交通銀行
BANK OF COMMUNICATIONS

YOUR WEALTH MANAGEMENT BANK

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

2013 ANNUAL REPORT

Stock Code:03328

Company Profile

Founded in 1908, Bank of Communications Co., Ltd. is one of the Banks with longest history in China as well as one of the note-issuing banks in modern China. The Bank was listed on the Hong Kong Stock Exchange in June 2005 and on the Shanghai Stock Exchange in May 2007.

The Bank currently has 202 domestic branches, comprising 30 provincial branches, 7 branches directly managed by the Head Office and 165 managed by provinces. It has also established 2,690 banking outlets in 215 cities and 159 counties nationwide. In addition, the Bank has set up 12 overseas institutions, comprising branches in Hong Kong, New York, San Francisco, Tokyo, Singapore, Seoul, Frankfurt, Sydney, Macau, Ho Chi Minh City, representative office in Taipei and Bank of Communications (UK) Co., Ltd. The Group ranked No. 23 among the global top 1,000 banks in terms of Tier 1 Capital rated by *The Banker*, up 7 positions from the prior year.

The Bank is one of the major financial services providers in China. The Bank's business scope includes commercial banking, securities services, trust services, financial leasing, fund management, insurance and offshore financial services. Its wholly-owned subsidiaries include BOCOM International Holdings Company Limited, China BOCOM Insurance Co., Ltd and Bank of Communications Finance Leasing CO., Ltd. Subsidiaries controlled by the Bank include Bank of Communications Schroder Fund Management Co., Ltd, Bank of Communications International Trust Co., Ltd, BoCommLife Insurance Company Limited, Dayi Bocomm Xingmin Rural Bank, Zhejiang Anji BOCOM Rural Bank Ltd, Xinjiang Shihezi BOCOM Rural Bank and Qingdao Laoshan BOCOM Rural Bank. In addition, the Bank is the largest shareholder of Jiangsu Changshu Rural Commercial Bank Co., Ltd.

The Bank's development strategy is to become "a first class listed universal banking group focusing on international expansion and specialising in wealth management" (hereinafter referred to as "**BoCom Strategy**").

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Definitions and Important Risk Reminder

The following terms will have the following meanings in the Annual Report unless otherwise stated:

"Company Law"	Refers to the Company Law of the People's Republic of China
"Articles of Associations"	Refers to the Articles of Association of Bank of Communications Co., Ltd. as approved by CBRC
"Securities Law"	Refers to Securities Law of the People's Republic of China
"Reporting Period"	Refers to the period from 1 January 2013 to 31 December 2013
"Group"	Refers to the Bank and its subsidiaries
"Bank"	Refers to Bank of Communications Co., Ltd.
"Ministry of Finance"	Refers to the Ministry of Finance of the People's Republic of China
"Board of Directors"	Refers to the Board of Directors of the Bank
"North Eastern China"	Includes Liaoning Province, Jilin Province and Heilongjiang Province
"Overseas"	Includes Hong Kong Branch, New York Branch, Singapore Branch, Seoul Branch, Tokyo Branch, Frankfurt Branch, Macau Branch, Ho Chi Minh City Branch, San Francisco Branch, Sydney Branch, Taipei Branch, Bank of Communications (UK) Co., Ltd. and other overseas subsidiaries
"Northern China"	Includes Beijing, Tianjin, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region
"Eastern China"	Includes Shanghai (excluding the Head Office), Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province
"Central and Southern China"	Includes Henan Province, Hunan Province, Hubei Province, Guangdong Province, Hainan Province and Guangxi Autonomous Region
"HSBC"	Refers to The Hong Kong and Shanghai Banking Corporation Limited
"Basis point"	Refers to one in ten thousand
"Bocom Insurance"	Refers to China BOCOM Insurance Co., Ltd.
"Bocom International"	Refers to BOCOM International Holdings Company Limited
"Bocom International Trust"	Refers to Bank of Communications International Trust Co., Ltd.
"BoCommLife Insurance"	Refers to BoCommLife Insurance Company Limited
"Bocom Schroder"	Refers to Bank of Communications Schroder Fund Management Co., Ltd.
"Bocom Leasing"	Refers to Bank of Communications Finance Leasing Co., Ltd.
"Shanghai Stock Exchange"	Refers to the Shanghai Stock Exchange
"SSF"	Refers to the National Council for Social Security Fund
"Western China"	Includes Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region, Xinjiang Uyghur Autonomous Region and Tibet Autonomous Region
"Hong Kong Stock Exchange"	Refers to The Stock Exchange of Hong Kong Limited
"Hong Kong Listing Rules"	Refers to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"CBRC"	Refers to China Banking Regulatory Commission
"CSRC"	Refers to China Securities Regulatory Commission
"Head Office"	Refers to the Group's Head Office in Shanghai

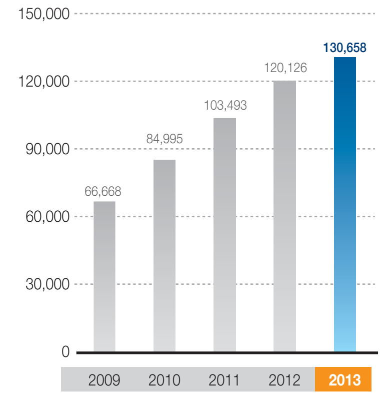
IMPORTANT RISK REMINDER

Under the changing world economy along with domestic business model adjustments and financial reforms, the Group applies various measures to proactively manage risks including credit risks, market risks, operational risks, compliance risks, etc. Please refer to "Risk Management" under "Management Discussion and Analysis".

Financial Highlights

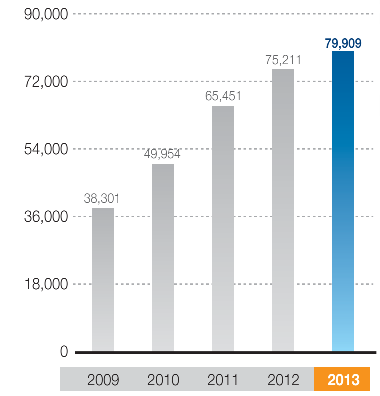
Net interest income

(in millions of RMB)



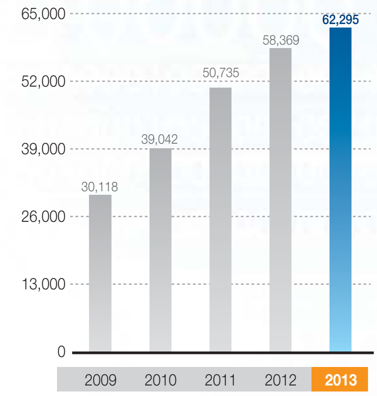
Profit before tax

(in millions of RMB)



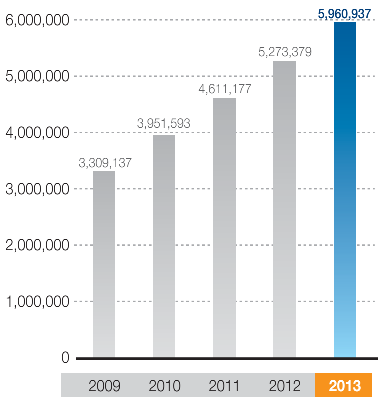
Net profit (excluding non-controlling interests)

(in millions of RMB)



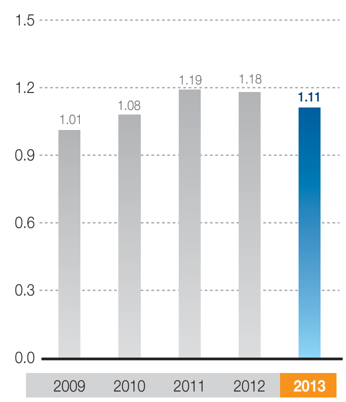
Total assets

(in millions of RMB)



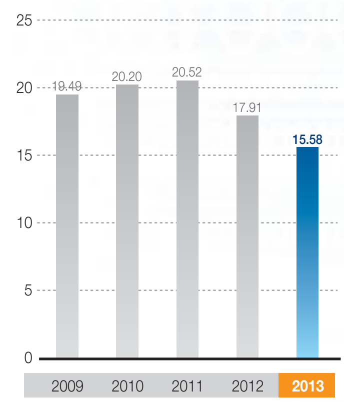
Return on average assets

%



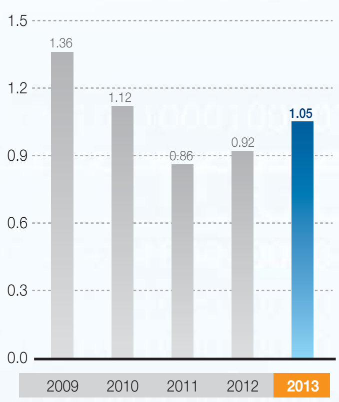
Return on average shareholders' equity

%



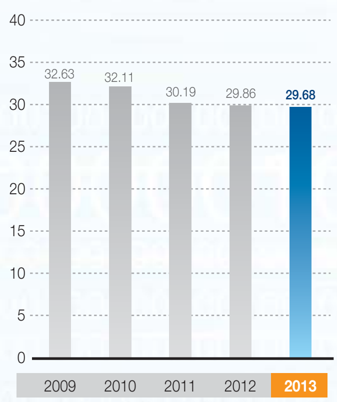
Impaired loans ratio

%



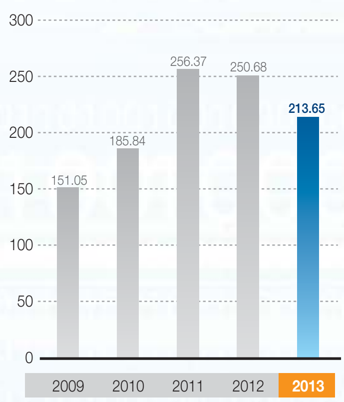
Cost-to-income ratio

%



Provision coverage of impaired loans

%



The major financial data and indicators of the Group as at 31 December 2013 prepared under the International Financial Reporting Standards ("**IFRSs**") were as follows:

Description	2013	2012	2011	2010	2009
Full year results					*(in millions of RMB)*
Net interest income	**130,658**	120,126	103,493	84,995	66,668
Profit before tax	**79,909**	75,211	65,451	49,954	38,301
Net profit (excluding non-controlling interests)	**62,295**	58,369	50,735	39,042	30,118
As at the end of the year					*(in millions of RMB)*
Total assets	**5,960,937**	5,273,379	4,611,177	3,951,593	3,309,137
Include: loans and advances to customers	**3,266,368**	2,947,299	2,561,750	2,236,927	1,839,314
Total liabilities	**5,539,453**	4,891,932	4,338,389	3,727,936	3,144,712
Include: due to customers	**4,157,833**	3,728,412	3,283,232	2,867,847	2,372,055
Shareholders' equity (excluding non-controlling interests)	**419,561**	379,918	271,802	222,773	163,848
Per share					*(in RMB)*
Earnings per share (excluding non-controlling interests)	**0.84**	0.88	0.82	0.66	0.53
Net assets per share (excluding non-controlling interests)	**5.65**	5.12	4.39	3.96	3.34
Major financial ratios					*(%)*
Return on average assets	**1.11**	1.18	1.19	1.08	1.01
Return on average shareholders' equity	**15.58**	17.91	20.52	20.20	19.49
Cost-to-income ratio[1]	**29.68**	29.86	30.19	32.11	32.63
Impaired loans ratio	**1.05**	0.92	0.86	1.12	1.36
Provision coverage of impaired loans	**213.65**	250.68	256.37	185.84	151.05
Capital adequacy indicators			*(in millions of RMB unless otherwise stated)*		
Net Capital[2]	**516,482**	N/A	N/A	N/A	N/A
Includes: net core tier-1 capital[2]	**416,961**	N/A	N/A	N/A	N/A
other tier-1 capital[2]	**4**	N/A	N/A	N/A	N/A
supplementary capital[2]	**99,517**	N/A	N/A	N/A	N/A
Risk-weighted assets[2]	**4,274,068**	N/A	N/A	N/A	N/A
Capital adequacy ratio (%)[2]	**12.08**	N/A	N/A	N/A	N/A
Tier-1 capital adequacy ratio (%)[2]	**9.76**	N/A	N/A	N/A	N/A
Core tier-1 capital adequacy ratio (%)[2]	**9.76**	N/A	N/A	N/A	N/A

Note:

1. Refers to business and administrative expenses against the total of various net incomes.
2. Calculated pursuant to the *Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)* issued by the CBRC, which was implemented from the first quarter of 2013. Hence, no comparative figures for previous years are presented.

Corporate Information

LEGAL NAME

交通銀行股份有限公司

Bank of Communications Co., Ltd.

LEGAL REPRESENTATIVE

Niu Ximing

BOARD OF DIRECTORS

Executive Directors

Niu Ximing (Chairman)

Peng Chun (Vice Chairman and President)

Qian Wenhui

Yu Yali

Non-executive Directors

Hu Huating

Du Yuemei

Wang Taiyin

Peter Wong Tung Shun

Anita Fung Yuen Mei

Ma Qiang

Lei Jun

Zhang Yuxia

Independent Non-executive Directors

Wang Weiqiang

Peter Hugh Nolan

Chen Zhiwu

Choi Yiu Kwan

Liu Tinghuan

Yu Yongshun

SUPERVISORY COMMITTEE

Hua Qingshan (Chairman)

Jiang Yunbao

Lu Jiahui

Teng Tieqi

Gu Huizhong

Dong Wenhua

Li Jin

Gao Zhongyuan

Yan Hong

Chen Qing

Shuai Shi

Du Yarong

Fan Jun

SECRETARY TO THE BOARD OF DIRECTORS

Du Jianglong

AUTHORISED REPRESENTATIVES

Qian Wenhui

Du Jianglong

COMPANY ADDRESS AND INVESTOR SERVICES

Address:	No.188, Yin Cheng Zhong Lu, Pudong New District, Shanghai, P.R. China
Postal code:	200120
Tel:	86-21-58766688
Fax:	86-21-58798398
E-mail:	investor@bankcomm.com
Website:	www.bankcomm.com

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

20 Pedder Street, Central,
Hong Kong

NEWSPAPERS AND WEBSITES FOR INFORMATION DISCLOSURE

A Share: China Securities Journal
Shanghai Securities News
Securities Times
Website of the Shanghai Stock Exchange
www.sse.com.cn

H Share: HKExnews Website of
The Hong Kong Stock Exchange
www.hkexnews.hk

PLACES WHERE THE ANNUAL REPORT IS AVAILABLE:

Head Office of the Bank and principal business locations

AUDITORS

Domestic: Deloitte Touche Tohmatsu CPA LLP
Address: 30/F Bund Center,
222 Yan An Road East,
Shanghai 200002, China

International: Deloitte Touche Tohmatsu
Address: 35/F One Pacific Place
88 Queensway, Hong Kong

HONG KONG LEGAL ADVISER

DLA Piper Hong Kong

PRC LEGAL ADVISER

King & Wood Mallesons

A SHARES SPONSORS

Haitong Securities Co., Ltd.
Address: 689 Guangdong Road,
Shanghai, P.R. China

Continuous Supervision Sponsor: Zhu Zhen and Zeng Chang

Expiration Date of Continuous Supervision:
31 December 2013

SHARE REGISTRAR AND TRANSFER OFFICE

A Share: China Securities Depository and
Clearing Corporation Limited,
Shanghai Branch
3/F, China Insurance Building,
No. 166 Lujiazui Dong Road,
Pudong New District, Shanghai,
P.R. China

H Share: Computershare Hong Kong
Investor Services Limited,
Room 1712–1716.
17/F, Hopewell Centre,
183 Queen's Road East, Hong Kong

LISTING INFORMATION

A Share: Place of Listing: Shanghai Stock Exchange
Stock Name: Bank of Communications
Stock Code: 601328

H Share: Place of Listing: The Stock Exchange of Hong Kong Limited
Stock Name: BANKCOMM
Stock Code: 03328

OTHER INFORMATION

First Registration Date: 30 March 1987

The Query Index of Details of First Registration:
State Administration for Industry & Commerce
of the People's Republic of China
(www.saic.gov.cn)

Registration Date of Change of Business: 28 October 2013

Registration Authority: State Administration for Industry & Commerce of the People's Republic of China

Business Registration No.: 100000000005954

Tax Registration No.: 31004310000595X

Organisation Code: 10000595-X

Changes in Main Responsibilities: None

Awards

FORTUNE (US)

No. 243 in Fortune 500

THE BANKER (UK)

No. 23 in terms of tier 1 capital in 1,000 Global Banks

FORBES (US)

No. 54 in Forbes Global 2000

THE BANKER (CHINA)

The Fifth Prize for Competitiveness of National Commercial Bank in 2012

Best Innovation Award in Financial Service in 2013

Top-10 Financial Product Innovation Award in 2013

Best Research Ability of Commercial Bank in 2012

CHINESE ENTERPRISES ASSOCIATION

No. 32 in Top-500 Chinese Enterprises in 2013

EUROPEAN FINANCE

Tao Zhu Award — Best Management of Working Capital in 2013

Tao Zhu Award — Best Financial Solution for Key Recommendation Award in 2013

THE ASIAN BANKER

Best Brand Building (OTO Fortune) in China in 2013

LACP 2012 VISION AWARDS

Annual Report Award

No. 49 in Top-50 in Asia-Pacific area

Chairman's Statement

Sustainability leads to thrive. Successes in banking are normally achieved by agility in the short run, but more on the endurance and dedication in the long run. It is recognised that the short-term motivation for profit and the lag for risk are mismatched, and how well they are handled is the biggest appraise on the judgment and discipline of every banker. The key element for steady operation in any banking operation is maintaining a good balance between profit and risk, in other words, a combination of sustainable profits with good risk control.

Niu Ximing Chairman

A year's plan starts in spring along with the reflection of the past and endeavours for the future. As for the Bank, we kindly present the Annual Report to summarise achievements for the year and address expectations towards future development.

The year of 2013 was the beginning of a new round of economic transformation in China. The advocacy of comprehensively deepening reforms spread in the country with media and newspapers using the words of "transformation", "transition" and "upgrade". As for the Bank and myself personally, the past year was a challenging one amid various changes.

• REPLACEMENT

Mr. Hu Huaibang resigned as the Chairman of the Board of Directors of the Bank due to the needs of our country's financial industry in April 2013. During his term of office, he led the whole team of the Bank and focused on clarifying development strategy, improving corporate governance and deepening system reform. On behalf of the Bank, I sincerely appreciate the contributions made by Mr. Hu Huaibang.

During the year, the Seventh Session of the Board of Directors of the Bank was elected at the Shareholders' Annual General Meeting. The new session of the Board of Directors all possess professional background and expertise, featuring "efficiency with standards, dedication with expertise and operation with global vision", while extending the internationalisation and diversification of the Board of Directors. I sincerely appreciate the contribution by Mr. Zhang Jixiang, Mr. Eric Li Ka-cheung and Mr. Gu Mingchao during their terms of office and welcome Mr. Liu Tinghuan, Mr. Wang Taiyin, Ms. Zhang Yuxia and Mr. Yu Yongshun to the Board of Directors!

I was appointed as the Chairman of the Bank with trust and support by the Board of Directors. The appointment is the full recognition to the former senior management team and carries the responsibility for further reform and development of the Bank. My role has also been changed from strategy execution to decision-making. During the year, Mr. Peng Chun returned to the Bank and was appointed as the President of the Bank. As a former employee, Mr. Peng Chun understands the Bank's culture well and possesses abundant experience and broader macroscopic vision which earns him the trust from the Board of Directors.

Under the leadership of new session of the Board of Directors and senior management team, I believe that all employees of the Bank will cooperate and dedicate to a new chapter of the sustainable development of the Bank.

• TRANSITION

From the perspective of the development history of China's banking industry, the reform process and development of commercial banks has been closely related to the macroeconomic transformation. In the past ten years, the leap of Chinese economy led to speedy growth of the banking industry, ranking the top in profitability, assets and market value in the world. However, with the deepening of economic transformation and financial reform, the traditional business of the banking industry has gradually lost its comparative advantages in both rapid market expansion and high profitability. Therefore, the pro-cyclical development model of asset expansion is difficult to sustain. Under the pressure of interest rate liberalisation, we proactively pursed the changes and established the operation principal of "expansion with better efficiency" to concentrate on improving asset quality and operational efficiency so as to strive for exploring a new transitional and development channel with low capital consumption and low cost expansion.

Fluctuations always arise from business transition. Though the business performance of the Bank remains steady upward in 2013, certain indicators have dropped, which reflected that the business transition is a tough choice. As at the end of 2013, the Group's total assets reached RMB5.96 trillion, representing an increase of 13.04% from the beginning of the year. Net profit for the year was RMB62.295 billion, increased by 6.73% as compared with that in the prior year. Average return on assets (ROAA) and average return on shareholders' equity (ROAE) decreased by 0.07 percentage point and 2.33 percentage points to 1.11% and 15.58%, respectively as compared with the prior year. The non-performing loans ratio of the Group was 1.05%, representing an increase of 0.13 percentage point from the beginning of the year.

"The inherent difficulty of transition entails extraordinary courage, and only persistent efforts befit this commendable cause". Despite certain indicators didn't perform well in the year as compared with prior year, we firmly believe that it is the "short-term pain" and "cost" we need to assume for long-term sustainable development of the Bank. It is considered that the transition period is an assessment of tenacity and endurance for the Bank during its development. We believe that the Bank will embrace the new era of balanced business and diversified development if the operation strategy of business transition is effectively implemented.

- CONSISTENCY

Sustainability leads to thrive. Although facing with the change of senior management team and business transformation, we maintained the consistency and continuity of our policies, adhered to the core value and basic principle of banking operation, focused on the established development strategy and direction, and continued to complete various work well which can step up foundation for long-term benefit, in order to lay a solid foundation for the Bank's sustainable development.

We adopted the "BoCom Strategy" and are dedicated to fulfilling the predetermined plan. In the past year, we optimised the framework of strategic management and formulated the "strategic management flow chart" and "assessment of divisional strategic financial performance" to fine-tune the implementation. Through the synergies brought by domestic, overseas and inter-market businesses, the cross-border, cross-industry and inter-market service capabilities continued to be improved. In 2013, the proportion of total assets of overseas institutions and controlled subsidiaries to total assets of the Bank increased by 1.37 percentage points to 10.78% from the beginning of the year, and the proportion of net profits increased by 1.27 percentage points as compared with the prior year to 7.95.

We further enhanced the construction of "trinity" service channel — physical outlets, e-banking and account manager and continued to improve the e-banking layout. The number of self-service outlets reached 12.7 thousands, exceeding the physical outlets for the first time and the proportion of the number of stand-alone self-service outlets to that of physical outlets increased to 1.08:1. Adhere to the principle of "integration of departments and regions at different levels, specialised operation and centralised risk management", the Bank promoted the transformation towards operation by business units and quasi-business units structure, establishing Financial Market Department of the Head Office, Precious Metal Department, Offshore Finance Department and Bill Centre. As a result of improving service capabilities, a total of 20 branches received the "Top-100 Model Branch Award" from China Banking Association, showing the highest number of branches received such award by a single bank.

In line with the principle of "compliance for sustainable development", we continued to defend our risk bottom line and continuously improve enterprise risk management system of "full coverage, whole process, responsibility clarification and risk management culture". Due to the fast development of non-credit business, the Bank promoted the construction of centralised credit management system to achieve integrated management of risk for on and off-balance-sheet items, credit and non-credit business. Furthermore, a special team was established for the purpose of checking, defusing and managing the industry risk of steel trading. Our efforts have resulted in the reduction of RMB58.9 billion in loans with potential risk, while obtaining additional guarantees for loans in the amount of RMB19.3 billion.

