated in accordance with the relevant MOF and PBOC rules. The redemption price may be different from the fair value of similar financial instruments traded at the redemption date.

The Group and the Bank's redemption commitments are as follows:

	December 31,			June 30,
	2010	2011	2012	2013
Redemption commitments.....	<u>13,380</u>	<u>11,196</u>	<u>8,349</u>	<u>8,672</u>

(f) Forward assets purchase and sale commitments

The Group and the Bank has unexpired forward purchase and sale commitments as follows:

	December 31,			June 30,
	2010	2011	2012	2013
Forward assets purchase and sale commitments	=	=	<u>3,750</u>	<u>2,730</u>

V NOTES TO THE FINANCIAL INFORMATION (continued)**(Expressed in millions of Renminbi, unless otherwise stated)****51 Commitments and contingent liabilities (continued)****(g) Outstanding litigations and disputes**

As at June 30, 2013, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB373 million (December 31, 2012: RMB363 million; December 31, 2011: RMB329 million; December 31, 2010: RMB432 million). Provisions (Note 39(b)) have been made for the estimated losses of such litigation based upon the opinions of the Group's internal and external legal counsels. The Group considers that the provisions made are reasonable and adequate.

52 Subsequent events**(a) Issuance of tier two capital debt**

In accordance with the Reply of CBRC on August 27, 2013 on issuance of tier two capital debt by China Everbright Bank Company Limited (Yin Jian Fu [2013] No. 447), the Group was approved to issue tier two capital debt with the amount of no more than RMB16.2 billion. The issuance is yet to be approved by the PBOC.

(b) Redemption plan of subordinated debt

The Group announced on November 15, 2013 that it would exercise its redemption option on December 17, 2013 to fully redeem the RMB5 billion ten-year fixed rate subordinated debt issued on December 15, 2008.

53 Immediate and ultimate parent

The immediate and ultimate parents of the Group are Huijin and CIC.

Yours faithfully,

KPMG*Certified Public Accountants*

Hong Kong