• TRANSFORMATION

We are in the midst of a rapid transformation era, filled with tremendous pressure and opportunities. Multiple challenges such as the rapid growth in internet financing, interest rate liberalisation and the release of risk and pressure as a whole are testing our capabilities on growth and risk management.

Following the main theme of "innovative transformation and development with transitions", the Bank shall develop its unique and professional growth path and dedicated itself to the following four aspects:

— Profit growth with low capital consumption and low cost expansion. It is recognised that "integration of departments and regions at different levels, specialised operation and centralised risk management" are the trend of reform in banking industry. We concentrated on the transformation towards business units structure and quasi-business units structure which led to management system innovation in full, striving to input momentum into the transitional development. In the coming year, we will continue to explore the operation structure by business units, which emphasize customers, products and sectors and promote similar transformation at branch level to stimulate their business vitality and competitiveness. Driven by the development of business units and sub branches, the Bank will continue to optimise its business structure, balance quality and efficiency, and endeavour to achieve better co-ordination of capital and scale, as well as sustainable development with good risk prevention.

— Profits generated from the implementation of "BoCom Strategy" continue to increase with greater capabilities in cross-border, cross-industry and inter-market services. The "BoCom Strategy" involves significant judgment in estimating the economic and finance development. The dynamic correlations of Chinese and world economy, the release of various reform measures, such as the launch of the China (Shanghai) Pilot Free Trade Zone (the "**Shanghai FTZ**"), the deepening of the financial market construction, the rapid increase of direct finance and the development of innovative finance lead to the implementation of "BoCom Strategy". In the future, we will integrate the "BoCom Strategy" with our business transition, and focus on building synergies of products and services within the Group, based on our established strategy of building a global bank that specialises in universal banking and wealth management services. We would also like to achieve mutual and efficient sharing of resources, such as customers and channels, within the Group, strengthen business collaboration and cross selling in order to retain customers within the Group, and to achieve the Bank's transition development of international and comprehensive.

— Becomes innovative bank in Internet banking. The banking industry is confronted with the challenges in all aspects from disintermediation of both channels and technologies, and the customers' needs have gone beyond the traditional financial services such as credit and settlement. As compared with other organisations, commercial banks have strong advantages in "customer, channel and credibility". The solution towards those challenges relies on information technology and resources integration, as well as reinforcing the above three advantages and becoming a system integrator in the financial services sector. As a result, we continued to promote the transformation of our "Trinity" operation model and became more innovative in creating new business models covering operations, profit structure and services, in order to improve our one-stop services to integrated service experience and strive to become an industry leader in the future.

— Best bank in financial services. The excellent banking services are normally experienced or felt by customers quietly, just like the Spring rain, it moistens everything silent and soft. We firmly believe that good service is the core of our banking business, and is the only way for us to win customers. Since early 2011, the Bank has placed improving service quality at the top of our banking strategies, and implemented a long-term bank-wide mobilisation mechanism. With continued efforts in the past three years, the service quality of the Bank has been improved and well recognised by the society at large. A total of 20 branches made the list of "Top-100 Model Branch Award", collectively showing our performance results in previous stages. We will continue to optimise service processes, increase efficiency, standardise operations and create features in order to become the most outstanding bank with the lowest compliant rate, the most efficient, standardised operation and differentiated services.

"The strong pass of the enemy is like a wall of iron, yet with firm strides, we are conquering its summit". Facing new challenges, the Bank will make further new steps of "innovative transformation and development with transitions". Our confidence is derived from our belief in "hard work, sense of responsibility, innovation and beyond", as well as our dedicated staff with efficient execution capabilities, and most importantly the support from shareholders and customers. The journey of a thousand miles begins with one step. We will continue with our dedication and achieve good performance, to provide better returns to our shareholders, customers and society in 2014.

Chairman

President's Statement

As the Banking sector in China is going through a drastic change in business model and growth pattern, the established services and channels have been dramatically altered with further integration of finance and technology. It is recognised that customer is the only impetus of the evolution.

Peng Chun President

I am honoured to have the trust from the Board of Directors to be appointed as the President of Bank of Communications Co., Ltd. in October 2013, to replace Mr. Niu Ximing. I had worked at the Bank for years and the reassignment shows honour and responsibility. After taking the office, I worked closely and diligently with the Senior Management and the entire bank staff. As a result of our united sincere cooperation and concerted efforts, we were able to maintain the steady growth of the Bank.

2013: SPEED VS. QUALITY — THE METHOD OF BALANCE DURING TRANSITION PERIOD

Under the environment of macro-economic slowdown along with increasing risks in asset quality and interest rate liberalisation, the Banking industry has entered into transition period. As a result, the growth with rapid expansion is replaced by the balance of quality and efficiency. "The duck knows first when the river becomes warm in spring". In the past year, we reviewed and adjusted our operational strategy towards customer-oriented service and decreased the pace of growth to change the business direction. The business performance of the Group is as follows:

The growth pace was shifted to the "low gear". As at the end of 2013, the Group's total assets increased by 13.04% from the beginning of the year to RMB5,960.937 billion; the balance of due to customers and loans and advances to customers increased by 11.52% and 10.83% from the beginning of the year to RMB4,157.833 billion and RMB3,266.368 billion, respectively. Net profit for the year increased by RMB3.926 billion or 6.73% as compared with the prior year to RMB62.295 billion. ROAA and ROAE decreased by 0.07 percentage point and 2.33 percentage points as compared with the prior year to 1.11% and 15.58% respectively.

It is the change of macroeconomic environment and market demands that caused the decrease of the growth rate of certain indicators, and is a reflection of our determination to proactive response change and adjust business strategy.

First, the funding costs continued to increase and the profit margins faced with downturn for the year due to outflow of bank deposits into Internet finance, as well as the acceleration of interest rate liberalisation. The interest expense on customers deposits increased by 10.92%, which resulted in decreases of net interest spread and net interest income ratio of 10 and 7 basis points respectively as compared with those in the prior year.

Second, pursuant to the directive requirements of our "BoCom Strategy", the Bank proactively explored the business transformation and intentionally reduced the growth rate of traditional banking business. As at the end of 2013, the Group's balance of loans and advances to customers increased by 10.83%, whereas the growth rate in the prior year decreased by 4.22 percentage points as compared with the prior year. The proportion of loans and advance to customers (after impairment allowances) to the amount of total assets decreased from 54.61% in the prior year to 53.57%. Income from non-credit business such as financial market and intermediary businesses accelerated, thereby complementing the decrease in growth rate of traditional loan services.

Third, we continued to promote the infrastructure construction to support long-term sustainable development of the Bank. The operating costs of the Group increased by 9.31% as compared with the prior year due to the continuous investment layings and system construction. The cost-to-income ratio of the Group decreased by 0.18 percentage point as compared with the prior year to 29.68%, which is at the forefront among its rivals.

Fourth, we tightened our policies on credit granting and risk management, with a good command of the trend of asset quality. The amount of non-performing assets was further written off to maintain asset quality of the Group.

It is well recognised that the abovementioned measures are not only consistent with our concept of long-term steady operation, but also will result in comparative advantages for further growth.

The business transformation was achieved to "a beat faster". In line with the completion of all operational objectives approved by the Shareholders' General Meetings and the Board of Directors, we have been dedicated to our long-term balanced development, devoted substantial resources to seek for a long-term competitive advantage and made good achievements during the Reporting Period. Net fee and commission income of the Group increased by 24.36% as compared with the prior year to RMB25.968 billion. In 2013, we expedited the implementation of the "BoCom Strategy" and broadened the application of management tools such as the "strategic management flow chart" and "assessment of divisional strategic financial performance". As at the end of 2013, total assets and net profit of overseas banking branches of the Group increased by 28.47% and 6.67%, respectively from the beginning of the year and as compared with the prior year, respectively; total assets and net profit of the controlled subsidiaries (excluding Bank of Communications (UK) Co., Ltd.) increased by 33.75% and 69.39%, respectively from the beginning of the year and as compared with the prior year, respectively. The credit card business gradually gained recognition as the accumulated spending volume and the balance of credit card overdraft of the Group increased by 44.9% and 37.5%, respectively as compared with the prior year and from the beginning of the year, respectively and the number of credit cards in force reached 30.20 million. Pension funds under management by the Bank remained at leading position in the industry in 2013, and as at the end of 2013, the assets under management by the Bank increased by 87.21% from the beginning of the year to RMB2,813.734 billion. The leading position in the offshore financial market are more prominent, and the amount of total assets, loan balance and international settlement of offshore financial market service ranked the top among domestic banks.

The infrastructure construction was stepped up "a deep level". The Bank continued to make adjustment in credit structure and applied the policies of centralised credit granting management on credit and non-credit, and on and off-balance-sheet businesses. Stringent and prudent credit policies have been adopted underlying the risk management on sectors of local government financing vehicles, real estate and over-capacity enterprises with watch list identifying loans with the needs of "enhancing credit quality and obtaining sufficient buffer" to strengthen its risk management system. Furthermore, the "Trinity" integration of branch outlet, e-banking and account manager accelerated the footprint of outlets. The branch outlets took the strategy of offering "comprehensive services or featured products". In the meantime, the improvements in e-channels and the introduction of second-generation mobile phone banking and WeChat banking have enabled the Bank to offer better remote banking services, and the Bank is among the leaders in the market of providing mobile banking services. The proportion of the number of stand-alone self-service outlets to that of physical outlets increased to 1.08:1. Our financial services are well recognised by our clients and 20 branches of the Group made to the list of "Top-100 Model Branch Award" by China Banking Association and ranked the top in number of branches among its peers.

2014: ADJUSTMENT AND OPTIMISATION — THE WAY OF CHOICE DURING TRANSFORMATION DEVELOPMENT

The business model of the China banking industry will evolve imminently. On the one hand, under the influence of macro-economic slowdown during a steady trend and expected further spread of financial risks, the Bank adopted a steady development strategy to balance its risk and long-term profitability. On the other hand, due to the advancement of Internet finance, the interest rate liberalisation accelerates beyond expectation. The Bank launched strategic transformation of its service model to meet the needs of customers and market, reflecting the expectation of our society. The "short-term pain" inevitably occurs during the transition period, however, the nature of banking business is managing risks. With our vast experience and early investments made in relevant areas for risk management, we have the confidence in undertaking future risks and consequences and complementing short-term eroding profit with growth.

Facing the scarce resources and capital constraints, we vigorously promoted the following innovation and reform adhere to the "be selective" principle which makes reasonable entrance toward right path with concentration on its comparative advantages leveraging key aspects:

Transformation — we will further adopt the customer-oriented approach and promote the "3-increase and 3-decrease" structure of underlying assets and liabilities, that is to increase in return on assets, non-interest income and asset quality and decrease in loan-to-deposit ratio, funding cost and capital consumption. Various finance measures shall be introduced to meet the needs of customers through the optimisation of the balance sheet structure and the reduction in traditional loan services. The structure of on and off-balance-sheet risk-weighted assets will be further improved with the application of risk prevention policies for customers to "enhance credit quality and obtain sufficient buffer" while the comprehensive returns on existing loans have been enhanced in order to realise the profit growth with low capital input and low cost expansion.

Customers — we will further refine the customers' positioning to full implement the tailored promotion, develop the cross-selling and improve the customers' comprehensive value. We will make the integration of financial transaction channels towards better customer experience, and will dedicate to becoming the best service bank in China. For corporate customers, we will strive to developing the supply chain finance, so as to understand the customers' logistics, information data and fund flow to consummate the comprehensive packaged online service plans in batches. For individual customers, we will focus on providing classified services such as high-end customers with account manager, mid-end customers relying on remote call-centre services and general customers access to online self-service.

Innovation — we will push forward the breakthroughs in new businesses, the perfection in full of services and the improvement of the efficiency, driven by the innovation in all aspects through products, channels, teamwork and promotion. Seizing the opportunity for the period of rapid development in asset management, we will push forward the operation structure by business units for asset management business, and will take advantages in data analysis, service integration, market maker capability and wealth management to promote the integration of industry and finance, and investment and lending, to innovate the profit model and become a financial conglomerate in asset management. We will also capture the geographical advantage and first-mover advantage brought by the major reform initiatives of our government such as the Shanghai Free Trade Zone, and move forward the innovation on cross-border RMB business and offshore financial services.

Quality — we will adhere to the principle of "compliance and sustainable development" to continue to establish the enterprise risk management system characterised in "full coverage, total process, accountability and risk culture", and will proactively introduce with innovative risk management techniques. The application of stringent regulations, covering credit granting and risk prevention in sectors of over-capacity enterprises, real estate, local government financing vehicles, private finance and webs of credit guarantees, resulted in the overall stableness of total asset quality. Operational efficiency and the quality of risk management will be further improved pursuant to the amendment of credit granting management guidance with addition of "small scaled middle office" to the front office conducting risk management and compliance check. As one of the first batch of commercial banks that implemented the advanced capital measurement approach since 2005, we have the confidence in obtaining the approval from regulators to implement the enhanced method for capital measurement.

The ever-evolving environment that we are in will bring us tremendous challenges like big waves lashing the beaches and critical opportunities to reform and conquer difficulties. I believe it is indeed a test to the Senior Management, which will also polish the development capabilities of the Bank. We will focus on our sustainable development strategy, dedicate to our customers, care about our employees, and provide higher value and better returns to our shareholders and society!

President

Chairman of the Supervisory Committee

Under the Chinese economy slowdown along with the accelerated pace of the interest rate liberalisation in 2013, the Group continues its transformation with advanced management innovation, achieving sustainable development in its various businesses as well as making progress in business model adjustments, business innovation and infrastructure construction.

Hua Qingshan
Chairman of the Supervisory Committee

Management Discussion and Analysis

Management Discussion and Analysis

I. MACROECONOMIC AND FINANCIAL ENVIRONMENT

China still faced the complex environment in both domestic and overseas markets during the year of 2013 whereas the economy maintained a steady growth and continues to develop due to national macroeconomic control.

In 2013, the global economy was still under the complex environment and remained "weak recovery with weak inflation". Resulted from the ongoing quantitative easing, a rising trend in the U.S stock market and a recovery in its real estate sector had been witnessed, both contributing to a continuous increase in the U.S economic growth rate. Pursuant to the implementation of exceptional stimulus policies by the new cabinet, the decades-long deflation in Japan had been reversed. Economies in the Eurozone remained weak though trade surplus rose and over-indebted countries started to heal. Global commodity price slowly declined during the year.

As for the national economy, gross domestic product ("GDP") in 2013 amounted to RMB56,884.5 billion, increasing by 7.7% as compared with the prior year in terms of comparable price. The quarterly increases stood at 7.7%, 7.5%, 7.8% and 7.7%, respectively, of which a maximum fluctuation rate of 0.3 percentage point between quarters demonstrated a steady growth in the overall economy. The national consumer price index ("CPI") stayed the same as last year, with an increase of 2.6% representing a slow climb in consumer prices. As at the end of 2013, the number of new hires in the labour market in urban regions reached 11.38 million, exceeding expectations, and disposable income of urban and rural residents rose accordingly.

As for the domestic monetary and financial environment, China's central bank continued to implement a prudent monetary policy, positively steering the total amount of monetary credit and social financing towards a reasonable growth rate. The year-end balance of Money Supply (M2) increased by 13.6% or RMB110.65 trillion as compared with the prior year. Total RMB-denominated lending balance increased by 14.1% or RMB8.89 trillion from the beginning of the year, which is RMB687.9 billion as compared with the prior year. The lending structure was further improved. Total social financing amounted to RMB17.29 trillion, with an increase of RMB1.53 trillion from the beginning of the year, which brought more diversified financing channels.

II. BUSINESS REVIEW

1. Corporate Banking

- **In 2013, from the corporate banking business sector, the Group's profit before tax increased by 13.30% as compared with the prior year to RMB53.981 billion; net fee and commission income increased by 40.85% as compared with the prior year to RMB14.996 billion; the number of corporate customers in domestic branches increased by 11.99% from the beginning of the year, and the number of mid-to-high end corporate wealth management customers increased by 7.91% as compared with the prior year.**

- **As at the end of the Reporting Period, the Group's corporate deposit balance increased by 11.02% from the beginning of the year to RMB2,801.769 billion; corporate loan balance increased by 7.22% from the beginning of the year to RMB2,515.058 billion.**

- **As at the end of the Reporting Period, the Group's corporate impaired loan balance increased by 15.22% from the beginning of the year to RMB25.229 billion; the impaired loans ratio increased by 0.07 percentage point from the beginning of the year to 1.00%.**

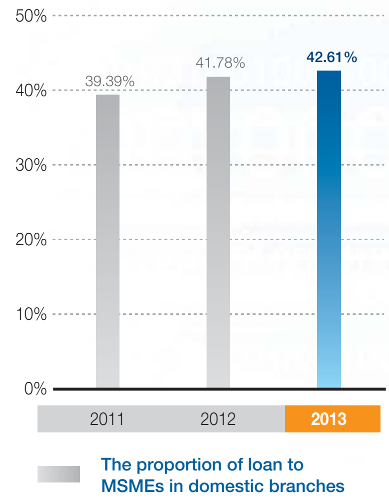
With full-range licences and vast network across the globe, the Bank seized opportunities in the process of the internationalisation of RMB and the establishment of Shanghai FTZ amid the collaboration within the Group to promote non-credit financing businesses such as direct investment, accelerated innovations on businesses with low capital input such as asset management, investment banking and asset custody, and enhanced the integrated innovation of traditional credit businesses with wealth management, lease, trust, insurance and fund management. The Bank, as a result, was able to maintain its "Win To Fortune" brand image in corporate wealth management sector and continuously improved its cross-border, cross-industry and inter-market financial service capabilities.

(1) Corporate and institutional business

The Bank actively coordinated financing channels such as wealth management, direct investment, debt financing, leasing and trust, to grow its off-balance-sheet financing business. The Bank took advantage of its geographical location of its headquarters, which is in Shanghai, to fully embrace the development of Shanghai FTZ. The Bank promoted the innovation on offshore financial products in Shanghai FTZ, took the lead in establishing branches of banking and leasing in Shanghai FTZ and was the first to carry out aircraft leasing business. The Bank promoted in-depth cooperation internationally with leading enterprises in industries such as electronics, automobile and petroleum by relying on cross-border collaboration. The Bank satisfied the needs of customers in value preservation and appreciation for their assets through multiple ways, with platforms such as "Win to Fortune Accompany You", Wealth Management Summit and Wealth

Treasurers Club, as well as with the support of Win to Fortune financial supermarket. The Bank became the largest clearing bank on RMB FFA (Forward Freight Agreement) in the industry and the only bank to provide the shipping industry with electronic payment and settlement services for the industry chain, based on the corporate finance business innovation supported by information technology. Smart Vehicle Financial System won the 2013 Shanghai Financial Innovative Award. The Bank embraced the development planning on the national urbanisation by supporting the integrated regional development and the transition and industrial upgrading of green financing, agriculture-related sectors and urban infrastructure projects. The Bank further promoted on the innovation aspect of the products of "Yin Wei An Kang", and also increased the coverage rate of cities nationwide with signed contracts on the self-service hospital products to 43.65%.

(2) MSMEs (micro, small and medium enterprises) business



The Bank completed the issuance of the first batch of financial bonds on micro and small enterprises, and increased its support for MSMEs. The Bank collectively provided clustering special services for enterprises in industrial chain, business circles and hi-tech parks, promoted the integration of technologic financial products, enhanced its financial products for supply chain and business circles, introduced products such as Express Electronic Bill Discounting and Commercial Mortgage Loans to small enterprises, and launched e-channel products such as "Small Enterprises E-loan". As at the end of the Reporting Period, loan balance to MSMEs provided by domestic branches increased by 12.15% from the beginning of the year to RMB1,247.966 billion, the proportion of which reached 42.61%, up 0.83 percentage point from the beginning of the year. The increase in loans to this particular sector accounted for 42.36% of the total growth in loans of the Group.

(3) The "one-branch-offering-nationwide-service" industry chain financial service

Lead by trade finance and focused on core businesses of certain industries, the Bank strived to provide efficient, convenient and diverse financial services for industrial chain customers, targeting their transaction activities, to further improves the added value of industry chain business and competitiveness for customers. The Bank consistently enhanced the research and innovation on products, launched a leading accounts receivable service platform which provided corporate clients with lifecycle management services on accounts receivable including corporate collection, sorting, reconciliation and financing. The Bank made further improvements in its "one-branch-offering-nationwide-service", and launched innovative products such as "fast factoring". In addition, the Bank broadened its service quality and coverage, extending to areas such as household electrical appliances and medical and health industries. As at the end of the Reporting Period, the domestic branches established 15 thousand industry chain networks for over 90 thousand enterprises. The Bank received the "Best Financial Service Innovation Award" by *The Chinese Banker* magazine.

(4) Cash management

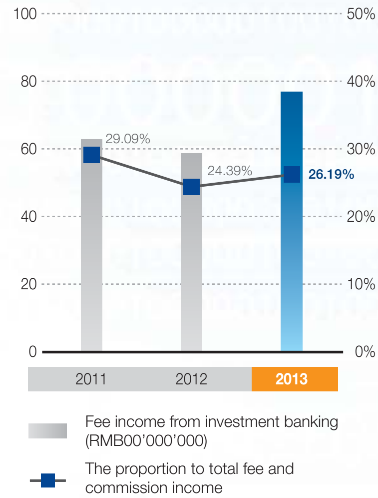
The Bank introduced many innovative products and functions such as global cash management, Cloud cash pool and "SWIFT Net Bank-corporate Express", to closely follow the needs of large customers such as conglomerates and multi-national corporations. The Bank embraced the development of Shanghai FTZ took full advantage of experimental unit on centralised operations and management of exchange fund in headquarters of multi-national corporations, launched products like offshore account cash pool and cross-border RMB cash pool, and accelerated internationalised and comprehensive cash management service. The Bank enhanced industrialised service capabilities, integrated superior products like E-Collection, electronic bill, "Enterprises' Receivable Collector" and "Second Tier Account", provided industrial customers with comprehensive cash management scheme in various areas to improve their working capital turnover. As at the end of the Reporting Period, the number of the Group's corporate customers in online cash management service increased by over 100% to 13 thousand from the beginning of the year. The Bank was awarded "Best Cash Management Innovation Award" in 2013 Annual China CFOs' Most Trustworthy Bank Selection held by the *Chief Financial Officer* and "Best Working Capital Management Award" of 2013 Annual Taozhu Award held by the *European Journal of Finance*, etc.

(5) International settlement and trade finance

The Bank concentrated on the differentiated needs of customers who are "going out" or "bringing in" with cross-border and comprehensive investment and financing services such as the structured trade finance and supply chain financial products. As such, its international settlement and trade finance businesses experienced a strong growth. During the Reporting Period, domestic branches' international settlement volume increased by 21.01% as compared with the prior year to USD556.868 billion; the amount of international trade finance increased by 58.59% as compared with the prior year to USD37.590 billion. The volume of international factoring was USD1.499 billion, among which the amount of the dual factoring business of Factors Chain International (FCI) reached USD819 million, ranking the third among 24 Chinese members of FCIs, the balance of foreign guarantees increased by 36.73% from the beginning of the year to USD29.285 billion. The Bank once again was awarded the "Best Trading Partner Bank" by the Finance Committee of China Banking Association.

(6) Investment banking

The Bank continued to carry forward comprehensive services such as domestic and overseas listing, mergers and acquisitions advisory, and actively explored the service model of cooperation with industrial funds on mergers and acquisitions projects. Taking advantage of the IPO's reopening and the upgrade of the NEEQ (National Equities Exchange and Quotations), the Bank focused on building new highlights in its equity financing business, with fee income from financial advisory services reaching nearly RMB200 million, which doubles the prior year's figure. The Bank continued to carry forward innovations on patterns of investment-banking-type of wealth management services and broadened the service spectrum of financial advisory, to increase the volume of off-balance-sheet financing attributable to the patterns of investment-banking type. The Bank successfully participated in the trial of first batch of credit asset transfer in China, and made a number of market-leading achievements.



Fee income from investment banking reached RMB7.700 billion during the Reporting Period, accounting for 26.19% of the Group's total fee and commission income. The number of debt financing instruments underwritten by domestic branches as lead underwriters in the year increased by 81.71% as compared with the prior year to 149, and the issuance amount of such instruments increased by 98% as compared with the prior year to RMB310.411 billion. The Bank was awarded "Innovative Products and Service Award for the Year" by *people.cn* and "Best Innovative Bank in Investment Banking Award" by the *Securities Times*.

(7) Asset custody

The Bank persistently regarded innovation as the lead, exploited its existing advantages, and concentrated on improving market competitiveness and brand influence. The Bank focused on establishing distinguishing characteristics of the pension business, realised universal coverage of various pension fields such as fundamental pension, supplementary pension, retail pension and reserve pension, innovatively researched, developed and spread major pension custody products such as fundamental pension, supplementary pension, pension wealth management and salary and welfare plan, and remained a leading position in the industry and also the largest pension custodian bank brand in China with the pension assets exceeding RMB560 billion. The Bank accelerated the pace of internationalisation of custody business, and was the first domestic bank among industry to set up custody centre in Hong Kong through which the Bank actively introduce the overseas asset custody services such as overseas wealth management and Mandatory Provident Fund Schemes (MPF). The Bank established a whole-process risk management system to ensure the security of custodian assets and maintained errorless operation in the whole business. As at the end of the Reporting Period, assets under custody of the Bank increased by 87.21% from the beginning of the year to RMB2,813.734 billion.

Active engagement in the construction of Shanghai FTZ and successful fulfilment of leading role through Head Office priorities/advantages

As the only large commercial bank whose Head Office is located in Shanghai, the Bank actively participate in the establishment of Shanghai FTZ by relying on Group's strategy and using advantages of Head Office.

Implementation results in 2013

- ➢ The Bank opened a branch in Shanghai FTZ and BoCom Leasing established the professional subsidiary company on airlines. At this point, the Bank became the only financial institution with two business units in the Shanghai FTZ.
- ➢ The Bank signed cross-border RMB loans business and accomplished the first aircraft financing business and the first ship operating leasing business.
- ➢ The Bank established separate accounting system of Shanghai FTZ which was in accordance with the "respective symbol, separate accounting, independent statements, special reports, self-equilibrium" standard set out by The People's Bank of China.

Next step:

- ➢ To seize the market opportunity and carry forward financial innovation

  The Bank will accelerate the establishment of institutions in the Shanghai FTZ, actively assemble all kinds of institutions of the Group in the Shanghai FTZ, and properly amplify institution license to support the development of its distinguishing business. The Bank will fully embrace the business development in the Shanghai FTZ by identifying the characteristics, inter-relation and mutual influences of the financial markets within and beyond the Shanghai FTZ. The Bank will explore and carry forward financial experimental units, regarding the Shanghai FTZ as the germinated land for financial innovation. The Bank will be cooperative in the development of the factor markets in Shanghai, establish the market benchmark interest rate system under the marketisation of interest rate, introduce new model of credit asset securitisation, expand the range of financial market business, and actively promote its transformation to a "Transactional Bank".

- ➢ To promote cross-border and cross-industry wealth management capability by relying on the opportunities of globalisation

  The Bank will utilise its early-development advantage on cross-border RMB business, expand business like cross-border trade, cross-border investment and financing, interbank accounts and clearing to strive to make the cross-border RMB business its unique brand. The Bank will provide cross-border and cross-industry financial services to enhance accommodate business of multi-national group, by exploiting international operating network and products such as global cash management and global supply chain finance. The Bank will intensify cooperation with securities, insurance, funds, trust, futures and wealth management institutions, to establish an open-minded, cooperative and highly-effective structure for wealth management.

- ➢ To utilise the advantages of unique business, and further enhance the leading position of the Bank

  On the one hand, the Bank will utilise the advantages of its bank license on offshore financial business, and explore offshore financial experimental units business in Shanghai FTZ under the background of the RMB convertibility in capital accounts; the Bank will actively operate offshore trade financing business to provide service for funds allocation and centralised management of regional headquarters of multi-national corporations. On the other hand, the Bank will utilise its advantages on leasing business by following the rule of the first trail will be first implemented and concentrating on exploration and innovation. BoCom Leasing will rely on the advantages of Shanghai FTZ on financial innovation and administrative system to explore innovative business model, expand business range, build distinguishing feature of business, and enhance its competitiveness in international market.

  The Group will be based on the orientation of "being large, competitive, professional and distinctive" leading positions in five areas, cross-border RMB business, offshore business, investment banking business, wealth management business and financial market business respectively, and to establish the "Financial Flagship" which matches with the international financial centre status of Shanghai.

2. Personal Banking Business

- **In 2013, from personal banking business sector, the Group's profit before tax decreased by 38.70% as compared with the prior year to RMB6.346 billion, which was mainly due to the increase of provision caused by lower asset quality of loans made to medium and small enterprises in Zhejiang and Jiangsu areas; net fee and commission income increased by 7.41% as compared with the prior year to RMB9.207 billion; the total number of individual customers in domestic branches increased by 10% from the beginning of the year.**

- **As at the end of the Reporting Period, the balance of personal deposits of the Group increased by 12.61% from the beginning of the year to RMB1,350.956 billion, and the proportion of personal deposits increased by 0.31 percentage point from the beginning of the year to 32.49%. The balance of personal loans of the Group increased by 24.90% from the beginning of the year to RMB751.310 billion, and the proportion of personal loans increased by 2.59 percentage points from the beginning of the year to 23.00%.**

- **As at the end of the Reporting Period, the balance of personal impaired loans of the Group increased by 78.09% from the beginning of the year to RMB9.081 billion; the personal impaired loans ratio increased by 0.36 percentage point from the beginning of the year to 1.21%.**

The Bank concentrated on four factors of "customers, services, products and management", promoted the development of personal banking business. The Bank carried forward classified brand management and precision marketing to effectively meet customers' needs. The Bank is dedicated to providing better services and well recoginsed by its innovative service brand, to expand the customer base toward mid-to-high end clients, adopt business transformation in the retail credit business and continuous build the features for the bank with wealth management services.

(1) Personal deposits and loans

The Bank introduced payroll credit, Jia Yi Tong and wealth management to actively expand the fundamental customer base, and continued to increase the proportion of personal deposits. As at the end of the Reporting Period, the balance of personal deposits underlying payment service in domestic branches increased by 19.56% from the beginning of the year to RMB368.942 billion. According to the statistics from the People's Bank of China ("**PBOC**"), the proportion of the Bank's personal deposits increased by 0.03 percentage point from the beginning of the year to 4.18% among 17 financial institutions.

The Bank adopted the fundamental policy guidelines on retail credit, to achieve better risk management for retail credit. The Bank integrated the existing the BoCom E-loan products to upgraded and introduced BoCom E-loan 2.0 to meet the comprehensive consumption needs. The Bank promoted the optimisation of retail loan business procedures and the enhance of the efficiency through simplified loan procedures with pre-approval on the white list and advantages such as centralised management platform, personal loan vision system and online credit granting. According to statistics from the PBOC, the proportion of the Bank's personal consumption loan increased by 0.32 percentage point from the beginning of the year to 5.86% among 17 financial institutions.

(2) Personal wealth management

The Bank continued to improve the hierarchical customer management system and enhance the coordination between corporate and personal business sectors and the inter-market cooperation to meet the customers' diversified investment demands in wealth management products, insurance, fund and precious metals. The Bank established specialised branch for private banking, improved comprehensive financial service capabilities and introduced various products such as cross-border investment and finance, family wealth inheritance and value-added service. As at the end of the Reporting Period, the asset-under-management (AUM) balance of domestic branches increased by 11% from the beginning of the year to RMB1,903.223 billion; the number of BoCom fortune standard customers and OTO Fortune standard customers increased by 11.34% and 20.71% from the beginning of the year, respectively; the number of private banking customers increased by 33.53%, and the total assets of private banking customers increased by 28.46% from the beginning of the year to RMB233.937 billion. The Bank further prompted collaboration within the Group, in line with the "Red Friday" activity, and introduced specialised off-balance-sheet wealth management products such as OTO Capital Appreciation and BoCom Capital Appreciation, as well as payment wealth management products for payroll account customers. During the Reporting Period, OTO Fortune Brand of the Bank was ranked the top in "High Net Worth Customer Service" in China by the *Euromoney* magazine, "Best Brand Building Award of China" in 2013 by the *Asian Banker* magazine, and "Best VIP Wealth Management Award of China" of the 2013 annual best wealth management institution in China held by *Securities Times*.

(3) Bank card

Credit card

Pacific Credit Card of the Bank was introduced with the technology and management experiences gained from its strategic investor HSBC, embedded with domestic and oversea features and the orientation of "China's Global Card", to serve the card holders with convenient experience and rewards.

The Bank innovatively adopted its branding service strategy of "Easy for More — Convenience and Benefits for You", in which the Bank optimised the online issuing process to effectively shorten the duration from application to receipt of cards by customers. The Bank continued to carry forward the "Red Friday" branding activities, strengthened the refined management on quality merchants, and launched the "Super Red Friday" promotions in supermarkets and gas stations. The Bank improved consumption finance products and introduced the personalised installment without the limit of any single transaction amount. As at the end of the Reporting Period, the number of total credit cards in force in mainland China issued (including quasi-credit cards) increased by 3.17 million from the beginning of the year to 30.20 million; accumulated amounts of consumption in the year increased by 44.9% as compared with the prior year to RMB791.2 billion; the balance of credit card overdraft of the Group increased by 37.5% from the beginning of the year to RMB163.969 billion; the impairment rate on credit card overdraft increased by 0.38 percentage point from the beginning of the year to 1.71%.

Debit card

The Bank continued to enhance the innovation in Pacific Bank Card business, and was the first among peers to introduce the innovative bank card — pacific visual card, which integrated various functions of IC debit card finance, electronic paper display technology and safety certification, the first to introduce audio card and to replace magnetic stripe card by IC card with the same card number. The Bank targeted specific customer groups, promoted bank card innovation such as joint name and theme, and introduced Pacific Business Exchange Card and Pacific Overseas Financial Card; the Bank developed the bundled personal credit function for the mid-to-high end clients. As at the end of the Reporting Period, the number of Pacific Debit Card issued by domestic branches increased by 8.92 million from the beginning of the year to 94.77 million; the accumulated amounts of consumption increased by 45.2% as compared with the prior year to RMB683.4 billion.

Item	31/12/2013	31/12/2012	Growth rate
Number of bank cards issued by domestic branches (in million)	**124.97**	112.88	10.7%
Includes: credit card	**30.20**	27.03	11.7%
debit card	**94.77**	85.85	10.4%
	2013	2012	Growth rate
Amount of consumption on cards issued by domestic branches (in billions of RMB)	**1,474.6**	1,017.0	45.0%
Includes: credit card	**791.2**	546.2	44.9%
debit card	**683.4**	470.8	45.2%

3. Treasury Business

- **In 2013, the Group's net interest income from the treasury business sector increased by 22.24% as compared with the prior year to RMB20.285 billion.**

- **In 2013, the Group's profit before tax from the treasury business sector increased by 9.04% as compared with the prior year to RMB18.196 billion.**

The treasury business is one of the major businesses during the business transformation of the Bank. The development strategy of the Bank's treasury business is to accomplish the transformation from a asset-holding bank to a transactional bank, to expand channels and enlarge the scale of non-credit treasury operation, to actively participate in trading markets on currency, bonds, foreign exchange and derivative products, and to improve the profit contribution of treasury businesses.

In 2013, the Bank effectively responded to the complex environment of increased volatility on money market interest rate, deepened the structural reform on business management, established business departments for financial market business centre and precious metal business centre, strived to optimise non-credit treasury structure, and continued to promote the development as a first-class interbank financial services provider and transactional bank. The Bank took full use of the advantage of domestic and foreign currency market maker, enhanced the precious metal products system, and further increased the contribution in profitability treasury businesses.

(1) *Institutional financial service*

The Bank focused on building interbank collaboration platform, made great efforts to develop financial factor market, and was among the first batch of banks which obtained the qualification of comprehensive clearing membership approved by the Shanghai Clearing House. In the aspect of interbank collaboration, the Bank strived to develop the interbank collaboration platform, and the number of cooperative branches and the number of the connected outlets were 101 and 15,683, respectively. The Bank was awarded "2013 Best Bank for Interbank Collaboration" by the *First Financial Daily* and hexun.com. In the aspect of collaboration of the Bank and securities firms, the Bank closely followed the innovative focus in securities market and developed financing and securities loans depository business, so that the number of cooperative securities traders was 68 and the number of the customers increased by 108% from the beginning of the year. In the aspect of the collaboration of the Bank and futures trading firms, the Bank retained the futures trading fund through multiple channels, so that the balance of the futures margin deposit in domestic branches increased by 33.49% from the beginning of the year to RMB64.097 billion. The Bank was awarded the "Best Bank for Futures Margin Depository". In the aspect of the collaboration of the Bank and the markets, the Bank built the settlement platform for commodity trading market, connected with 29 markets on the

Bulk-Commodity Market Online Deposit System, and signed with 56,738 clients. The Bank actively explored new channels on credit asset transfer, contributed to the development of credit asset trading market directed by the CBRC, and accomplished the first transaction on credit asset transfer in the market.

(2) *Money market transactions*

In 2013, the money market has experienced dramatic fluctuations in money supplies, and each term interest has reached the record highs. The Bank actively respond through multiple channels of capital allocation such as interbank repo transactions, swap transactions and open market operations, to ensure the security of capital payment and a reasonable level of liquidity. During the Reporting Period, the total volume of RMB money market transactions by domestic branches was RMB12.29 trillion, of which, lending to financial institutions amounted to RMB8.05 trillion and borrowing from financial institutions amounted to RMB4.24 trillion; the total volume of foreign currency money market transaction was USD272.8 billion.

(3) *Trading book business*

The Bank actively seized the opportunity of domestic and overseas market, strived to exploit the advantages of market makers, proactively adjusted RMB bonds trading and bidding strategy, widened the bid-ask spread, and continued to build the Bank's image as a transactional bank. During the Reporting Period, the transaction volume of domestic branches in respect of RMB-denominated bonds reached RMB2.31 trillion; the transaction volume of foreign currency in interbank market was USD626.395 billion; the Bank was rewarded "Best Bond Trader" in 2013 from Shanghai Stock Exchange.

(4) *Proprietary investment*

The Bank strengthened its research on macro-economy and monetary policy to accurately identify the market trend. In the first five months of 2013 during which the liquidity was relatively abundant, the Bank followed the principle of "Moderate Addition, Optimise Stock", and prudently focused on the highly rated bonds such as the treasury bond and bonds issued by policy banks. In the second half of the year, the Bank responded to changing situation on declining liquidity of RMB with the decrease of investment in new bonds and mainly improving the quality of the existing bond portfolio, to reserve spaces for demand payment. As at the end of the Reporting Period, the bond investment scale of the Group increased by 21.96% from the beginning of the year to RMB1,068.421 billion; the bond yield increased by 11 basis points as compared with the prior year to 3.86%.

(5) *Precious metal business*

In 2013, confronted by the wide-range fluctuations of the international gold price and consistent downward shifts of the trading band, the Bank not only expanded the scale and increased the varieties of proprietary trading business, but also timely adjusted the trading tactics under the circumstances of the great fluctuation and downward trend of the gold price, to effectively prevent and control the market risk. The Bank actively participated in gold trading in Shanghai Gold Exchange, Shanghai Futures Exchange, and over-the-counter market, becoming one of the first batch of banks to develop interbank gold price quotation forward and swap trading. The Bank successfully started domestic and overseas silver trading business, as well as overseas gold swap trading business. The Bank achieved continuous trading in the Shanghai Futures Exchange and inter-market physical delivery of futures. During the Reporting Period, the number of gold T+D accounts of domestic branches increased by 6.18% from the beginning of the year. Total transaction volume increased by 46.18% as compared with the prior year to RMB85.986 billion. The accumulated transaction volume of proprietary gold trading during the year increased by 92.30% as compared with the prior year to 579.02 tons, maintaining the Bank an active role in the market. As at the end of the Reporting Period, the Bank ranked the third in the Shanghai Gold Exchange's consolidated comprehensive ranking on proprietary and agency business as well as the first among financial members on trading volume in Shanghai Futures Exchange.

4. "Trinity" Network Construction

- **In 2013, profits per employee of the Group increased by 2.82% as compared with the prior year to RMB623.5 thousand. As at the end of the Reporting Period, average deposit of the Group's network increased by 11.97% from the beginning of the year to RMB1.515 billion.**

- **As at the end of the Reporting Period, the number of outlets of domestic branches decreased by 11 from the beginning of the year to 2,690, of which 52 were newly opened and 63 low-yield ones were closed.**

- **As at the end of the Reporting Period, the ratio of self-service bank to branch outlet increased to 1.08:1, exceeding 1:1 for the very first time. The diversion rate of e-channels increased by 5.16 percentage points from the beginning of the year to 78.33%.**

- **As at the end of the Reporting Period, the number of account managers in domestic branches increased by 14.34% from the beginning of the year to 21,733.**

The Bank upheld the concept that the future operation model of commercial banks would be supported by physical branch outlets, facilitated by the Internet finance and mainly characterised by customer self-service. The Bank responded to this tendency by putting forward the "physical outlets, e-banking and account manager" service pattern.

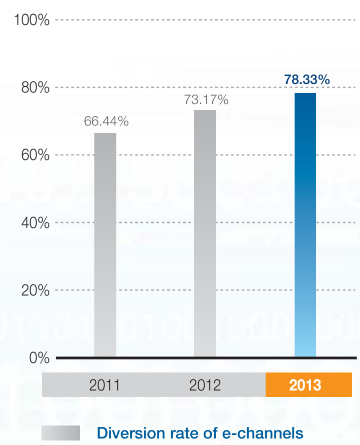
(1) Physical outlets

Based on the accelerated optimisation of network layout, the Bank enhanced the diversified development of network construction and adhered to the principle of "making bigger and more comprehensive, making smaller and more specialised". Meanwhile, the Bank promoted the construction of comprehensive networks, upgrade of existing ones and pilot run for innovative ones. Through setting up standards, by-point inspection as well as tracking and evaluation, the Bank promoted the construction of 200 comprehensive networks, among which 89 networks satisfied the standard of being the comprehensive flagship outlets, which effectively improved the Bank's overall capacity of comprehensive operation and transformation. The Bank adopted the control list and applied rotation management to further promote the transformation of existing branch outlets, facilitating existing branch upgrade and relocation, which includes 7 sub-branches being upgraded to branches and 10 sub-branches being relocated. Hence, the geographic footprint of the Bank's branch outlets are further improved, adhering to the principle of integration of low-yield branches and centralised resources allocation, which classified the management framework for branches to achieve featured management policies and approaches for branch outlets.

As at the end of the Reporting Period, the number of domestic outlets decreased by 11 from the beginning of the year to 2,690, of which 52 were newly opened and 63 were closed due to their low yields. With the opening of 13 new branches in the year, the Bank's network covered 215 cities at or above prefecture level, with the coverage ratio at prefecture and municipal-level cities up 3.71 percentage points from the beginning of the year to 64.37%. In particular, the coverage ratio in West China was up 1.53 percentage points from the beginning of the year to 37.40%.

(2) E-banking

The Bank focused on creating the feature of e-banking platform, explored ways to construct the Smart Bocom and continuously kept the advantages of e-banking products. The Bank made the construction of financial platform and direct bank as breakthroughs, and explored the development model for Internet Finance. The Bank continued to enhance the functions of e-banking, promoted the application of the new technology for Mobile Internet, launched the second generation of mobile banking and WeChat banking. 95559 Remote Wealth Management Project achieved good results. As at the end of the Reporting Period, the number of e-banking transactions in domestic branches exceeded 1.6 billion with the transaction amount exceeding RMB75 trillion. The diversion rate of e-channels was up 5.16 percentage points from the beginning of the year to 78.33%. The Bank was awarded the "2013 Best China Electronic Bank Award", "2013 Golden Goblet Prize for Outstanding Innovation in Electronic Finance" and "2013 the Voice of Customer Service", etc.



Self-service banking

The Bank launched the new function of "taking the card for the second time" on ATM, which allowed customers to get the card back by entering the transaction code within 90 seconds when the card was swallowed by ATM. The Bank actively responded to the challenges from Internet finance, and constantly improved the construction of electronic channels. The number of self-service machine increased by 4,573 to more than 24,000 in total and the number of self-service bank increased by 1,218 to more than 12,700 in total in 2013. The proportion of the number of stand-alone self-service outlets to that of physical outlets increased to 1.08:1, and it was the first time that the number of stand-alone self-service outlets exceeds that of physical outlets. The transaction number of self-service banking increased by 9% as compared with the prior year to 678 million and the transaction amount increased by 19% as compared with the prior year to RMB1.23 trillion.

Online banking

The Bank continued its products innovation with the launch of "Payroll Easy" and "Smart Bank", and promoted the differentiated services and products for its customers. As at the end of the Reporting Period, the number of online banking corporate customers increased by 24% from the beginning of the year. The number of transactions completed through online banking by corporate customers increased by 44.44% as compared with the prior year to 208 million. The number of personal online banking customers increased by 23% from the beginning of the year, with the number of transactions (excluding mobile banking) increasing by 48% as compared with the prior year to 677 million.

Mobile banking

The Bank kept the advantage of mobile financial products and launched the second generation of mobile banking, which contained the "cloud+terminal" technology, intelligent functions, and free transfer for the maximum amount to any account and non-contact IC card recharge. The Bank also launched other innovative products, such as smart web shield and trusted service manager (TSM) deposit, etc. As at the end of Reporting Period, the number of mobile banking customers of the Bank increased by 81.46% from the beginning of the year. The transaction number of the mobile banking increased by 232% as compared with the prior year to 62.76 million. And the transaction amount of the mobile banking increased by 61.62% as compared with the prior year to RMB878.1 billion.

E-commerce

The Bank introduced "Shou Fu Tong Bao" payment platform to serve as inter-bank acquirer providing better service to the customers. In addition, the further promotion of e-mall BOCOM embelled with shipping centre underlying express settlement in lower cost met various needs of the customers in shipping industry. As at the end of the Reporting Period, the number of e-payment merchants increased by 176.38% from the beginning of the year to 22,000. The transaction number of e-payment increased by 62.30% as compared with the prior year to 508 million, with the amount increasing by 94.22% to RMB96.591 billion.

Intelligent Teller Machine (iTM)

The Group was the first in the China to introduce iTM and created the new iTM service model in 2012. As at the end of Reporting Period, iTM has reached its coverage at 37 tier-1 branches and the number of machines reached 146, which gradually became the important ways to expand Internet service for stand-alone self-service outlets and tier-2 branches.

(3) Account manager

The Group accelerated the development of the account manager team, improved the mechanism of the account manager management, enhanced the education and training of the account manager, and further optimised the personnel structure. As at the end of the Reporting Period, the number of account manager in domestic branches increased by 14.34% from the beginning of the year to 21,733 in total: the number of the corporate account manager increased by 12.51% from the beginning of the year to 9,703 while retail account manager increased by 15.86% from the beginning of the year to 12,030, of which, the employees who obtained certificate such as AFP, CFP, CPB and EFP were 6,884, 1,334, 22 and 292, respectively.

(4) Customer service

Service is an essential attribute of banks and banks ultimately rely on service and brand to win customers. Since 2011, the Bank has raised “improving service quality” to its strategic level through reducing customer complaints as a breakthrough and continuously improving the quality of financial services. The Bank analysed each customer complaint, based on which the Bank optimised the business process accordingly. In 2013, the number of customer complaints received decreased by 47.58% as compared with the prior year to 4,753. The creation of “Top-100 Model” achieved notable results and the service brand was effectively built. In 2013, in the competition of the “2013 One Hundred Civilised Models Enterprise of Standard Service among Chinese Banking Industry”, 20 outlets of the Bank were awarded “Top-100 Model Branch”, which created the record the of the highest number of selected outlets by a single bank. And the Bank also received “Top-100 Outstanding Contribution Award”.

Utilisation of the advantages of leading technology and support for the development of reform and innovation

Basing on the "Business-driven and Technology-leading" concept, the Bank established the "Intelligent-BoCom"-oriented IT infrastructure which could consistently motivate technology innovation and follow the development strategy of the Group.

➢ **A relatively integrated IT governance system**
As the very first commercial bank in the nation who set up the position of Chief Information Officer in senior management, the Group unswervingly regarded IT governance as the key ingredient of corporation governance. The Group set up Information and Technology Management Department, Software Development Center, Data Center and Test Center, as well as Information and Technology Department in its branches. The Group unceasingly perfected technology and the professional operation procedures of innovative management, software development, software testing as well as operation and maintenance support to utilise synergy effects on governance through the "One Department and Three Centres" pattern.

➢ **A full-featured IT application system**
The Group basically realised the automation on business process, the networking on financial services and the informatisation on operation and management, through promotion on the in-depth integration and collaboration of informatisation development and business. Ever since the initiation of the development on a new version of business system in 2010, the Group strived to establish a group information system with customer-orientation, domestically-and-overseas integration, comprehensive risk management, centralised back-end operation, relatively independent accounting and centralised management information. For the moment, the system developed as expected and went online in partial overseas branches.

➢ **An advanced IT application architecture**
The Group processed relatively stable core accounting system with high requirements on business process on mainframe, and processed unstable, workflow-based business process system on the open minicomputer, and meanwhile adjusted service model according to cloud computing programming for the whole group and integrated and reformed the system according to Service-Oriented Architecture (SOA). Such architecture contributed to rapid development of new business and products as well as its advantages in the market.

➢ **A standard management system**
The Group actively established the IT standard system with three dimensions of regulation, process and operation which acquired three international certifications of CMMI L3, ISO20000 and ISO27001 in the aspects of software development, production maintenance and operation respectively, becoming the very first commercial bank with three certifications in the field.

➢ **A modernised data centre**
The Group accomplished the whole bank's data centralisation with the integration of business process, accounting system, customer information management and risk control, becoming the very first commercial bank in the nation which built a group-oriented integrated data centre of domestic and overseas branches. The system operated uninterruptedly for 24 hours a day and 7 days a week globally, with its availability on crucial information system exceeding 99.99%.The Group realised the monitoring in resource, system and application level respectively, putting the IT system in the leading position in integration and automation.

➢ **A disaster recovery system of two locations and three centres**
The disaster recovery system of two locations and three centres based on the Zhang Jiang primary data centre, Cao He Jing subsidiary data centre and Wu Han off-site disaster recovery centre, and the operation system of double centres has been operating normally and entered the ranks internationally. The Group was authorised three national patents and one American patent for the key disaster recovery technology, which offered the Group with multiple independent intellectual property rights.

➢ **Security and stable system operation**
The Group consistently intensified production operation and maintenance, information security and technology risk management, so that during recent years the operation of the information system was stable overall, all of the system availability exceeded 99.99%, and no material events occurred in information security. The success rate of cross-bank transaction system for Unionpay ranked the first, second and first in the field for the year 2011, 2012 and 2013 respectively.

➢ **Products innovation management driven by IT**
The Group upheld the concept on integration of technology and business as well as technology innovation promotes business innovation, actively explored and regarded intellectual banking concept as the innovative methodology which was merged into the product innovation process organically. The Group promoted the realisation of goal on the whole group's reform, innovation and transformation by taking full use of the leading and supporting functions of information technology.

The Group will blueprint the development of information technology with broader vision and more prospective mind-set, and write a new chapter on the development of transformation.

5. Internationalisation and Universal Operation

The Group continuously improved the mechanism of strategic management. The Group also built a leadership team for strategic implementation and established sub-committees for three strategies: Internationalisation, Comprehensive Banking and Wealth Management. By using management tools, such as "Strategic Whole Flow Chart" and "Evaluation Form for Strategic Financial Decomposition", the Bank accomplished the management of full process that includes strategy development, decompose of targets, monitoring, examination, evaluation and corrective action, re-implement, and focused on the improvement of the "BoCom Strategy" and the degree of integration of the Group's integrated business management.

(1) Internationalisation strategy

- **In 2013, the net profits of overseas bank institutions increased by 6.67% as compared with the prior year to RMB2.800 billion, accounting for 4.49% of the Group's net profits, which decreased by 0.01 percentage point as compared with the prior year. Four newly-opened overseas institutions, including Ho Chi Minh City Branch, Sydney Branch, Taipei Branch and Bank of Communications (UK) Co., Ltd. all recognised profits.**

- **As at the end of Reporting Period, the total assets of overseas bank institutions of the Group increased by 28.47% from the beginning of the year to RMB519.876 billion, accounting for 8.72% of the Group's total assets, which represents an increase of 1.05 percentage points from the beginning of the year.**

- **As at the end of Reporting Period, the balance of the impaired loans in overseas bank institutions decreased by 41.26% from the beginning of the year to RMB158 million, and the impaired loan ratio decreased by 0.06 percentage point from the beginning of the year to 0.06% and achieved the reductions in both the impaired loan balance and the impaired loans ratio.**

In 2013, seizing the favourable opportunity of RMB internationalisation and relying on the improvement of the Bank's global settlement system, the Group further enhanced the customer share and business synergy between domestic and overseas branches, concentrated on key business, such as cross-border RMB business and offshore business. The contributions from overseas business of the Bank continuously increased, the revenue from business synergy between domestic and overseas branches improved, and the cross-border financial service abilities were fully enhanced. Meanwhile, the Bank further strengthened the enterprise risk management of overseas branches and maintained a good level of quality for their assets.

Overseas banking network

As at the end of Reporting Period, the Group set up 12 branches or subsidiaries in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, London, Sydney, San Francisco and Taipei, with total number of overseas operating locations reaching 54. The Bank established agency relationship with other 1,608 banks over 141 countries and regions. The Bank signed RMB settlement agreements with 108 banks over 26 countries and regions, opened 175 cross-border RMB accounts and 54 overseas banking institutions opened 69 foreign currency settlement accounts in 17 currencies over 24 countries and regions.

Domestic and overseas synergy business

Business synergy between domestic and overseas is represents the Group's operating characteristic and advantage. The Bank actively built the global financial service platform to provide high quality and integrated financial service for corporate customers, such as cross-border trade settlement and financing, foreign investment and mergers and acquisitions, and consulting for overseas business, mainly supporting the cross-border trade and operation of customers in petrochemical, automobile and aviation industry. During the Reporting Period, the transaction amount of the coordination business was USD49.132 billion in total and its revenue was RMB4.674 billion.

Cross-border RMB business

The Bank has launched several new products, including the cross-border RMB remittance and credit between Mainland China and Taiwan, and signed the agreements with corporations in Shanghai FTZ on cross-border lending business. The Bank was successful in conducting mutual RMB lending business for enterprises in the Cross-straits (Kunshan) Commerce and Trade Cooperation Zone. RMB business in overseas branches continuously made breakthroughs. For four consecutive years, Hong Kong branch has obtained the qualifications of exclusive distribution, depositary agent and financial agent for certain RMB Treasury bond issued by the Ministry of Finance in Hong Kong while its Sydney Branch successfully sold RMB treasury bond to the Reserve Bank of Australia. During the Reporting Period, the transaction amount of the cross-border RMB settlement among domestic institutions increased by 81.25% as compared with the prior year to RMB430.365 billion and the transaction amount of the cross-border RMB settlement among overseas institutions increased by 37.71% as compared with the prior year to RMB299.654 billion.

Offshore services

The Bank is one of the 4 domestic commercial banks, who are currently permitted to do offshore banking business. In 2013, the Bank made full use of its offshore license and actively supported enterprises for their needs of cross-border investment and financing. The Bank strengthened its product innovation in trade finance and re-finance businesses to launch new service products such as involving the offshore credit rating synergy and loan transfer from foreign debts, under the certificates of guarantees and RMB letters of guarantees, which facilitated the collaborative growth of the onshore and international businesses. The Bank deepened its cooperation with the principal agencies on the aspects of currency market and asset transfer. The Bank first launched the offshore transfer products in batches for e-banking among domestic banks, which improved the business efficiency. As at the end of Reporting Period, the total offshore assets increased by 13.23% from the beginning of the year to USD11.900 billion. Offshore international settlement volume reached USD167.443 billion, increasing by 34.80% as compared with the prior year. The Bank ranked the first among its peers in the domestic market in terms of offshore asset scale, loan balance, and international settlement volume.

(in billions of RMB unless otherwise stated)

Item	**31 December 2013**	31 December 2012	Increase rate
The total assets of overseas bank institutions	**519.876**	404.663	28.47%
The total offshore assets (in billions of USD)	**11.900**	10.510	13.23%
	2013	2012	Increase rate
The transaction amount of the cross-border RMB settlement among domestic institutions	**430.365**	237.443	81.25%
The transaction amount of the cross-border RMB settlement among overseas institutions	**299.654**	217.598	37.71%
International settlement volume of offshore (in billions of USD)	**167.443**	124.218	34.80%

(2) Universal operation

- **In 2013, net profits attributable to the parent company of the controlled subsidiaries (excluding Bank of Communications (UK) Co., Ltd.) amounted to RMB2.158 billion, representing an increase of 69.39% as compared with the prior year, the proportion of which to that of the Group increased by 1.28 percentage points to 3.46% as compared with the prior year.**

- **As at the end of the Reporting Period, the total assets of the controlled subsidiaries (excluding Bank of Communications (UK) Co., Ltd.) increased by 33.75% from the beginning of the year to RMB122.502 billion, the proportion of which to the total assets of the Group increased by 0.32 percentage point to 2.06% from the beginning of the year.**

- **During the Reporting Period, total amount of social financing volume of subsidiaries was RMB237.297 billion.**

Built upon business collaboration model of "Sector+Segment+Subsidiary", the Group upgraded the three major competitiveness of the subsidiaries in development, coordination and competition, with a focus on building special features in trading volume, aircraft and vessel financing and wealth management. The Group promoted the innovation of product combination and business coordination. As the status of subsidiaries continued to rise in their respective industries, they started to play a key role in innovation, getting fully involved in the Group's product system and reward the main banking business on top of their own growth in profits and asset scale.

— Bocom Leasing innovated and expanded USD financing channel and successfully issued USD debts through overseas platform of SPV. It achieved successful cooperation with overseas shipping companies on operating leases for new vessels, and conducted joint-factoring businesses with Banks on equipment lease. As at the end of the Reporting Period, total leasing assets balance amounted to RMB89.144 billion, increasing by 28.43% from the beginning of the year. Bocom Leasing became the only financial leasing company that was permitted to establish professional aviation and vessel subsidiaries in Shanghai FTZ.

— Bocom International Trust seized the opportunity of pilot securitisation of credit assets and successfully won the bid from the Postal Savings Bank of China for the first securitisation of personal mortgage loans. Bocom International Trust, involving in the Group's product development system, launched the first domestic investment trust business of trade receivables, which filled in the gap of short-term and high liquidity trust products. As at the end of Reporting Period, trust asset scale increased by 78.09% as compared with the end of the prior year to RMB278.547 billion, which largely exceeds the average growth rate in the trust industry. The trust compensation rate and the ratio of impaired proprietary assets both remained zero. Bocom International Trust obtained the highest rating for three consecutive years in internal control and compliance management, and was awarded the "Outstanding Trust Company" by *Shanghai Securities News* and became one of the top ten national trust companies for the first time.

— Bocom International helped six customers successfully listed in Hong Kong, raising HKD12.1 billion in total. The IPO underwriting volume made the top ten among 72 domestic and foreign investment banks in Hong Kong for the first time. Its research team made good rankings in several authoritative selections by organisations such as *The Wall Street Journal*, *Institutional Investor* and *Asia Money*, and its market reputation was greatly improved.

— Five Funds under Bocom Schroder was among the top in terms of performance and the volume of specific accounts increased by 65.18% from the beginning of the year to RMB3.705 billion. Four special wealth management products such as principal-guaranteed fund, total return fund, growth investment fund and cash income fund were launched jointly with the Group, supported by the innovative "Kuai Yi Tong" automatic credit card payment services for fund trading. Its Hong Kong subsidiary and asset management subsidiary were approved to establish, which opens a new chapter for its diversified and international operation.

— Bocom Insurance firstly underwrote vessel insurance business as the principal insurer. BocommLife played a fundamental role in providing insurance support within the framework of the Group's wealth management, launched customised products to support the Group's marketing strategy and built specific service brand as "Health Management Servant". The premium income increased by 86% as compared with the prior year.

— Rural banks achieved steady growth in their business, and actively supported the development of local economy. As at the end of the Reporting Period, total assets of the four rural banks reached RMB5.996 billion, increasing by 48.97% from the beginning of the year, and their net profits for the year increased by 44.29% as compared with the prior year to RMB101 million.

"Second Round of Reform" Rewards began to emerge, further became bright

In 2011, the Bank officially launched the "Second Round of Reform", which focused on the mechanism reconstruction and regarded management innovation as the core. The key reform programs currently worked well and started to be rewarding to make the solid foundation for the long-term steady development of the Bank.

➢ Focused on building strong front-office, that is three plates, corporate, retail and other banks, stood like a tripod and the contribution from three profit making centres, marketing department, sales department and credit card centre, were greatly improved;

➢ Adjusted and Optimised operational structure improved the layout of financial service centre and further centralised the business of back-office.

➢ Focused on the innovation of outlets' operational model; Promoted the "Trinity" network construction, namely "physical outlets + e-banking + account manager"; the layout of service channel continuously improved.

➢ Promoted the construction of centralised credit granting management system; continued to optimise credit risk management for retail credit business; extended the field of credit granting to the non-credit assets;

➢ Promoted the construction for the new generation of business system, which was currently on the stage of development and expected to be completed in 2015.

➢ Achieved positive results of the reform on some aspects, including incentive compensation, performance appraisal, risk management, capital management and subsidiary governance.

The Bank has regarded transformation towards divisional structure as the important direction to deepen the "Second Round Reform" since 2013. Currently, the centres of financial market, precious metal, bill business and offshore were officially listed. Transformation towards quasi-divisional structure such as asset custody business centre, asset management centre and consumer finance centre were also officially adopted. In the future, the Bank will continue to promote multi-dimensional division, quasi-division system reform, and to explore the division reform in branch level, efforts to stimulate the vitality and competitiveness of branches. Through the co-ordination of divisional structure with branches, service quality and operational efficiency are further improved to facilitate future development.

III. FINANCIAL STATEMENTS ANALYSIS

1. Analysis on Major Income Statement Items

(1) Profit before tax

During the Reporting Period, the Group's profit before tax increased by RMB4.698 billion or 6.25% as compared with the prior year to RMB79.909 billion. Profit before tax was derived mainly from net interest income, and net fees and commission income.

The table below illustrates selected items which make up the Group's profit before tax for the year indicated:

(in millions of RMB)

	2013	2012
Net interest income	**130,658**	120,126
Net fee and commission income	**25,968**	20,882
Impairment losses on loans and advances to customers	**(18,410)**	(14,537)
Profit before tax	**79,909**	75,211

(2) Net interest income

During the Reporting Period, the Group's net interest income increased by RMB10.532 billion as compared with the prior year to RMB130.658 billion. This accounted for 79.15% of the Group's net operating income and was a major component of the Group's operating income.

The table below illustrates the average daily balance, associated interest income and expenses, and annualised average yield or average cost of the Group's interest-bearing assets and interest-bearing liabilities during the period indicated:

(in millions of RMB unless otherwise stated)

	For the twelve months ended 31 December 2013			For the twelve months ended 31 December 2012		
	Average balance	Interest income/ (expense)	Average yield/(cost) ratio (%)	Average balance	Interest income/ (expense)	Average yield/(cost) ratio (%)
Assets						
Balances with central banks	798,207	12,581	1.58	721,792	11,294	1.56
Due from banks and Other financial institutions	424,267	15,358	3.62	366,443	12,671	3.46
Loans and advances to customers and receivables	3,179,693	194,847	6.13	2,834,468	185,821	6.56
Include: Corporate loans and receivables	2,449,486	147,106	6.01	2,161,691	140,436	6.50
Individual loans	641,576	44,000	6.86	511,040	36,178	7.08
Discount bills	88,631	3,741	4.22	161,737	9,207	5.69
Investment securities	944,953	36,506	3.86	821,064	30,810	3.75
Total interest-bearing assets	5,193,648[3]	254,177[3]	4.89	4,638,428[3]	236,717[3]	5.10
Total non-interest-bearing assets	198,804			189,456		
TOTAL ASSETS	5,392,452[3]			4,827,884[3]		
Liabilities and Shareholders' Equity						
Due to customers	3,764,700	80,671	2.14	3,321,407	72,731	2.19
Include: Corporate deposits	2,519,241	54,233	2.15	2,273,035	50,403	2.22
Individual deposits	1,245,459	26,438	2.12	1,048,372	22,328	2.13
Due to banks and other financial institutions	1,110,862	44,028	3.96	1,062,522	44,158	4.16
Debt securities issued and others	102,133	3,935	3.85	92,348	3,581	3.88
Total interest-bearing liabilities	4,824,223[3]	123,519[3]	2.56	4,370,938[3]	116,591[3]	2.67
Shareholders' equity and non-interest bearing liabilities	568,229			456,946		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	5,392,452[3]			4,827,884[3]		
Net interest income		130,658			120,126	
Net interest spread[1]			2.33[3]			2.43[3]
Net interest margin[2]			2.52[3]			2.59[3]
Net interest spread[1]			2.40[4]			2.50[4]
Net interest margin[2]			2.58[4]			2.66[4]

Notes:

1. This represents the difference between the average yield on total average interest-bearing assets and the average cost of total average interest-bearing liabilities.
2. The ratio represents the net interest income to total average interest-bearing assets.
3. This eliminates the impact of agent wealth management products.
4. This eliminates the impact of agent wealth management products and takes into account the tax exemption on the interest income from investments in government bonds.

During the Reporting Period, the Group's net interest income increased by 8.77% as compared with the prior year. Under the impact of the latest round of reduction of interest rate and the acceleration of the interest rate liberalisation, the net interest spread and net interest margin decreased by 10 basis points and 7 basis points as compared with the prior year to 2.33% and 2.52%, respectively.

The table below illustrates the impact of changes in amount and interest rates on the Group's interest income and interest expenses. Changes indicated are based on the changes in average daily balance and interest rates on interest-bearing assets and interest-bearing liabilities during the periods indicated.

(in millions of RMB)

	Comparison between 2013 and 2012		
	Increase/(decrease) due to		Net increase/
	Balance	Interest rate	(decrease)
Interest-bearing assets			
Balances with central banks	1,192	95	1,287
Due from banks and other financial institutions	2,001	686	2,687
Loans and advances to customers and receivables	22,647	(13,621)	9,026
Investment securities	4,646	1,050	5,696
Changes in interest income	30,486	(11,790)	18,696
Interest-bearing liabilities			
Due to customers	9,708	(1,768)	7,940
Due to banks and other financial institutions	2,011	(2,141)	(130)
Debt securities issued and others	380	(26)	354
Changes in interest expense	12,099	(3,935)	8,164
Changes in net interest income	18,387	(7,855)	10,532

During the Reporting Period, the Group's net interest income increased by RMB10.532 billion as compared with the prior year, of which, the increase of RMB18.387 billion was due to changes in the average balances of interest-bearing assets and interest-bearing liabilities. While the decrease of RMB7.855 billion in the Group's interest income was due to the changes in the average rate of return and average cost ratio.

① **Interest income**

During the Reporting Period, the Group's gross interest income increased by RMB18.696 billion or 7.77% as compared with the prior year to RMB259.292 billion.

A. Interest income from loans and advances to customers and receivables

Interest income from loans and advances to customers and receivables contributed the most to the Group's interest income. During the Reporting Period, interest income from loans and advances to customers and receivables increased by RMB9.026 billion or 4.86% as compared with the prior year, to RMB194.847 billion, largely due to the increase in loans and advances to customers and receivables.

B. Interest income from investment securities

During the Reporting Period, interest income from investment securities increased by RMB5.696 billion or 18.49% as compared with the prior year to RMB36.506 billion. The Group continuously improved its bond investment structure allocation and, in turn, the return on investment securities increased by 11 basis points as compared with the prior year.

C. Interest income from balances with central banks

Balances with central banks mainly include statutory reserves and excess reserves. During the Reporting Period, interest income from balances with central banks increased by RMB1.287 billion or 11.40% as compared with the prior year to RMB12.581 billion, largely due to the increase in due to customers which brought to an increase of 10.59% as compared with the prior year in average cash and balances with central banks.

D. Interest income from balance due from banks and other financial institutions

Total interest income due from banks and other financial institutions increased by RMB2.687 billion or 21.21% as compared with the prior year to RMB15.358 billion. This was mainly driven by the significant increase of trading volume of the Group in the interbank market, the average outstanding balance of which increased by 15.78% as compared with the prior year.

② **Interest expense**

During the R)eporting Period, the Group's interest expense increased by RMB8.164 billion or 6.78% as compared with the prior year to RMB128.634 billion.

A. Interest expense on balances due to customers

Due to customers was the Group's main source of funding. During the Reporting Period, interest expense on due to customers increased by RMB7.940 billion or 10.92% as compared with the prior year to RMB80.671 billion. This accounted for 62.71% of total interest expense. The increase in interest expense on due to customers was mainly due to the increase in the average balance of due to customers by 13.35% as compared with the prior year.

B. Interest expense on balances due to banks and other financial institutions

During the Reporting Period, interest expense on balances due to banks and other financial institutions decreased by RMB130 million or 0.29% as compared with the prior year to RMB44.028 billion, mainly due to the Group's active adjustment to its inter-bank liabilities, which resulted a decrease of 20 basis points in average interest rate on balances due to banks and other financial institutions.

C. Interest expense on debt securities issued and others

During the Reporting Period, interest expense on debt securities issued and other interest-bearing liabilities increased by RMB354 million or 9.89% as compared with the prior year to RMB3.935 billion. The above increase was mainly due to the increase in the average balance of debt securities issued by 10.60% as compared with the prior year.

(3) Net fee and commission income

Net fee and commission income was a major component of the Group's net operating income. During the Reporting Period, the Group continuously accelerated the transformation of its profit-making model which made the revenue sources became more diversified. During the Reporting Period, the Group's net fee and commission income increased by RMB5.086 billion or 24.36% as compared with the prior year to RMB25.968 billion. Management service, investment banking, and guarantee and commitment business have been the main growth areas of the Group's intermediary business.

The table below illustrates the major components of the Group's net fee and commission income for the periods indicated:

(in millions of RMB)

	2013	2012
Settlement service	**2,312**	2,368
Bank card	**8,916**	7,958
Investment banking	**7,700**	5,884
Guarantee and commitment	**3,460**	2,731
Management service	**5,146**	3,321
Agency service	**1,533**	1,411
Others	**338**	453
Total fee and commission income	**29,405**	24,126
Less: fee and commission expense	**(3,437)**	(3,244)
Net fee and commission income	**25,968**	20,882

Fee income on settlement services was RMB2.312 billion, remained stable as compared with the prior year.

Fee income on bank card increased by RMB958 million or 12.04% as compared with the prior year to RMB8.916 billion. The increase was mainly due to the increase in card issuance and spending as well as higher transaction volume at self-service machines.

Fee income from investment banking increased by RMB1.816 billion or 30.86% as compared with the prior year to RMB7.700 billion, mainly due to the substantial increase in the Group's income generated from financial advisory services as compared with the prior year.

Fee income on guarantee and commitment increased by RMB729 million or 26.69% as compared with the prior year to RMB3.460 billion. The increase was mainly due to the rapid development of the off-balance sheet businesses in bank acceptances, letter of credits and factorings.

Fee income on management service increased by RMB1.825 billion or 54.95% as compared with the prior year to RMB5.146 billion. This was mainly driven by the increase in commission income from asset custody, loan syndication and wealth management services.

Fee income on agency service increased by RMB122 million or 8.65% as compared with the prior year to RMB1.533 billion.

(4) Operating costs

The Group continuously strengthened its cost management. During the Reporting Period, the Group's operating cost increased by RMB4.033 billion or 9.31% as compared with the prior year to RMB47.350 billion. The cost-to-income ratio of the Group decreased by 0.18 percentage point as compared with the prior year to 29.68%.

(5) Impairment losses on loans and advances to customers

During the Reporting Period, the Group's impairment losses on loans and advances to customers increased by RMB3.873 billion or 26.64% as compared with the prior year to RMB18.410 billion, which was comprised of (1) a decrease in collectively assessed allowances by RMB2.974 billion as compared with the prior year to RMB7.101 billion; and (2) an increase in individually assessed allowances by RMB6.847 billion as compared with the prior year to RMB11.309 billion. During the Reporting Period, credit cost ratio increased by 0.07 percentage point as compared with the prior year to 0.56%.

(6) Income tax

During the Reporting Period, the Group's income tax expense increased by RMB709 million or 4.24% as compared with the prior year to RMB17.448 billion. The effective tax rate was 21.83%, which was lower than the statutory tax rate of 25%, mainly due to the tax exemption of interest income from government bonds held by the Group pursuant to the relevant tax provisions.

The table below illustrates the Group's current tax and deferred tax for the periods indicated:

(in millions of RMB)	2013	2012
Current tax	**20,846**	21,220
Deferred tax	**(3,398)**	(4,481)

2. Analysis on Major Balance Sheet Items

(1) Assets

As at the end of the Reporting Period, the Group's total assets was RMB5,960.937 billion, representing an increase of RMB687.558 billion or 13.04% from the beginning of the year.

The table below illustrates the outstanding balances (after impairment allowances) of the principal components of the Group's total assets and their proportion to the total assets as at the dates indicated:

(in millions of RMB unless otherwise stated)

	31 December 2013		31 December 2012	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Loans and advances to customers	**3,193,063**	**53.57**	2,879,628	54.61
Investment securities	**1,070,677**	**17.96**	879,301	16.67
Cash and balances with central banks	**896,556**	**15.04**	816,846	15.49
Due from banks and other financial institutions	**566,429**	**9.50**	520,963	9.88
Total assets	**5,960,937**		5,273,379	

① **Loans and advances to customers**

During the Reporting Period, the Group reasonably controlled the volume, direction and pace of its credit disbursements, which brought balanced and steady increase in loans. As at the end of the Reporting Period, the Group's loans and advances to customers increased by RMB319.069 billion or 10.83% from the beginning of the year to RMB3,266.368 billion, among which the increase in RMB loans from domestic institutions amounted to RMB281.629 billion or 10.96% from the beginning of the year.

Loans concentration by industry

During the Reporting Period, the Group actively supported the upgrading of industrial structure and the development of real economy, as well as vigorously promoted the optimisation of its own business structure.

The table below illustrates the distribution of the Group's loans and advances to customers by industry as of the dates indicated:

(in millions of RMB unless otherwise stated)

	31 December 2013		31 December 2012	
	Balance	Proportion (%)	Balance	Proportion (%)
Mining	**92,180**	**2.82**	72,000	2.44
Manufacturing				
— Petroleum and chemical	**118,958**	**3.64**	113,677	3.86
— Electronics	**62,278**	**1.91**	53,813	1.83
— Steel	**41,342**	**1.27**	45,739	1.55
— Machinery	**115,893**	**3.55**	106,908	3.63
— Textile and clothing	**40,757**	**1.25**	38,758	1.32
— Other manufacturing	**251,127**	**7.69**	225,276	7.64
Electricity, gas and water production and supply	**132,942**	**4.07**	132,394	4.49
Construction	**106,004**	**3.25**	93,246	3.16
Transportation, storage and postal service	**386,822**	**11.84**	363,797	12.34
Telecommunications, IT services and software	**10,445**	**0.32**	10,080	0.34
Wholesale and retail	**391,772**	**11.99**	389,695	13.22
Accommodation and catering	**26,708**	**0.82**	23,358	0.79
Financial services	**32,593**	**1.00**	23,471	0.80
Real estate	**201,300**	**6.16**	179,862	6.10
Services	**206,910**	**6.33**	184,211	6.25
Water conservancy, environmental and other public utilities	**130,777**	**4.00**	137,343	4.66
Education, science, culture and public health	**49,174**	**1.51**	37,596	1.28
Others	**56,633**	**1.73**	49,784	1.69
Discounted bills	**60,443**	**1.85**	64,769	2.20
Total corporate loans	**2,515,058**	**77.00**	2,345,777	79.59
Mortgage loans	**458,356**	**14.03**	358,258	12.16
Credit card overdraft	**163,969**	**5.02**	119,212	4.04
Medium-term and long-term personal business loans	**58,548**	**1.79**	55,172	1.87
Short-term personal business loans	**24,539**	**0.75**	31,672	1.07
Car loans	**1,976**	**0.06**	3,514	0.12
Others	**43,922**	**1.35**	33,694	1.15
Total personal loans	**751,310**	**23.00**	601,522	20.41
Gross amount of loans and advances to customers before impairment allowances	**3,266,368**	**100.00**	2,947,299	100.00

As at the end of the Reporting Period, the Group's corporate loans increased by RMB169.281 billion or 7.22% from the beginning of the year to RMB2,515.058 billion. The four most concentrated industries were manufacturing, wholesale and retail, transportation, storage and postal service, and services, which collectively accounted for 64.25% of total corporate loans.

As at the end of the Reporting Period, the Group's personal loans increased by RMB149.788 billion or 24.90% from the beginning of the year to RMB751.310 billion. The proportion of personal loans as a percentage to total loans and advances to customers increased by 2.59 percentage points from the beginning of the year to 23.00%.

Loan concentration by borrowers

As at the end of the Reporting Period, the highest lending to a single customer of the Group accounted for 1.55% of the Group's net capital, and the total loans made to the top 10 customers accounted for 13.67% of the Group's net capital, which were in compliance with the regulatory requirements.

The table below illustrates the loan balances to the top 10 single borrowers of the Group as at the date indicated:

(in millions of RMB unless otherwise stated)

		As at 31 December 2013	
	Type of industry	Loan balance	Percentage of total loans and advances (%)
Customer A	Transportation, storage and postal service	7,985	0.25
Customer B	Manufacturing — other manufacturing	7,693	0.24
Customer C	Transportation, storage and postal service	7,664	0.23
Customer D	Wholesale and retail	7,565	0.23
Customer E	Water conservancy, environmental and other public utilities	7,258	0.22
Customer F	Wholesale and retail	7,005	0.21
Customer G	Transportation, storage and postal service	6,932	0.21
Customer H	Wholesale and retail	6,473	0.20
Customer I	Transportation, storage and postal service	6,326	0.19
Customer J	Services	5,726	0.18
Total		**70,627**	**2.16**

Loan concentration by geographical locations

The Group's credit customers are mainly concentrated in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta. As at the end of the Reporting Period, the balance of loans and advances to customers in these three regions accounted for 32.84%, 20.43% and 7.65% respectively of the Group's total loans, increased by 11.32%, 5.05% and 4.04% respectively from the beginning of the year.

Loan quality

Influenced by the deterioration asset quality of the small to medium enterprises in Jiangsu and Zhejiang provinces, the impaired loans ratio of the Group increased by 0.13 percentage point from the beginning of the year to 1.05%, the coverage ratio of impaired loans provision decreased by 37.03 percentage points from the beginning of the year to 213.65% as at the end of the Reporting Period.

The table below illustrates certain information on the Group's impaired loans and loans overdue by more than 90 days as at the dates indicated:

(in millions of RMB unless otherwise stated)

	31 December 2013	31 December 2012
Impaired loans	**34,310**	26,995
Loans overdue by more than 90 days	**31,814**	20,452
Percentage of impaired loans to gross amount of loans and advances to customers (%)	**1.05**	0.92

Loan customer structure

As at the end of the Reporting Period, based on the Bank's Internal Rating Based Approach, loans and advances to corporate customers of domestic branches of class 1 to class 8, accounted for 93.43% of total loans and advances to corporate customers and decreased by 0.34 percentage point from the beginning of the year; loans and advances to corporate customers of class 9 to class 12 accounted for 3.71% and increased by 0.47 percentage point from the beginning of the year; loans and advances to corporate customers who were in breach of contracts accounted for 1.01% and increased by 0.06 percentage point from the beginning of the year.

② **Investment securities**

As at the end of the Reporting Period, the Group's net investment securities increased by RMB191.376 billion or 21.76% from the beginning of the year to RMB1,070.677 billion. Overall return on investment securities reached a relatively satisfactory level of 3.86%, profiting from the reasonable allocation and continuous optimisation of investment structure.

Distribution of the Group's investment securities

The table below illustrates the distribution of the Group's investment securities by financial asset classification and by type of issuers as of the dates indicated:

— By financial asset classification of the purpose of holding

(in millions of RMB unless otherwise stated)

	31 December 2013		31 December 2012	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Financial assets at fair value through profit or loss	**59,083**	**5.52**	45,683	5.20
Investment securities — loans and receivables	**119,726**	**11.18**	30,395	3.46
Investment securities — available-for-sale	**221,253**	**20.66**	204,608	23.27
Investment securities — held-to-maturity	**670,615**	**62.64**	598,615	68.07
Total	**1,070,677**	**100.00**	879,301	100.00

— By type of issuers

(in millions of RMB unless otherwise stated)

	31 December 2013		31 December 2012	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Governments and central banks	**319,452**	**29.84**	303,472	34.51
Public sector entities	**18,363**	**1.72**	16,534	1.88
Banks and other financial institutions	**450,323**	**42.05**	362,223	41.20
Corporate entities	**282,539**	**26.39**	197,072	22.41
Total	**1,070,677**	**100.00**	879,301	100.00

As at the end of 2013, the Group held financial bonds amounted to RMB417.339 billion, among which policy banks and banks and other financial institutions reached RMB296.499 billion and RMB120.840 billion, accounting for 71.05% and 28.95% respectively of the total balance.

Top 10 financial bonds held by the Group

(in millions of RMB unless otherwise stated)

Bond Name	Face value	Annual interest rate (%)	Maturity date	Impairment allowance
2012 banks and other financial institutions bond	3,500	4.30	14/02/2017	–
2013 policy bank bond	3,050	3.89	10/01/2016	–
2012 banks and other financial institutions bond	3,000	4.20	28/02/2017	–
2011 policy bank bond	3,000	3.85	17/02/2021	–
2013 policy bank bond	2,980	4.16	10/01/2018	–
2013 policy bank bond	2,800	4.10	26/02/2020	–
2009 policy bank bond	2,500	2.65	16/07/2016	–
2013 policy bank r bond	2,500	3.67	10/05/2016	–
2009 banks and other financial institutions bond	2,400	3.20	26/02/2019	–
2012 policy bank bond	2,320	3.49	30/05/2017	–

(2) Liabilities

As at the end of the Reporting Period, the Group's total liabilities increased by RMB647.521 billion or 13.24% from the beginning of the year to RMB5,539.453 billion, of which its due to customers increased by RMB429.421 billion from the beginning of the year. This accounted for 75.06% of total liabilities, representing a decrease of 1.16 percentage points from the beginning of the year. Balances due to banks and other financial institutions increased by RMB183.574 billion or 19.47% and accounted for 20.34% of total liabilities, which was 1.06 percentage points higher from the beginning of the year.

Due to customers

Due to customers was the main source of funding for the Group. As at the end of the Reporting Period, the Group's customer deposit balance increased by RMB429.421 billion or 11.52% from the beginning of the year to RMB4,157.833 billion. From the perspective of the Group's customer structure, the proportion of corporate deposits decreased by 0.30 percentage point from the beginning of the year to 67.39%. The proportion of personal deposits to total deposits increased by 0.31 percentage point from the beginning of the year to 32.49%. With respect to terms of deposits, the proportion of demand deposits to total deposits decreased by 0.48 percentage points from the beginning of the year to 45.08%, while the proportion of time deposits increased by 0.49 percentage point from the beginning of the year to 54.80%.

The table below illustrates the Group's corporate and personal deposits as of the dates indicated:

		(in millions of RMB)
	31 December 2013	31 December 2012
Corporate deposits	**2,801,769**	2,523,768
Include: Corporate demand deposits	**1,382,914**	1,254,248
Corporate time deposits	**1,418,855**	1,269,520
Personal deposits	**1,350,956**	1,199,663
Include: Personal demand deposits	**491,353**	444,369
Personal time deposits	**859,603**	755,294

3. Analysis on Major Statement of Cash Flow Items

As at the end of the Reporting Period, the Group's cash and cash equivalents decreased by RMB28.204 billion from the beginning of the year to RMB243.394 billion.

The net cash inflows from operating activities increased by RMB62.579 billion as compared with the prior year to RMB139.183 billion, which was mainly due to the increase in the amount of net cash inflow from the balance due to banks and other financial institutions and the decrease in the amount of net cash outflow from loans and advances to customers as compared with the prior year.

The net cash outflows from investing activities increased by RMB112.103 billion as compared with the prior year to RMB171.492 billion, which was mainly due to the increase in net cash outflows resulted from the investment securities related activities as compared with the prior year.

The net cash inflows from financing activities decreased by RMB38.613 billion as compared with the prior year to RMB6.057 billion, which was mainly due to the cash inflow resulted from the non-public issuance of shares in the prior year but no such event occured in this year.

4. Segment Analysis

(1) *Operating results by geographical segments*

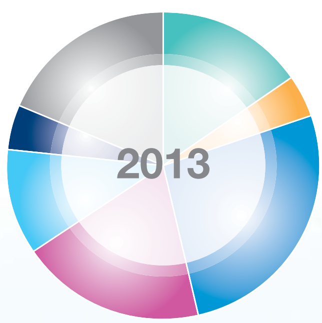
The table below illustrates the profit before tax and net operating income from each of the Group's geographical segments for the periods indicated:

(in millions of RMB)

	2013		2012	
	Profit before tax	Net operating income[1]	Profit before tax	Net operating income[1]
Northern China	**12,266**	**22,741**	11,463	20,496
North Eastern China	**3,416**	**7,267**	2,766	6,453
Eastern China	**20,203**	**58,140**	21,848	52,589
Central and Southern China	**15,090**	**29,171**	14,952	27,205
Western China	**8,908**	**15,510**	6,667	12,275
Overseas	**3,846**	**6,322**	3,226	6,265
Head Office	**16,180**	**25,919**	14,289	22,905
Total[2]	**79,909**	**165,070**	75,211	148,188

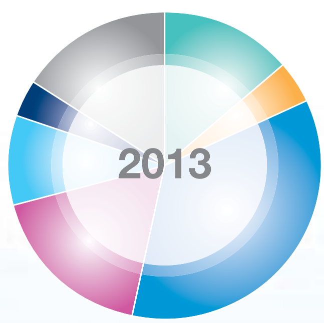
Note:

1. Includes net interest income, net fee and commission income, dividend income, net gains/(losses) from trading activities, net gains arising from de-recognition of investment securities, insurance business income, net investment gains/(losses) of an associate and other operating income.
2. Includes non-controlling interests.



Profit before tax (in millions of RMB)

- Northern China 12,266
- North Eastern China 3,416
- Eastern China 20,203
- Central and Southern China 15,090
- Western China 8,908
- Overseas 3,846
- Head Office 16,180



Net operating income (in millions of RMB)

- Northern China 22,741
- North Eastern China 7,267
- Eastern China 58,140
- Central and Southern China 29,171
- Western China 15,510
- Overseas 6,322
- Head Office 25,919

(2) Deposits and loans and advances by geographical segments

The table below illustrates the Group's deposits and loans and advances balances by geographical segments as at the dates indicated:

(in millions of RMB)

	31 December 2013		31 December 2012	
	Deposits balance	**Loans and advances balance**	Deposits balance	Loans and advances balance
Northern China	**704,233**	**517,921**	641,369	494,469
North Eastern China	**272,889**	**166,065**	247,009	152,696
Eastern China	**1,592,514**	**1,217,836**	1,456,617	1,129,986
Central and Southern China	**878,557**	**597,291**	790,006	552,547
Western China	**445,875**	**315,507**	369,334	279,751
Overseas	**261,751**	**279,242**	222,233	215,673
Head Office	**2,014**	**172,506**	1,844	122,177
Total	**4,157,833**	**3,266,368**	3,728,412	2,947,299

(3) Operating results by business segments

The Group's four main business segments are: corporate banking business, personal banking business, treasury business and other businesses. The corporate banking segment was the primary source of profit for the Group, and accounted for 67.55% of the Group's profit before tax.

The table below illustrates the Group's total income from external customers and profit before tax from each of the Group's business segment for the periods indicated:

(in millions of RMB)

	Total income from external customers		**Profit before tax**
	2013	2012	**2013**
Corporate banking business	**179,890**	162,930	**53,981**
Personal banking business	**85,905**	71,852	**6,346**
Treasury business	**26,946**	33,802	**18,196**
Other businesses	**4,400**	3,318	**1,386**
Total	**297,141**	271,902	**79,909**

5. Other Financial Information

The relevant information disclosed below is set out in accordance with the requirements of the CSRC.

(1) Fair value measurement related items

The Group established a market risk management system under the ultimate responsibility and leadership of the Board of Directors. It also established an internal control framework based on fair value measurement in order to satisfy the relevant internal control and information disclosure requirements. It also gradually and in an orderly manner, improved the systematic management of its market risk by connecting all the relevant front, middle and back office departments and encompassing fair value acquisition, measurement, monitoring and verification. The Group will continue to learn from the experience of its peers and international best practices to further optimise its internal control system in connection with fair value measurement. The Group primarily uses quoted market prices as the fair value of financial instruments traded in active markets. It used valuation models and observable market parameters or comparison to third party quotes which are reviewed by the relevant risk management departments to determine the fair value of financial instruments that are not traded in active market.

The table below illustrates the fair value measurement related items of the Group in 2013:

(in millions of RMB)

Item	Opening balance	Gains/ (losses) on change in fair value for the year	Cumulative fair value gains/ (losses) recognised in equity	Impairment losses (accrued)/ reversed for the year	Closing balance
Financial assets includes:					
1. Financial assets at fair value through profit and loss (excluding derivative financial instruments)	45,683	(440)	—	—	59,083
2. Derivative financial instruments	6,478	7,749	—	—	14,227
3. Investment securities — available-for-sale	203,752	(263)	(6,582)	(55)	220,397
Total financial assets	255,913	7,046	(6,582)	(55)	293,707
Investment property	182	18	—	—	194
Total	256,095	7,064	(6,582)	(55)	293,901
Total financial liabilities[Note]	(23,060)	(9,029)	—	—	(28,640)

Note: Only applicable to financial liabilities at fair value through profit or loss.

(2) Holdings in foreign currency denominated financial assets and financial liabilities

The table below illustrates the foreign currency denominated financial assets and financial liabilities held by the Group in 2013:

(in millions of RMB)

Item	Opening balance	Gains/ (losses) on change in fair value for the year	Cumulative fair value gains/ (losses) recognised in equity	Impairment losses (accrued)/ reversed for the year	Closing balance
Financial assets includes:					
1. Financial assets at fair value through profit and loss (excluding derivative financial instruments)	7,730	127	—	—	7,904
2. Derivative financial instruments	2,095	(509)	—	—	1,630
3. Loans and receivables[1]	540,575	—	—	(739)	565,089
4. Investment securities — available-for-sale	39,556	(263)	254	—	47,732
5. Investment securities — held-to-maturity	1,151	—	—	—	1,054
Total of financial assets	591,107	(645)	254	(739)	623,409
Total of financial liabilities[2]	(487,646)	(8,737)	—	—	(516,978)

Notes:

1. Includes cash and balances with central banks, due from banks and other financial institutions, loans and advances to customers, investment securities-loans and receivables and other financial assets.
2. Includes due to banks and other financial institutions, financial liabilities at fair value through profit or loss, due to customers and other financial liabilities.

IV. RISK MANAGEMENT

In 2013, facing the complex external environment and the severe risk control pressure and according to the "Risk Management Plan 2012–2015", the Bank achieved positive results in strengthening risk management in the areas of system reform, optimisation of asset structure and management and control of key areas with focus on building the Enterprise Risk Management system characterised by "full coverage, whole process, responsibility tracing and risk management culture".

1. Risk Appetite

The Board of Directors established "stability, balancedness, compliance and innovation" as the overall risk appetite of the Bank, and defined its risk tolerance in details from the four dimensions of return, capital, quality and risk rating, and further set 20 detailed risk limit indicators in six risk areas concerning credit, market, operation, liquidity, interest rate, and country (economic units) risk to gain control of the overall change of risk on a regular basis.

During the Reporting Period, with a strong commitment in compliance operation, under the dual constraints of external regulation and internal policies, the Bank was able to enhance risk management, yet supporting its business development strategy. Sticking to the pursuit for the stable and balanced development, the Bank strived to maintain a dynamic balance between risk and return to achieve a balanced development among business scale, quality and profitability. In 2013, the implementation of the Bank's overall risk appetite was good, with all the indicators controlled within the tolerance level, and except from the deterioration indicated in provision rate and provision coverage ratio, all other risk limit indicators were controlled within limits.

As at the end of 2013, the Group's provision rate was 2.24% and provision coverage ratio 213.65%, which were both below the target set at the beginning of the year. The main reason is that facing the asset quality pressures from macroeconomic deceleration and structural adjustment, the Bank seized the favourable opportunities which came from the national introduced policies of bulk disposal of non-performing loans, increased write-off amount, actively expedited the disposal of non-performing loans, and further used provision for loss to improve non-performing loan structure. We believe that during the economic downturn, real and full exposure of risks, increase of write-off and provision for impairment losses and acceleration of the disposing speed of risky assets are in line with regulatory requirements of dynamic provision and also conducive to strengthen our asset quality and financial basis to shorten the pains of the Bank brought from economic restructuring. Earlier exposure and preemptive actions will make the future management more active and more favourable.

2. Risk Management Framework

The Board of Directors has the ultimate responsibility and supreme decision-making authority for the Bank's risk management, monitors and controls the Bank-wide risk management matters through its delegation of the Risk Management Committee. The Bank's Senior Management established a "1+3+2" Risk Management Committee, in which the Enterprise Risk Management Committee is dedicated to implement the Board's risk management strategy and risk appetites, based on principle of "going horizontal to the edges, going vertical to the bottom, covering all aspects", to complete the management system, to optimise the working system, to standardise the management policies, and to perform evaluations on the effectiveness of risk management function in an all-around way. Three sub-committees have been established under the Enterprise Risk Management Committee, namely the Credit Risk Management Committee, the Market and Liquidity Risk Management Committee, and the Operational Risk Management and Anti Money-Laundering Committee; two business review committees, namely the Credit/Non-credit Review Committee and the High-risk Assets Review Committee have also been established and performed their respective duties. Each tier-1 branch, oversea branch and subsidiary referenced to the above-mentioned framework, while according to the actual operation and management needs, correspondingly established simplified and practical risk management committees. The Bank ensured the full implementation of risk management procedures through the mechanism of "leadership and execution, supervision and reporting" between the Risk Management Committee and sub-committees, and among committees of the Head Office and branches, forming a unified and coordinated risk management system.

During the Reporting Period, the Bank further regulated the operation mechanism and process of each Risk Management Committee, enriched decision-making and supervisory functions of Risk Management Committee, strengthened risk controls in important businesses, areas and systems, clarified requirements of presiding meetings of the "Leaders", and strengthened their risk management responsibilities. In 2013, in the head office level, the Risk Management Committee and its sub-committee held 23 meetings to consider 72 issues, held 48 loan censorship meetings to review 492 projects, and held 37 risk censorship meetings to examine 117 projects; in branch levels, public loan censorship meetings were held 1,785 times and 12,901 projects were reviewed; retail loan censorship meetings were held 3,880 times and 21,408 projects were reviewed; and risk censorship meetings were held 446 times and 1,365 projects were examined.

During the Reporting Period, the Bank focused on promoting risk management constructions in business areas in small scaled middle offices, strengthened the system of active risk management while balancing business prospects and dual reporting lines, and promoted the accelerated establishment of risk management execution system which is based on risk types, regional bodies and business areas. Retail loan business and personal finance business risk compliance small scaled middle offices were increasingly sound and played good roles in business risk management. The company's business risk compliance small scaled middle offices had been established and started to operate, the risk compliance small scaled middle offices of international business and electronic bank business were under construction, and the risk compliance management mechanisms of structure reforms of divisional and quasi-divisional organization were also under optimisation.

3. Risk Management Tool

We attached great importance to the establishment of risk management tools, information systems and econometric models. During the Reporting Period, on one side the Bank fully exerted the utility of "Fully Centralised" business operation and management system which had already been built and covered whole businesses types and processes, in order to improve effectiveness of risk management; on the other side, the Bank vigorously promoted the construction of "531 Project" related risk management system tools, and achieved great progress in improving the integration of risk management system, designing centralised and comprehensive risk management platform and integrating risk data mart, etc.

In terms of risk measurement models, as one of the first batch of large banks which applied for advanced approach of risk measurements, the Bank had built econometric models and management systems that covered credit risk, market risks, operational risks, and the measurement results had been fully applied to the internal management. During the Reporting Period, under the *Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)* and regulatory assessment advices, the Bank continued to optimise the governance structure of the measuring models, management system and process, and constantly monitored the performance of the models and improved the basis of data and systems, strengthened independent assessment and overall examination, and promoted the application of the results from the assessment to overall credit management, market risk limit management, operational risk management as well as risk assessments, stress tests, capital measurement and performance appraisal and so on.

The implementation and application of advanced methods of risk measurement

The Bank started the development and construction of advanced risk measurement method since 2005, based on the principle of importance: from credit risks to the market and operation risks; from institutional customers to the retail and peer customers; progressively completing credit risk internal rating, market risk internal modelling and operational risk management and measurement systems. Up to now, the Bank has formed scientific integrated and effective risk measurement implementation system which also covers New Basel Capital Accord at international level and *Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)*, integrating the model management and risk and capital management together, deepening the use of measurement results in daily operational management. The Bank has received several rounds of regulatory assessment for advanced risk measurement methods, and obtained guidance and supervision from regulatory institutions.

The development of advanced risk measurement methods has significantly improved the level of refinement of risk measurement, enabling us to analyse and assess the actual risk profile more accurately and objectively. In terms of credit risk measurement, the Bank has completed the development of internal rating models including probability of default (PD), loss given default (LGD), exposure at default (EAD) and maturity (M), established the two-dimensional main scale parameter including 16 levels of PD and 5 levels of LGD, and risk-weighted assets (RWA), expected loss (EL), return on risk-adjusted capital (RORAC) and several other tools which are calculated using the above risk parameters. As at the end of Reporting Period, there were nearly 70 scorecards indicating the effective use of credit risk measurement models of the Bank, covering companies of domestic branches, retail businesses and businesses in HK branches. In terms of measurement of market risk, the Bank has developed and used Value or Risk (VaR) model, and established more than 20 valuation models by products; the market risk internal model has been applied in the Bank and the subsidiaries in banking industry. In terms of operational risks, the Bank has established an operational risk management system applied in the Bank and the standard measurement tools, and the advanced measurement model for operational risks has been completed. In addition, the Bank has also established unified macro scenario generation and multi-type risk pressure testing models to launch pressure tests for risks in credit, market, operation, concentration, bank account interest rates, liquidity and other main risks on a regular basis, discovering risk weakness in business and management and focusing on preventing systematic risk.

The Bank consistently attached great importance to the application of risk measurement tools and results in business operations and internal management. After years of effort, risk measurement tools and results have been applied bank-wide, such as applying PD and RAROC in polices, customer choices, business entries and quota managements; introducing internal assessment results into credit business risk pricing mechanisms; introducing EL into loan quality control and analysis and five-level classifications; introducing credit and operational risk economical capital to performance appraisal, etc. These extensive and in-depth applications are helpful to guide the whole bank to optimise asset structure, improve management skills, achieve optimal allocation of capitals and dynamic balance between business development and risk management.

The Bank has established three expert teams in model development, validation and auditing, and has formed the mechanisms of standard measurement model development and maintenance, monitoring and reporting, independent verification and internal auditing in order to ensure the applicability, prudence and reasonability, timely optimisation and calibration for different measurement models and tools.

4. Credit Risk Management

Credit risk is one of the major risks the Bank faces, mainly distributed in loan business, treasury business, international business and on-balance-sheet wealth management and direct investment business. The Bank concentrated on investment guidance, investigation and reporting, business review and approval, fund distribution, duration management, overdue non-performing loans management and other aspects, adopted stringent requirements to control credit risk within acceptable range to achieve a balance between risk and return.

The Bank actively promotes the construction of a unified system of credit management. Credit analysis has been carried out regarding traditional businesses such as corporate and inter-bank sectors, transformation of investment banking and wealth management products, and asset quality of emerging businesses. The Bank made efforts to improve retail credit management system, and established tier-1 branch retail lending credit approval centre, which is relatively independent from the expansion of retail lending businesses. The Bank follows the principle of "One Bocom for One Customer" and actively promoted the Group-wide investment policies, admission standards and risk management and control, strengthening the united risk monitory and management at Group level.

The Bank published policy guidance covering 55 industries against different types of credit lending business, optimised credit lending investing structures, preferentially gave to its credit support to key sectors of energy and resources, peoples' livelihood and consumption, focused on infrastructure projects under constructions or in progress, and adhered to support the sectors in agriculture related business, small and micro enterprises and energy conservation and environmental protection projects under the principle of commercial sustainability. The Bank also made efforts to implement stock assets restructuring and solidly progress the special work of "revitalise stock assets, reduce the volume of high risk loans and obtain sufficient buffer", which achieved remarkable results and reduced loans of RMB58.9 billion during the whole year.

The Bank made efforts to strengthen the integration and unity of post-loan and duration risk monitoring; strengthened the judgment and analysis of industry risks; designated key points of monitoring; determined goals and strategies for monitoring. The Bank carried out risk investigations against local government financing vehicles, real estate sector, "heavily-polluting, higly-energy-consuming and over-capacity" sectors, private financing and other important areas, and intensified risk monitoring of off-balance-sheet financing products. The Bank implemented investigations of trade background authenticity examination and track the trading up/downstream relations to monitor capital flow and logistics. Based on the customers' credit risks and post-loan management, the Bank gradually improved full financing duration risk monitoring on customers. The Bank continued optimising post-loan monitoring system functions of personal loans and small business loans, and used internal and external information in an integrated manner to carry out cross-validations in order to launch risk investigations of retail loan businesses. The Bank also strengthened risk monitoring for customer credit cards of high-limit or high-risk industries, and developed large-amount monitoring system and operational detection rules to prevent credit cards from being used in production and operational areas. The Bank established industry and regional monitoring systems in order to achieve early warnings of high-risk industries and regions.

The Bank predicted in advance the situation of credit risk assets through stress tests. The Bank carried out stress tests in the early 2013 and set the three scenarios of the country's GDP growth rate to 7%, 5.5% and 4%. It showed that the Bank's non-performing loan ratio would exceed 1.2%, 2% and 3% under three scenarios, in which corporate real estate, local government financing vehicles, small and micro enterprises and credit card businesses would face most serious impacts. For this reason, the Bank further strengthened risk monitoring of real estate and local government financing vehicle in 2013, closely monitored small and micro enterprise risks and strived to resolve steel trade credit risk, timely adjusted credit card business profitability-making strategy. Meanwhile, the Bank increased non-performing loans collection, loss write-offs, bulk disposal and strengthened a series of targeted risk control measures and effectively alleviated the pressure on asset quality.

According to the regulatory requirements as stipulated in the *Guidelines on Risk-Based Loan Classification* issued by the CBRC and the level of risk, the Bank implemented a five credit category system that includes pass, special mention, sub-standard, doubtful and loss, of which, the latter three categories, namely sub-standard, doubtful and loss are regarded as non-performing loan categories, which is based on the judgment on the possibility of repayment on principle and interest in a timely manner. For corporate credit assets, the Bank has relied on the core regulatory definition as a basis and its internal assessment and individual impairment as references to define risk attributes and measurement standards of the five categories in greater detail. The Bank also ensured that sufficient consideration is given to the various factors affecting the quality of credit assets and prudent practices are carried out in risk classification. For retail credit assets (including credit cards), the Bank has adopted a five category system based on the aging of overdue status and type of guarantees provided.

As at the end of 2013, the balance of non-performing loans of the Group was RMB34.310 billion, increased by RMB7.315 billion from the beginning of the year. As at the end of year 2013, the breakdown of the Group's five loan categories as stipulated by the Chinese banking regulatory authorities were as follows:

(in millions of RMB unless otherwise stated)

	31/12/2013		31/12/2012		31/12/2011	
Categories	**Balance**	**Proportion (%)**	Balance	Proportion (%)	Balance	Proportion (%)
Pass	**3,173,011**	**97.14**	2,851,980	96.76	2,481,585	96.87
Special Mention	**59,047**	**1.81**	68,324	2.32	58,179	2.27
Total performing loan balance	**3,232,058**	**98.95**	2,920,304	99.08	2,539,764	99.14
Sub-standard	**13,778**	**0.42**	13,269	0.46	9,042	0.35
Doubtful	**13,586**	**0.42**	9,793	0.33	8,450	0.33
Loss	**6,946**	**0.21**	3,933	0.13	4,494	0.18
Total non-performing loan balance	**34,310**	**1.05**	26,995	0.92	21,986	0.86
Total	**3,266,368**	**100.00**	2,947,299	100.00	2,561,750	100.00

In 2013, the Bank's loan migration rates of special mention loans increased as compared to that in the past two years, which was mainly resulted from the increase of downshifted non-performing customers, an objective response to current asset qualities.

Loan migration rates (%)	**2013**	2012	2011
Pass	**1.58**	2.00	1.66
Special mention	**23.18**	7.99	8.34
Sub-standard	**37.02**	36.61	47.86
Doubtful	**17.96**	22.63	24.15

Note: Data calculated pursuant to *Notice on the distribution of the regulatory indicator and calculation formula for off-field investigation* released by CBRC.

In 2013, the change of the Bank's asset quality was affected by risk spread of steel trade businesses, which was with the clear features of regions and industry, mainly locating in Jangsu and Zhejiang regions. However, the Bank considered it as a regional and non-systematic issue arising from the national economy slowdown and business structure transformation amid over-capacity threats and small enterprises with low risk absorption.

Excluding the steel trade factors, the Bank's asset qualities are generally stable, and risk management and control basically reached expectations, especially in aspects of local government financing vehicles, real estate, etc.. The Bank continued to implement list management for local government financing vehicles, stipulate management and control targets by branches, monitored the variation of balances and repayment on monthly basis, and accelerated the exit from high-risk, low-yield customers and low-level local government financing vehicles. As at the end of 2013, the balance of loans still managed as low-level government financing vehicles was RMB199.244 billion and 394 accounts, which were RMB26.940 billion and 101 accounts less than that in the beginning of the year. Among these, the balance of non-performing loans was RMB9 million or 0.0045%, which decreased by RMB277 million or 0.12 percentage point from the beginning of the year. The Bank implemented proportion control for real estate loans, enhanced the list management of the real estate development companies and improved collateral ratio management. At the end of 2013, the balance of real estate loans was RMB201.300 billion or 6.16%, increased by RMB21.438 billion or 0.06 percentage point compared with that in the beginning of the year. Non-performing loans balance was RMB281 million and non-performing loan ratio was 0.14%, decreased by RMB452 million or 0.27 percentage point, respectively compared with those in the beginning of 2013.

In 2013, the Bank made efforts to strengthen collection of non-performing loans, and actively eliminated negative impacts arising from the increase of non-performing loans. The Bank reduced on-balance-sheet non-performing assets by RMB27.47 billion in total (including batch sale of impaired loan portfolio), among which RMB26.8 billion non-performing loans were collected within the year. The Bank collected total non-performing assets in cash by RMB13.350 billion accumulatively, and the quality of collection continuously improved. Meanwhile, the total write-offs of non-performing loans reached RMB11.81 billion.

In the future, the changes in the Bank's asset qualities would still depend on China's economic restructuring process. It still takes time for the financial environment to recover, characterised by private lending and webs of guarantee as the main features in the eastern and coastal areas. While the government firmly determined to resolve the problems of overcapacity and pollutions, the non-performing loan ratio would also show a mild trend, while in the short term the inertial growth of non-performing assets in the above regions would still appear.

The credit risk and its settlement of steel trade loan

In recent years, affected by the impacts from the decrease in steel prices and weak steel demands, the risks in steel trade industry are highlighted. During the Reporting Period, the Bank proactively increased efforts to risk settlement and disposal, and sparing no effort to deal with risks in steel trade business.

Started in Shanghai, and then gradually spread in the whole country, the steel trade business model is usually a market set up by the shareholders, at the same time a security company serving for the steel trade market also set up by the shareholders. Guaranteed by the security company, the loans will be issued by a bank to the merchants inside the steel market. This business model combines all merchants inside the market together, and during the business prosperous period, it reduces the risk of default of individual merchant; however during slowdown period of steel trade, the default of individual merchant would rapidly trigger the massive risks, and would affect bank loans correspondingly. The Bank's balance and ratio of non-performing loans increased in 2013, mainly resulted from the downwards migration of steel credit loans within a short period.

In response to the risks in steel trade business, since the end of 2012 the Bank has set up a steel trade risk management working group to especially deal with the steel trade risks of the whole bank. Over the past year, the Bank investigated the industry comprehensively and revealed the steel trade industry in a timely manner, adjusted trade credit policy proactively and managed the total balance of steel trade business. By using data mining techniques, the Bank searched for the debtor's assets; used civil or criminal measures comprehensively to track debtors; and actively adopted various methods such as bulk transfer, which effectively resulted in resolving and dealing with steel trade business risks, and achieving remarkable results. At the end of 2013, the Bank had resolved risky steel trade credit loans of more than RMB10 billion, with the remaining loans provided enough provisions according to risk situations, and closely monitored and increased mitigation measures for the steel trade loans that were still performing. Thanks to the early implementations of decisive control measures, the risk profile of the Bank's steel trade loans were relatively clear, and pressures on asset quality and financial profit were reasonably released.

Steel trade loans are important cases that the Bank's risk exposure in credit loans. The Bank strived to resolve steel trade loan risks; while also conducting profound reflections on the business model of steel trade loan and actively tried to find weakness in the business management, hoping to learn by analogy, make up for deficiencies, check erroneous ideas and take precautions after suffering losses. First, profoundly analyse risks hidden in the steel trade business model, use the "penetration, reverse and macro" multi-dimensional perspectives to review the risks in business models in order to conduct in-depth investigations on credit assets over the whole bank; Second, attach great importance to the balances of risk and income in credit businesses, focus on the contradictions between current earnings and lag risks, and improve assessment and incentive systems; Third, strengthen the construction of retail loans credit approval system; unify overall control with exposure of risks; improve the after-loan risk management system and the overall retail loan risk management abilities; Fourth, innovatively explore the methods of asset preservation; accumulate experiences on non-performing asset collection; train professional staffs on asset preservation and turn the bad things into good things.

5. Market Risk Management

The market risks exposed to the Bank primarily included interest rate risk and foreign exchange risk. Through establishing a market risk management system with clarified duties and responsibilities, sound policies and procedures, complete measurement system and timely monitoring and analysis, the Bank used quota management, risk hedge and a variety of methods to control the market risks within the acceptable range on this basis to maximise revenue at the same time. With regard to the management of market risk of the trading book, the Bank implemented an effective monitoring and quota management system via Value at Risk (VaR). With regard to the market risk of the banking book, the Bank conducted its monitoring activities via gap analysis and net interest income simulations. In addition, through adequate pricing management and asset allocation, the Bank strived to keep its risks under control.

Under the situation that currently the country is deepening financial reform and the Bank is implementing strategic restructuring, the importance of market risk management is increasingly apparent. During the reporting period, the Bank continued to improve the market risk management rules and regulations and actively promoted the application of risk management systems and tools, strengthened the Group's market risk management and gave specific requirements for the subsidiaries' own market risk management and Group reporting matters. The Bank substantially improved market risk management information system construction, and in accordance with latest regulatory requirements, through new establishment or upgrading the functions of three system features of SUMMIT, KRM and ALGO, set an integration work of funding businesses from front office transactions to mid-office monitoring, and then to back-office accounting process, to preliminarily achieve an overall management of bank accounts and trading account positions, strengthen business limit segments and monitoring of all levels, enhance the coverage and accuracy of system valuations, and enrich market risk analysis and reports.

The Bank actively prepared and dealt with interest rate liberalisation challenges and followed up the studies of related topics such as deposit insurance system, interest rate liberalisation process and its impact. The Bank exerted advantages of group and the process and influence of integration and integrated resources, regularly discussed market situations and business development focuses, and improved the group overall operating efficiency. The Bank also strengthened the tracking and analysis of re-pricing gap, pricing levels and net interest income, conducted different scenario analysis targeted for the statutory interest rate products and interest rate liberalisation products, and executed forward-looking analysis and management for interest risks. Details of the interest rate risk and foreign exchange risk of the Bank are set out in Note 3.2.4 and Note 3.2.5 to the Consolidated Financial Statements, respectively.

The opportunities and challenges of interest rate liberalisation

The interest rate liberalisation is the inevitable result of the development of market economy and the innovation of financial services, and also the inevitable demand of promoting the further development of the financial market. In recent years, in accordance with the overall step of "first foreign currencies, then foreign currencies; first loan, then deposit; first large amount and long duration deposit, then small amount and short duration deposit", the China's gradual market-oriented interest rate reform is continually going steadily. Especially since 2013, the People's Bank of China has cancelled the loan interest rate floor in succession and introduced interbank deposit businesses based on market pricing, indicating an accelerating trend of interest rate liberalisation. At present except the cap on deposit interest rate which is 1.1 times, set by the country, money market and bond market related interest rates have basically achieved liberalisation.

The acceleration of interest rate liberalisation will have a profound impact on the operation of commercial banks. One is that in the short-term it will directly lead the increase of bank debt costs, retrenchment of net interest margin (NIM) and decline the profitability that comes from interest spreads; The second is that the difficulties of loan interest rate pricing and cost of deposit control would increase, and the pressure on business transitions would rise; The third is that under the environment of marketisation, the competitions between peers would be more intense, the credit, market, operation, liquidity, compliance and other risks would crossly infected, and the Bank's comprehensive risk management ability would be tested.

At the same time, the interest rate liberalisation also brings new development opportunities for the Bank. One is that the flexibility of bank pricing would increase, and the Bank can conduct scientific pricings according to different customers, so that the Bank can more actively grasp balance between risks and benefits; the second is that the Bank can use interest rate control relaxation to exert innovations on products and services in greater extents, implement more flexible and differentiated competitive strategies; the third is that the Bank can use advanced risk management models and tools to improve scientific and meticulous management abilities for interest risks and liquidity risks.

For the challenges and risks might be facing in the process interest rate liberalisation, the Bank has already and will continue dealing with them through innovation of business and promotion of management.

The first is to strengthen the analysis on market situation in the process of interest rate liberalisation, closely follow policy direction of the interest rate liberalisation, analyse foreign development experiences, and actively put forward coping strategies; at the same time, organise domestic, foreign subsidiaries and the Bank's internal market analysis research institutions to hold joint meetings on a regular basis, use group advantages, strengthen study and analysis of market situation, and promote the whole operating efficiency.

The second is to unswervingly promote the transformation of development mode. The Bank actively adapt to the requirements of interest rate liberalisation, effort to develop the retail, wealth management and other businesses, and make transformations from the traditional credit business to low capital cost businesses. At the same time, the Bank will push profit model from interest margin profit model to intermediate business income model.

The third is to optimise credit structure adjustment continuously. On the premise of controllable risk, the Bank will support branches to actively make loan structural adjustments, support loans to be lent to high pricing level regions, customers and products; reasonably grasp the rhythm between credit increments and lending, improve credit scale configuration utilisation efficiency and support the real economy capital strength.

The fourth is to continuously improve systematic methods of interest rate risk management. Based on the experiences of responding to "money lack" in June of 2013, the Bank changed the style that in the past the Bank managed bank account and trading account interest rate risks based on the market risk capital measurement range, and into proceeding from the overall, managing interest rate risks systematically, and making pressure tests done. At the same time, the Bank will strengthen the tracking and analysis of the reprising gap, separate the interest rate sensitive products into the statutory interest rate products and market interest rate products, to enhance the professional management level.

The fifth is to further improve internal and external pricing mechanisms under marketisation; On the exterior, clear the Bank's market positioning and business objectives, take appropriate competition strategy under financial constraints and conduct reasonable pricings; In the interior, improve product market-oriented pricing mechanism, forming an united pricing strategy through the whole bank; and through the timely adjustment of the FTP, guide branch business development orientations. At the same time, by mixing the changes of interbank interest rate adjustments, customer feedback and business data, the Bank will also conduct dynamic adjustments on the level of interest rates and pricing strategies to prevent the asset liability structure imbalance.

The last is to continuously improve the pricing ability and level, further expand the scope of application system of pricing model, continuously optimise model system, and timely adjust system parameters, so that more comprehensively measure customer cost, profit and risk. At the same time, constantly improve the pricing mechanism, accelerate the construction of the interest rate risk management system and strengthen personnel trainings of pricing management in Head Office and branches in order to meet the needs of the interest rate liberalisation management.

6. Liquidity Risk Management

The Bank's liquidity management aims to maintain the safe and stable operation of the Bank, to prevent the liquidity crisis and to ensure the smooth and orderly conductions of business.

The Board of Directors of the Bank annually examined and approved liquidity risk preferences, continuously focused on the situation of liquidity risk and regularly obtained the relevant management reports. The Bank established an effective liquidity risk management and governance structure, and the management can continuously manage liquidity risks through accurate identifications, measurements and monitoring. Facing domestic and overseas macroeconomic and market environment changes in 2013, the Bank effectively carried out prudent management and control of liquidity risk.

During the Reporting Period, the Bank took the following measures to actively manage and resolved its liquidity risk: (1) strengthened the prospective analysis on the money market trend, and made advanced plan to address the liquidity exposure through money market and inter-bank business, while taking full consideration of factors such as maturity and matching fund; (2) enhanced decision-making efficiency and market sensitivity through the improvement of pricing management tools such as funds transfer pricing (FTP) and started emergency management mechanism quickly through the improvement of the efficient assets and liabilities allocations to prevent huge fluctuations in capital; (3) continued to improve the management of daily RMB liquidity position at both Head Office and branches, and minimise the daily ending cash reserves for better efficiency of funds; and (4) focused on strengthening the liquidity risk management of overseas branches, the Treasury Department of Offshore Centre and subsidiaries through continuous monitoring on various risk indicators, especially on preventing the liquidity risk arising from rapid asset growth.

7. Operational Risk Management

The Bank beared operational risks since they are inevitable, and it required large-scale investments to carry on the effective management of operational risks. The Bank paid attentions on investment cost and opportunity cost of reasonable control of the operational risk management.

The Bank has established management policy system for operational risk, clarified operational risk management basis, and determined work process related to regulation of operational risks, control of self-assessment, data recovery, monitoring of key risk factors and management of operational risk events.

During the Reporting Period, the Bank vigorously promoted the integration of operational risk management and business management. The Bank established a three-layered operational risk management mechanism based on checklist, risk event and case examples, identified key operational risk events and undertook rectification measures. In addition, the Bank held overall evaluation of management procedures for operational risk covering business activities such as bills, wealth management, loan disbursement and retail lending and implemented action plan to mitigate potential risks and weaknesses. The Bank also made further improvement in its key operational risk indicators to install a multi-level monitoring mechanism at Head Office and branches. The Bank made improvement in its business continuity management, taking the business continuity management on the financial market and asset custody businesses as pilot runs. Furthermore, the Bank conducted assessment and management on outsourcing business risk. The Bank introduced centralised investigation framework regarding personal loan risks with the collection of external information to detect and prevent fraudulent activities. Self-examination underlying authorisation of stamp had been conducted among branches to improve operational risks during the business process.

In accordance with the requirements of supervision at home and abroad, the Bank studied and formulated group recovery and resolution plan, which led the overall risk response and resolution capacity to a higher level. The Bank's recovery and resolution plan are created underlying "1+N" mode (where the "1" represents the group's overall recovery and resolution plan, and "N" represents each oversea institution's own recovery and resolution plan according to the requirements of local regulators under group recovery and resolution framework) in order to flexibly and effectively response to various regulatory requirements during transnational operations.

8. Legal Compliance and Anti-money Laundering

The Bank strived to establish a sound compliance management system that runs smoothly, operates efficiently, manages across industries and borders, meanwhile provides abundant methods and tools, high quality services and has a rich legal compliance atmosphere, in order to achieve a whole management process of legal compliance including risk identification, prevention, monitoring, alert, settlement, resolution, inspection and supervision, to provide strong legal support and protection for "innovation, transformation and development" of the Bank and to ensure the compliance management at the same time.

The Bank continued to improve the legal compliance management, and strengthened the legal compliance risk management in the key working areas of the Bank, management and innovation, emergency events resolution and several other aspects. The Bank also continued to strengthen the litigation management, in order to secure asset safety and maintain good reputations. Furthermore, the Bank actively carried out compliance culture construction activities, in order to improve the concept of "compliance priority, active compliance, and full compliance", and to create a good atmosphere of compliance.

The Bank continued to deeply carry out its anti-money laundering activities, made efforts to carry out anti-money laundering self-examinations, detect of problems in anti-money laundering internal control mechanism, customer due diligence and other aspects, analysed the reasons one by one and study the rectification measures. The Bank also strengthened the monitoring and reporting on key suspicious anti-money laundering transactions across branches and regions, strengthened the high-risk countries and areas business anti-money laundering risk management, and formulated coping strategies of the anti-money laundering international sanctions.

9. Reputational Risk Management

The Bank continued to improve the reputational risk management system, in order to effectively prevent negative evaluation risks from stakeholders on the Bank caused by management, other behaviour and external events, and properly handled different types of reputational risk events.

The Bank continued to improve reputational risk management mechanism, closely strengthened recognition, investigation and warning of reputational risk event, actively studied and analysed public sentiment, and listened carefully to customers and public opinions to make sure the reputational risk of the Bank was under control.

10. Cross-industry, Cross-border and Country (Economic Unit) Risk and Internal Transaction Monitoring

Through the establishment of cross-industry, cross-border risk management system which is "integrated management, clarified responsibilities, complete system tools, IT support, risk quantification, and balance sheet management", the Bank promoted subsidiaries and oversea institutions to consider both group unified requirements and their respective regulatory requirements during risk management, in order to prevent extra risks during cross-industry and cross-border operations.

As at the end of 2013, the country (economic unit) risk exposure of the Group before risk transfer was RMB368.622 billion faster than the asset growth, which revealed that the internationalisation strategy had been well executed. The country (economic unit) risk exposure accounted for 6.18% of total assets of the Group, among which 65.17% were located in Hong Kong area, and the country (economic unit) risks were controllable.

The Bank continued to strengthen cross-border cross-industry and country (economic unit) risk management and introduced control measures and management responsibilities of within cross-industry and cross-border business coordination and to facilitate the process. The Bank adopted country (economic unit) overall risk limits which were decomposed down to 13 main countries or regions, and set integrated limits for other countries. At the same time, the Bank conducted quota execution monitoring, focusing on strengthening the prior business approvals of the high risk countries (economic unit). Hence, no issues arised during the Reporting Period.

During the Reporting Period, the Group did not detect any insider trading that would damage the sustainable operation in respect of regulatory arbitrage, risk transfer, transactions without genuine purposes and non-market-based approaches.

V. OPERATIONS OF MAJOR SUBSIDIARIES

1. Bocom Schroder

Bocom Schroder was set up in August 2005 with a registered capital of RMB0.2 billion. It is jointly owned by the Bank, Schroder Investment Management Limited and China International Marine Containers (Group) Co., Ltd., accounting for 65%, 30% and 5% respectively. The business scope includes the business of fund raising, fund sales, asset management, and other services approved by the CSRC.

At the end of 2013, Bocom Schroder's total assets was RMB50.443 billion and realised an annual net profit of RMB1.89 million.

As at the end of 2013, Bocom Schroder had a total of 237 employees, including 4 employees in Hong Kong subsidiary. And of the 237 employees, 31% are researcher and trader, 32% are marketing staff, 20% are operations staff, 6% are supervisory and risk control personnel, 11% remained are support department staff. 95% of total employees held bachelor degrees or higher academic degree. Bocom Schroder implemented a perfect performance appraisal system combined with a reasonable remuneration system. The total amount of remuneration comprised of basic salary, annual bonus and performance bonus which shall be determined based on their performance and their contribution to the company. Bocom Schroder has set up an education and training management system concentrated on business development. The training management system is conducted to all staff of Bocom Schroder. Bocom Schroder had no separating employee and retiree for whom Bocom Schroder shall bear any expense.

2. Bocom International Trust

Bocom International was set up in October 2007 with a registered capital of RMB3.765 billion. It is 85% owned by the Bank and 15% owned by Hubei Province Finance Bureau. The business scope includes an array of trust services; investment and financing, mergers and acquisitions, corporate finance and financial advisory services as a founder of investment fund or fund management company; securities underwriting services entrusted by the State Council; intermediary services, consulting and credit investigation; generation custody business and safe deposit box service, interbank lending and borrowings, loans, leasing, investment based on existing assets; guarantee; interbank lending and borrowings; and other businesses approved by the CBRC.

At the end of 2013, the amount of fiduciary trust managed by Bocom International Trust was RMB278.547 billion, while the amount of AUM reached RMB238.704 billion. The average volume of existing trust plans was RMB216.799 billion, and the annual net profit was RMB507 million.

As at the end of 2013, Bocom International Trust had a total of 159 employees, of which 59.1% are business staff. 97.5% of total employees held bachelor degrees or higher academic degree. Bocom International Trust implemented a performance appraisal and remuneration system which is fair in internal and attractive for external. In order to accelerate company development and enhance the human resource quality, Bocom International Trust implemented and conducted the annual training plan. Bocom International Trust established a perfect and scientific training system which is appropriate to all staff in all levels and beneficial for the company's development and employee individual career goals. Such training system promoted the company stronger through personnel development.

3. Bocom Leasing

Bocom Leasing was set up in December 2007 with a registered capital of RMB6 billion. The business scope includes finance leasing business, accepting guaranteed deposit of the lessee, transfer of lease receivables to commercial banks, issuing financial bonds, interbank lending and borrowings, foreign exchange loan, disposal of residual value, business and financial consulting, and other businesses approved by the CBRC.

At the end of 2013, its net profit was RMB1.156 billion, total leasing balance was RMB89.144 billion, and total assets was 91.196 billion.

As at the end of 2013, Bocom Leasing had a total of 143 employees, including 5 senior executives, 69 front-office business department staff, and 69 back-office business department staff. 89% of total employees held bachelor degree or higher academic degree. Bocom Leasing attached great importance to employee training and employee individual development. Bocom Leasing held 44 training courses in 2013 and 896 employees attended in total.

4. BoCommLife Insurance

BoCommLife Insurance was set up in January 2010 with a registered capital of RMB1.5 billion. It is 62.5% owned by the Bank and 37.5% owned by Commonwealth Bank of Australia. The business scope includes life insurance, health insurance, accidental injury insurance and reinsurance businesses (excluding statutory insurance) in the Shanghai administrative region and in the provinces, autonomous regions and municipalities where the branches were set up.

At the end of 2013, BoCommLife Insurance's total assets were RMB4.727 billion and net assets were RMB1.248 billion and its annual net loss was RMB43 million. Total premium income in 2013 was RMB1.344 billion and premium income from new businesses was RMB1.147 billion.

As at the end of 2013, BoCommLife Insurance had a total of 733 employees, including 329 sales staff, 47 financial staffs. 699 employees held college degree or higher academic degree, in which 402 employees held bachelor degree and 67 employees held graduate degree or higher academic degree. BoCommLife Insurance further optimised strategic performance management system to fully produce guiding and promotion effect of remuneration management system. In order to improve performance appraisal system to demonstrate fair and encourage excellent, BoCommLife Insurance preliminary established a performance appraisal system on a basis of branches' business performance, further enhancing transmission mechanism's efficiency and defining responsibility clearly. In addition, in light of requirements of transformation of development strategy, BoCommLife Insurance conducted management training, employee comprehensive skills training and so on to increase quality of management team.

5. Bocom International

Bocom International was set up in May 2007 with a registered capital of HKD2 billion. It was set up under the business restructuring and integration program of BOCOM International Securities Limited. It has three subsidiaries in Hong Kong, namely BOCOM International (Asia) Limited, BOCOM International Securities Limited and BOCOM International Asset Management Limited. It also established wholly-owned Bank of Communications International (Shanghai) Equity Investment Management Limited in Shanghai. The business scope includes stock brokerage services, investment banking, asset management and various financial and agency businesses.

At the end of 2013, its total assets were HKD5.509 billion and its total revenue reached HKD822 million, with annual net profit of HKD229 million.

As at the end of 2013, Bocom International had a total of 229 employees, of which 33% are back-office employees and 67% are front-office employees. 38% of total employees held bachelor degree and 47% held graduate degree or higher academic degree. Total amount of remuneration consists of basic salary and bonus. And the amount of bonus is determined by the company performance in the current year, department performance and employee individual performance. In light of requirements of employee development and continuous learning, Bocom International held employee training to promote business development and increase employees' skills.

6. Bocom Insurance

As a wholly owned subsidiary of the Bank, Bocom Insurance was set up in November 2000 with a registered capital of HKD0.4 billion. The business scope includes general insurance businesses as defined in the Insurance Companies Ordinance, Chapter 41 of the Laws of Hong Kong.

At the end of 2013, Bocom Insurance’s net profit amounted to HKD9.08 million for the year, and net assets and total insurance assets were HKD496 million and HKD600 million, respectively.

As at the end of 2013, Bocom Insurance had a total of 40 employees, of which 65% are front-office employees. 47.5% of total employees held bachelor degree or higher academic degree. The salary was paid once a month and the amount of bonus of determined by performance.

7. Anji Bocom Rural Bank

Anji Bocom Rural Bank was set up in April 2010 with a registered capital of RMB0.15 billion, and is 51% owned by the Bank. The business scope includes taking deposits from the general public; short, medium and long-term lending, domestic settlement, bill acceptance and discount, inter-bank lending and borrowings, credit cards and other business approved by the CBRC.

At the end of 2013, its total assets were RMB2.082 billion, total due to customers were RMB1.608 billion, total customer loans were RMB1.473 billion, and its annual net profit reached RMB39.74 million.

As at the end of 2013, Anji Bocom Rural Bank had a total of 71 employees, including 3 executive managers, 8 middle managers, 31 counters, 23 customer managers, 2 technical staffs, 2 financial staffs, 2 administrators and logistic staffs. 97.33% of total employees held college degree or higher academic degree. No one resigned or retired. Total amount of remuneration consists of basic salary and performance salary. The performance is appraised at the end of the year. Anji Bocom Rural Bank conducted education and training courses by itself or entrust Bocom to conduct.

8. Dayi Bocom Rural Bank

Dayi Bocom Rural Bank was set up in September 2008 with a registered capital of RMB0.06 billion and 61% owned by the Bank. The business scope includes taking deposits from the general public, short, medium and long-term lending, domestic settlement, bill acceptance and discount, interbank lending and borrowings, credit cards, proxy settlement and vicarious cashing and other businesses approved by the CBRC.

At the end of 2013, its total assets were RMB1.073 billion, total due to customers were RMB0.770 billion, total loans amounted to RMB0.591 billion and its annual net profit reached RMB15.10 million.

As at the end of 2013, Dayi Bocom Rural Bank had a total of 43 employees, including 16 customers' managers in business development department, 16 counters, 5 staffs in integrated management department, 3 staffs in risk control department and 1 technical staff. 22 employees held bachelor degree or higher academic degree, 20 employees held college degree and 1 employee held qualification lower than college degree. Remuneration was determined strictly based on *Interim Measures for Dayi Bocom Rural Bank Remuneration*. The current training plan is conducted according to employee overall business performance and conducted each month as business development needed. All staffs shall attend the training plan. At present, Dayi Bocom Rural Bank had no separating employee and retiree for whom Dayi Bocom Rural Bank shall bear any expense.

9. Xinjiang Shihezi Bocom Rural Bank

Xinjiang Shihezi Bocom Rural Bank was set up in May 2011 with a registered capital of RMB0.07 billion and is 70% owned by the Bank. The business scope includes taking deposits from general public, short, medium and long-term leading, domestic settlement, bill acceptance and discount, interbank lending and borrowings, credit cards, proxy settlement and vicarious cashing and other businesses approved by the CBRC.

At the end of 2013, its total assets were RMB1.949 billion, total due to customers were RMB1.540 billion, and total customer loans were RMB1.419 billion, and its annual net profit was RMB41.27 million.

As at the end of 2013, Xinjiang Shihezi Bocom Rural Bank held a total of 53 employees, mainly consisting of integrated counters, sales, technical staffs, financial staffs, administrative staffs and manager staffs. 75% of total employees held bachelor degree or higher academic degree.

No one resigned or retire. Remuneration policy uphold the three principles, including "We should determine post based responsibility and determine salary amount based on post", "we should give priority to efficiency with due consideration to fairness", and "The remuneration policy should be beneficial for steady development and be incentive in a long time." In 2014, Employees of Dayi Bocom Rural Bank will hold related training courses according to personal overall qualification and business development needs, except attending training courses held by Bocom.

10. Qindao Laoshan Bocom Rural Bank

Qindao Laoshan Bocom Rural Bank was set up in September 2012 with a registered capital of RMB150 million and 51% owned by the Bank. The business scope includes taking deposits from the general public, short, medium and long-term lending, domestic settlement, bill acceptance and discount, interbank lending and borrowings, credit cards, proxy settlement and vicarious cashing and other businesses approved by the CBRC.

At the end of 2013, its total assets were RMB892 million, total due to customers were RMB731 million, total loans amounted to RMB513 million and its annual net loss reached RMB5.38 million.

As at the end of 2013, Qindao Laoshan Bocom Rural Bank held a total of 37 employees, including 3 Presidents and President Assistants, 5 department heads, 16 customer managers, 7 counters, 3 risk control staffs, 1 financial staff, 1 technical staff, 1 human resource. 3 employees held graduate degree, 29 employees held bachelor degree, and 5 employees held college degree. No on resigned or retired. The amount of remuneration was determined strictly based on *Amendments to Interim Measures for Qindao Laoshan Bocom Rural Bank Remuneration*. Training courses were mainly conducted each month in the Bank according to the training plan formulated in the beginning of the year.

VI. STRATEGIC COOPERATION WITH HSBC

In 2013, the Bank continued to improve the strategic cooperation with HSBC, its international strategic investor with the goal of forming a partnership characterised as mutual beneficial, win-win, and giving priority to cooperate with each other in the same condition. In addition, the Bank optimised communication mechanism, continued innovated cooperation model and further expand cooperation field, and the Bank achieved positive results.

Seamless communication among the top management. During the Reporting Period, top management from both banks maintained close and seamless communications through various ways including top management meetings of President/Executive President, summit conference, Executive Chairman regular meetings, irregularly interview as well as correspondences and telephone conferences where management would review and summarise cooperation results, discuss and determine key cooperation projects, quantise cooperation targets, explore cooperation fields, solve problems and promote cooperation from top to bottom.

Exchange of technical expertise. During the Reporting Period, adhering to the principle of "mutual exchange of resources and expertise", both banks accomplished 60 technical cooperation projects, realising intelligence resources sharing and business experience exchange. The fields of communication cover operation management of commercial banks, product innovation, international business, and building and optimising IT system.

Noticeable cooperation results. Credit card business, the most substantive cooperation project for both banks, maintained excellent momentum. Key cooperation projects such as "1+1 global financial cooperation" and "foreign business cooperation" achieved a significant breakthrough. Cooperation was steadily promoted in the aspects of international business, custodian business, precious metal, offshore business and fund sale. Business cooperation is further strengthened.

— The development of joint credit card operations of the two banks kept rapid and healthy. Total credit cards issued by the end of 2013 exceeded 30 million, increased by 3.17 million as compared with the beginning of 2013. The accumulated consumers' spending was 791.2 billion, increased by 44.9% from the beginning of the year.

— "1+1 global financial cooperation" obtained a breakthrough. Took fully complementary advantages of each other in customer resources, internet and capital, optimised communication mechanism, and created new ways in overseas projects management and capital cooperation model. Bocom first provided central enterprise with joint credit to go global, providing successful examples for deeper cooperation in the future.

— Overseas business cooperation gained substantial development. Both banks treated Hong Kong business cooperation as pilot unit and sally port. And the two parties developed further cooperation in syndicated loan and bond issue through establishing close communication mechanism, and promoting information sharing and customer exchange.

— Increased business volume in international business and offshore business cooperation. The two parties maintained to give priority to cooperate with each other, leading to rapid increase in US dollar settlement, trade finance and international letters of guarantees. In the meanwhile, the Bank introduced asset transfer for bank bill and cooperated with HSBC in the operation.

— Cooperation in custodian business has progressed smoothly. Both banks followed closely supervise trends, continually expand cooperation fields, and deepened their cooperation in QFII, QDII. Custodian business increased by 4 projects compared with the beginning of the year and the custodian scale increased by 29% from the beginning of the year.

— Developed a closer relationship with each other in cooperation in precious metal business. In 2013, both banks not only achieved the first cooperation in gold consignment and money market business but also facilitate the cooperation volume to increase rapidly. HSBC Bank has become the Bank's an important import source of physical gold.

Looking forward to the future, both banks will continue to move forward on information exchange and cooperation under Technical Cooperation and Exchange (TCE), promoting each other's business to a new level. In the meanwhile, both banks will summarise the existing experience of successful cooperation, explore new areas of cooperation, and enhance the effectiveness of cooperation, to realise win-win, and mutual beneficial.

A Decade Review of the BoCom-HSBC Strategic Cooperation

The Bank signed the strategic agreement with HSBC in 2004 and became the first national bank in "attraction of foreign investment, talents exchange and technical cooperation". Adhere to the principle of "long-term mutual beneficial development", the collaboration in the past decade has maintained closely communication pursuant to the long-term agreement, achieving astonishing results in the history of domestic-overseas banking cooperation.

Steady stake in BoCom. For a decade, HSBC has become the second largest shareholder after the two investments in BoCom refinance projects and maintains its position pursuant to the long-term agreement. From 2005 to 2013, total assets and net profit of the Group expanded by 3 and 6 times respectively in returns of HSBC's investments with a reduction of 1.75 percentage points in non-performing loan ratio and its cost-to-income ratio dropped by 30 percentage points.

Seamless communication among the top management. In the past decade, top management from the Bank and HSBC maintained close and seamless communication through various levels and ways including regular conferences, summit meetings, correspondences and conference calls to where management would discuss the improvement of mutual understanding, set future cooperation targets and further explore the potential cooperative areas, resolve controversial issues and carry forward strategic cooperation.

Further promotion of the business cooperation. As at the end of 2013, the Bank have issued more than 30 million co-brand cards with HSBC as the substantive cooperation in credit card business for the past decade. Both banks are dedicated to exploring potential cooperative areas, measures and markets in support of Chinese enterprises "going aboard", overseas business, international settlement, offshore service, investment banking transaction, fund custody and promotion and precious metal business.

Technical Cooperation and Exchange (TCE). Through measures of visiting expert, project training and personnel exchange from HSBC, the Bank has improved its corporate governance, strategic adjustments, operational efficiency and technical improvement. It is mainly due to the amendment pursuant to "TCE Agreement" in 2007 towards integration of talents exchange and sharing technical expertise.

Decade Partnership. It is recognised that the right path towards mutual beneficial partnership derived from the remarkable results from the BoCom-HSBC strategic cooperation. Both banks have enhanced their understanding in cooperation and competition and explored various operation structures, business models, cooperative areas and cultural agreement to achieve better results, providing precious experience towards deepening cooperation in the long term.

As the frequent communication among economies and ongoing convergence between domestic and overseas markets, along with the further implementation of the our international strategy, both banks will be dedicated to further cooperation and accomplishing noteworthy results in the history of China and Western banking partnership.

VIII. OUTLOOK

Looking forward to 2014, the market environment will suffer a lot of changes, including the slowdown of macro economies, the cumulation of financial risks, accelerated interest rate liberalisation, significant trend of financial disintermediation, the upheaval of internet finance, and increasingly personalised and diversified customers' demands. These changes will bring banking industry unprecedented pressure, while leading the direction of reform and accelerating the paces of transformation. The Group will focus on the long-term balance of risks and returns, adhere to the established strategy, follow the trend of development, release the benefits of development by reforming and stimulate business vitality by innovation. In specific, the Group will focus on the following aspects:

Improve Jointly On- and Off-balance Sheet, and Pursue High-quality Profit Growth

Facing with the trend toward interest rate liberalisation, the Group will explore the balance sheet management, continually perfect on-balance-sheet and off-balance-sheet business structure and credit and non-credit business structure, strengthen innovation of portfolio financing, thereby improving on-balance sheet and off-balance sheet jointly, and increasing total financing volume. Based on increasing pricing ability, we will continuously promote business model and profit model transition. According to the goals of "increase assets and profit, increase non-interest income, increase assets quality, decrease loan-to-deposit ratio, decrease debt costs, and decrease capital consumption", the "3-increase-3-decrease" goals will drive asset and liability structure adjustment and optimisation, a reasonable balance of safety, liquidity and profitability, and strive to achieve a profit growth with low capital input and low-cost expansion. In the meanwhile, the Group will seize the development opportunity of "massive asset management", take full advantages of asset management and trust license to expand off-balance sheet business and create a large platform of group asset management business.

Carry Forward the "Second Round of Reform", and Stimulate the Energy of Transition

The Group will continue to promote business line and quasi-business line transformation, and implement direct business's support mechanisms including credit cards, financial markets or precious metal, Offshore Finance or Bills Centre. The Group will strive to accelerate the establishment of quasi-business line in sectors of wealth management, investment banking, asset custody, private banking, etc., as well as exploit key customers, products and feasibility of quasi-business line transformation, making the branch outlets and business units "wheeled" to jointly promote restructuring and development. The Bank will reform to improve the appraisal system, implement the classification assessment for provincial branches, streamline the assessment indicators and clarify business process and management permission, optimise processes, decentralise, and release branch business vitality.

Enhance the Collaborative Service Capabilities In Cross-broad, Cross-industry and Inter-market, and Fully Explore Customers' Value

Adhere to the "BoCom Strategy", the Group will perfect the service of the cross-border settlement of domestic and foreign currency and one-stop service in investment and financing, promote the global financial service platform and wealth management platform, establish settlement centre, clearing centre and financing centre, develop subsidiaries' expertise advantages, strengthen collaboration and synergy within the Group, and form complementary advantages with banking industry. In the meanwhile, the Group will establish a clear strategy of customer development. The customer-oriented strategy identifies customers, relies on customers, develop customers to expand business, pricing products, construct system and allocate resources. The Group introduces a precise marketing, develop cross-selling promotion, explore and enhance customers' comprehensive value to meet customers' all-round needs of cross-border, cross-industry and inter-market.

Strengthen Risk Management and Internal Control, and Actively Balance Current Profit and Risk Lag

In 2013, the Group managed a variety of existing and potential risks with prompt response and orderly action to fully reflect the risk exposure, thereby seized the initiative of operation and management. In 2014, although the macroeconomic situation will be more complex and severe and concern on asset quality will still exist, the industry risk is under control. We believe that we have the ability to correctly face challenges, suppress the unexpected increase in non-performing loans and remain generally stable asset quality. We will always adhere to the philosophy of "law compliance, steady operation", adhere to proactive risk management, and adhere to create a risk management system characterised by "full coverage, whole process, responsibility clarification, and risk management culture". The Group will strength risk management, fully play the role of "small and middle offices" management system, promote the enhancing credit quality or obtaining sufficient buffer, continually strengthen management ability in business duration, strictly control key risks such as over capacity, real estate, financing vehicle, private financing, and webs of guarantee. We will steadily enhance the management for small and micro enterprise, comprehensively improve the management mechanism of various types of emerging business, accelerate to non-performing assets collection, further promote technical innovation in risk management, and achieve the best balance between risk management and development transformation.

Exploit the Advantages of Information Technology and the "Trinity" Channel and Build Service Brand and Features

Internet's crazy interests in innovation brought the Banking industry the power of innovation. Internet financing is not a simple financial services through network, but a financial service based on the transaction subject, completed big data and cloud computing. The Group will take the advantage of massive master data information, then accelerate the platform building based on payment, wealth management and financing and build an open Internet ecosystem in order to provide customers with a full range of financial and non-financial services, and strive to become the leading innovative Bank in internet financing. In the meanwhile, the Group promote the establishment of a new generation of business systems, strengthen information security management, improve the channel layout and take the advantage of a "Trinity" to further improve service processes and service attitude, and strive to become the most prominent bank with the lowest complaint rate, highest service efficiency, standardised and featured service.

Changes in Share Capital and Shareholdings of Substantial Shareholders

I. CHANGES IN SHARE CAPITAL

As of December 31, 2013, the Bank had issued a total of 74,262,726,645 shares, including 39,250,864,015 A shares and 35,011,862,630 H shares, which account for 52.85% and 47.15%, respectively.

	1 January 2013		Changes(+/-) during the Reporting Period					31 December 2013	
	Number of shares	Percentage (%)	Issue of new shares	Bonus shares	Shares transferred from the surplus reserve	Others	Sub-total	Number of shares	Percentage (%)
I. Shares subject to sales restrictions	6,541,810,669	8.81	–	–	–	–	–	6,541,810,669	8.81
1. State-owned shares	4,407,854,231	5.94	–	–	–	–	–	4,407,854,231	5.94
2. Shares held by state-owned legal persons	1,428,571,426	1.92	–	–	–	–	–	1,428,571,426	1.92
3. Shares held by other domestic investors	705,385,012	0.95	–	–	–	–	–	705,385,012	0.95
Include:									
Shares held by domestic non state-owned legal persons	705,385,012	0.95	–	–	–	–	–	705,385,012	0.95
Shares held by domestic natural persons	–	–	–	–	–	–	–	–	–
4. Shares held by foreign investors	–	–	–	–	–	–	–	–	–
II. Shares not subject to sales restrictions	67,720,915,976	91.19	–	–	–	–	–	67,720,915,976	91.19
1. RMB ordinary shares	32,709,053,346	44.04	–	–	–	–	–	32,709,053,346	44.04
2. Domestically-listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas-listed foreign shares	35,011,862,630	47.15	–	–	–	–	–	35,011,862,630	47.15
4. Others	–	–	–	–	–	–	–	–	–
III. Total	**74,262,726,645**	**100.00**	**–**	**–**	**–**	**–**	**–**	**74,262,726,645**	**100.00**

II. SECURITIES ISSUANCE AND LISTING

Securities issuance in the three years ended as at the end of the Reporting Period: non-public issuance of A shares and H shares

Pursuant to the resolution passed at the Extraordinary General Meeting held on 9 May 2012, the Bank has implemented the non-public issuance of A shares and H shares, and issued 6,541,810,669 A shares with the issue price of RMB4.55 per share and 5,835,310,438 H shares with the issue price of HKD5.63 per share. The Bank completed the registration and sales restriction procedure in respect of the issuance of above-mentioned A shares in Shanghai branch of China Securities Depository and Clearing Company Limited on 23 August 2012. All the A shares subscribed for under such non-public issuance are subject to a lock-up period of 36 months from the completion of the issuance, and are expected to be listed and commence dealing on 23 August 2015 (or be postponed to the first trading day thereafter in case of any public holidays or weekends). The H shares issued under such non-public issuance were listed and commenced trading on 24 August 2012.

For further details, please refer to the relevant announcements published by the Bank in China Securities Journal, Shanghai Securities News, Securities Times and on the Shanghai Stock Exchange website (www.sse.com.cn) on 25 August 2012 and 27 August 2012, as well as on the Hong Kong Stock Exchange HKExnews website (www.hkexnews.hk) on 24 August 2012 and 26 August 2012, respectively.

Details of the issue of the corporate bonds of the Bank are set out in Note 31 to the Consolidated Financial Statements.

III. SHAREHOLDINGS OF SHAREHOLDERS

1. Number of shareholders

As at the end of the Reporting Period, the total number of shareholders of the Bank was 400,460, of which 358,424 were holders of A shares and 42,036 were holders of H shares. As at the end of the fifth trading day immediately preceding the date of publication of this annual report, the total number of the shareholders of the Bank was 399,725, of which 357,838 were holder of A shares and 41,887 were holders of H shares.

2. Shareholdings of the shareholders (According to the Bank's register of members maintained at its share registrar)

(1) Shareholdings of the top 10 shareholders

Name of shareholders	Nature of shareholders	Shareholding percentage (%)	Number of shares held	Number of shares held subject to sales restrictions	Number of shares pledged or frozen[1]
Ministry of Finance	State	26.53	19,702,693,828	2,530,340,780	Nil
HKSCC Nominees Limited[2]	Foreign legal person	20.07	14,901,368,960	–	Unknown
The Hongkong and Shanghai Banking Corporation Limited[3]	Foreign legal person	18.70	13,886,417,698	–	Nil
National Council for Social Security Fund[4]	State	4.42	3,283,069,006	1,877,513,451	Unknown
Capital Airports Holding Company	State-owned legal person	1.68	1,246,591,087	–	Unknown
Shanghai Haiyan Investment Management Co., Ltd.	State-owned legal person	1.09	808,145,417	439,560,439	Unknown
Ping An Life Insurance Company of China Ltd. – Traditional – High interest rate policy products	Other domestic entity	0.95	705,385,012	705,385,012	Unknown
China FAW Group Corporation	State-owned legal person	0.89	663,941,711	439,560,439	Unknown
Yunnan Hongta Group Co., Ltd.	State-owned legal person	0.89	658,467,013	219,780,219	Unknown
Luneng Group Co., Ltd.	State-owned legal person	0.77	571,078,169	–	Unknown

Notes:

1. Unless otherwise stated, the Bank is not aware of any circumstances where shares held by the above shareholders have been pledged or frozen, or the existence of any connected relationship among the above shareholders, or whether they are parties acting in concert as defined in the "Measures for the Administration of the Takeover of Listed Companies".
2. The aggregate number of shares held by the nominee, HKSCC Nominees Limited, represents the total number of H shares of the Bank held by all institutional and individual investors who maintained an account with it as at 31 December 2013. (Same applies hereinafter)
3. According to the Bank's register of members, HSBC held 13,886,417,698 H shares of the Bank as at 31 December 2013. In addition, according to the disclosure of interests forms filed with the Hong Kong Stock Exchange by HSBC Holdings plc, HSBC beneficially held 14,135,636,613 H shares of the Bank as at 31 December 2013, representing 19.03% of the Bank's total share capital. Please refer to "Substantial shareholders and holders of interest or short positions required to be disclosed under Divisions 2 and 3 of Part XV of the Hong Kong Securities and Futures Ordinance" for details of the H shares that deemed to be beneficially owned by HSBC. (Same applies hereinafter)
4. According to the information provided by SSF to the Bank, as at 31 December 2013, other than the shareholdings recorded in the register of members of the Bank, SSF held additional 7,027,777,777 H shares of the Bank, representing 9.46% of the Bank's total share capital, which had been registered under HKSCC Nominees Limited. As at 31 December 2013, SSF held a total of 10,310,846,783 A shares and H shares of the Bank, representing 13.88% of the Bank's total share capital. (Same applies hereinafter)

(2) Shareholdings of the top 10 shareholders not subject to sales restrictions

Name of shareholders	Number of shares held not subject to sales restrictions	Class of shares
Ministry of Finance	12,618,353,049	A share
	4,553,999,999	H share
HKSCC Nominees Limited	14,901,368,960	H share
The Hongkong and Shanghai Banking Corporation Limited	13,886,417,698	H share
National Council for Social Security Fund	1,405,555,555	H share
Capital Airports Holding Company	1,246,591,087	A share
Luneng Group Co., Ltd.	571,078,169	A share
Yunnan Hongta Group Co., Ltd.	438,686,794	A share
Shanghai Haiyan Investment Management Co., Ltd.	368,584,978	A share
Sinopec Finance Co., Ltd.	363,956,733	A share
Aviation Industry Corporation of China	310,678,434	A share
Details of connected relationship or acting in concert among the above shareholders:	(1) The Bank is not aware of the existence of any connected relationship among the above shareholders, or whether they are parties acting in concert as defined in the "Measures for the Administration of the Takeover of Listed Companies".	
	(2) The Bank is not aware of the existence of any connected relationship between the top 10 shareholders not subject to sales restrictions and the top 10 shareholders, or whether they are parties acting in concert as defined in the "Measures for the Administration of the Takeover of Listed Companies".	

(3) Shareholdings of shareholders subject to sales restrictions

Name of shareholders	Number of shares held subject to sales restrictions	Percentage of total issued shares subject to sales restrictions (%)	Lock-up period
Ministry of Finance	2,530,340,780	38.68	36 months
National Council for Social Security Fund	1,877,513,451	28.70	36 months
Ping An Life Insurance Company of China Ltd. — Traditional — High interest rate policy products	705,385,012	10.78	36 months
China FAW Group Corporation	439,560,439	6.72	36 months
Shanghai Haiyan Investment Management Co., Ltd.	439,560,439	6.72	36 months
China National Tobacco Corporation — Zhejiang Branch	329,670,329	5.04	36 months
Yunnan Hongta Group Co., Ltd.	219,780,219	3.36	36 months

3. Shareholders (legal person) holding 10% or more of the issued share capital of the Bank (excluding HKSCC Nominees Limited)

(1) Ministry of Finance

Minister

Lou Jiwei

Date of Establishment

October 1949

Organization Code

00001318-6

Registered Capital

N/A

Main Responsibilities

Division of the State Council, in charge of national financial revenue and expenditure as well as fiscal and taxation policy.

(2) HSBC

Legal Representative

Stuart Gulliver

Date of Establishment

1866

Business Registration No.

00173611-000-01-12-7

Registered Capital

Ordinary Share Capital:

An issued ordinary share capital of HKD85.3187 billion divided into 34.1275 billion ordinary shares.

Preference Share Capital:

An issued preference share capital of USD6.088 billion Comprising 1.05 billion cumulative redeemable preference shares, 3.953 billion non-cumulative irredeemable preference shares and 1.085 billion cumulative irredeemable preference shares.

Main Business Operation

Primarily provide local and international banking services, and related financial services in the Asia-Pacific region.

(3) National Council for Social Security Fund

Legal Representative
Xie Xuren
Date of Establishment
August 2000
Organization Code
71780082-2
Registered Capital
RMB8 million
Main Responsibilities
Manage the capital allocated by the Central Government, the capital derived from reduction or transfer of state-owned shares and capital raised by grant of equity asset and other methods; draft and organise the implementation of investment and operation strategy on the fund; select and entrust investment managers and custodians for the implementation and inspection of the investment management and trusteeship of the fund; operate direct investment of the fund under provisions; responsible for the financial management and accounting of the fund; preparation of periodic financial statements as well as the draft of financial reports; publish the financial conditions such as fund assets, proceeds and cash flow to the public regularly; earmark funds in a way jointly instructed and designated by the Ministry of Finance and Ministry of Human Resources and Social Security; and undertake other tasks assigned by the State Council.

4. Substantial shareholders and holders of interests or short positions required to be disclosed under divisions 2 and 3 of part XV of the Hong Kong Securities and Futures Ordinance

As at 31 December 2013, to the knowledge of the Directors, Supervisors and Chief Executive of the Bank, the substantial shareholders and other persons (other than the Directors, Supervisors and Chief Executive of the Bank) who had interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept pursuant to Section 336 of the Hong Kong Securities and Future Ordinance (the "SFO") were as follows:

Name of substantial shareholders	Capacity	Number of A shares	Nature of interest[1]	Approximate percentage of total issued A shares (%)	Approximate percentage of total issued shares (%)
Ministry of Finance	Beneficial owner	15,148,693,829[2]	Long position	38.59	20.40
National Council for Social Security Fund	Beneficial owner	1,877,513,451	Long position	4.78	2.53

Name of substantial shareholders	Capacity	Number of H shares	Nature of interest[1]	Approximate percentage of total issued H shares (%)	Approximate percentage of total issued shares (%)
National Council for Social Security Fund	Beneficial owner	8,433,333,332	Long position	24.09	11.35
Ministry of Finance	Beneficial owner	4,553,999,999[2]	Long position	13.01	6.13
HSBC	Beneficial owner	14,135,636,613	Long position	40.37	19.03
	Interest of controlled corporations	2,674,232[3]	Long position	0.01	0.004
	Total:	14,138,310,845		40.38	19.04
HSBC Finance (Netherlands)	Interest of controlled corporations	14,138,310,845[4]	Long position	40.38	19.04
HSBC Bank plc	Beneficial owner	9,012,000	Long position	0.03	0.01
	Interest of controlled corporations	63,250[5]	Long position	0.0002	0.0001
	Total	9,075,250		0.03	0.01
HSBC Holdings plc	Interest of controlled corporations	14,147,386,095[6]	Long position	40.41	19.05

Notes:

1. Long positions held other than through equity derivatives.
2. As known to the Bank, as at 31 December 2013, the Ministry of Finance held 4,553,999,999 H shares and 15,148,693,829 A shares of the Bank, representing 6.13% and 20.40% of the total share capital of the Bank, respectively.
3. HSBC holds 62.14% equity interest in Hang Seng Bank Limited. Pursuant to the SFO, HSBC is deemed to be interested in the Bank's H shares held by Hang Seng Bank Limited.
   Hang Seng Bank Limited is deemed to be interested in the 2,674,232 H shares held by its wholly-owned subsidiaries. Such 2,674,232 H shares represent the aggregate of the 2,581,887 H shares directly held by Hang Seng Bank Trustee International Limited and 92,345 H shares directly held by Hang Seng Bank (Trustee) Limited.
4. HSBC is wholly owned by HSBC Asia Holdings BV and HSBC Asia Holdings BV is, in turn wholly owned by HSBC Asia Holdings (UK) Limited which is wholly owned by HSBC Holdings BV. Furthermore, HSBC Holdings BV is wholly owned by HSBC Finance (Netherlands). Pursuant to the SFO, each of HSBC Asia Holdings BV, HSBC Asia Holdings (UK) Limited, HSBC Holdings BV and HSBC Finance (Netherlands) is deemed to be interested in the 14,138,310,845 H shares held by HSBC.
5. HSBC Trustee (C.I.) Limited holds 63,250 H shares. HSBC Trustee (C.I.) Limited is wholly owned by HSBC Private Bank (C.I.) Limited, which is wholly owned by HSBC Private Banking Holdings (Suisse) SA. Furthermore, HSBC Private Banking Holdings (Suisse) SA is wholly owned by HSBC Europe (Netherlands) BV, which is in turn owned as to 94.90% by HSBC Bank plc. Pursuant to the SFO, each of HSBC Private Bank (C.I.) Limited, HSBC Private Banking Holdings (Suisse) SA, HSBC Europe (Netherlands) BV and HSBC Bank plc is deemed to be interested in the 63,250 H shares held by HSBC Trustee (C.I.) Limited.
6. Both HSBC Finance (Netherlands) and HSBC Bank plc are wholly owned by HSBC Holdings plc. Pursuant to Notes 3, 4, 5, and the SFO, HSBC Holdings plc is deemed to be interested in the 14,138,310,845 H shares held by HSBC and the 9,075,250 H shares held by HSBC Bank plc.

Save as disclosed above, on 31 December 2013, no person (excluding the Directors, Supervisors and Chief Executive of the Bank) or corporation was recorded in the register required to be kept under Section 336 of the SFO as holding any interests or short positions in the shares or underlying shares of the Bank that would fall to be disclosed to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

I. PROFILE OF DIRECTORS[1]

Mr. Niu Ximing, age 57, Chairman and Executive Director. Mr. Niu has been the Chairman of the Board of Directors and Executive Director of the Bank since October 2013. From May 2013 to October 2013, Mr. Niu was the Chairman of the Board of Directors, Executive Director and President of the Bank. Mr. Niu was the Vice Chairman, Executive Director and President of the Bank from December 2009 to May 2013. Mr. Niu previously held several positions in Industrial and Commercial Bank of China ("ICBC") from July 1986 to December 2009, including Deputy General Manager and General Manager of ICBC's Xining Branch in Qinghai Province, Deputy Director, Director and General Manager of the Public Transportation Credit Department of ICBC, General Manager of ICBC's Beijing Branch, Assistant to the President of ICBC and General Manager of ICBC's Beijing Branch, Executive Vice President of ICBC and Executive Director and Executive Vice President of ICBC. Mr. Niu worked at the PBOC from September 1983 to July 1986 and served as Vice Director of the Industrial and Commercial Credit Department of the PBOC's Qinghai Branch from December 1984 to July 1986. Mr. Niu obtained his bachelor's degree in Finance from Central University of Finance and Economics in 1983. Mr. Niu obtained his Master's degree in Economics from Harbin Institute of Technology in 1997 and received special government allowances issued by the State Council starting in 1999.

Mr. Peng Chun, age 52, Vice Chairman, Executive Director and President. Mr. Peng has been the Vice Chairman and Executive Director of the Bank since November 2013. He has been the President of the Bank since October 2013. Mr. Peng previously served as Deputy General Manager of China Investment Corporation, and concurrently served as Executive Director and General Manager of Central Huijin Investment Ltd. Mr. Peng served in several positions in the Bank, including Executive Director and Executive Vice President from August 2005 to April 2010, Executive Vice President from September 2004 to August 2005, Director and Assistant to the President of the Bank from June 2004 to September 2004, Assistant to the President of the Bank from September 2001 to June 2004, Deputy Manager and Manager of Urumqi Branch, General Manager of Nanning Branch and General Manager of Guangzhou Branch from 1994 to 2001. Mr. Peng obtained his Master's degree in Economics from PBC School of Finance in 1986.

Mr. Qian Wenhui, age 52, Executive Director and Executive Vice President. Mr. Qian has been an Executive Director and Executive Vice President of the Bank since August 2007. Mr. Qian served as Executive Vice President of the Bank from October 2004 to August 2007 (and concurrently served as General Manager of Shanghai Branch from July 2005 to November 2006). Before joining the Bank, Mr. Qian worked at China Construction Bank ("CCB") and served as Director of the General Office of the Asset and Liability Committee of CCB and the Deputy General Manager of CCB's Shanghai Branch; Director of the General Office of the Asset and Liability Committee of CCB and Director of the System Reform Office; General Manager of the Asset and Liability Management Department; General Manager of the Asset and Liability Management Department and Director of the Restructuring Office. Mr. Qian obtained his MBA degree from Shanghai University of Finance and Economics in 1998.

Ms. Yu Yali, age 56, Executive Director, Vice President and Chief Financial Officer. Ms. Yu has been an Executive Director, Executive Vice President and Chief Financial Officer of the Bank since August 2012. Ms. Yu served as Vice President and Chief Financial Officer of the Bank from August 2007 to August 2012. Ms. Yu served as Chief Financial Officer of the Bank from August 2004 to August 2007. Ms. Yu was General Manager of the Finance and Accounting Department and Financial Budget Department of the Bank from December 1999 to August 2004. Ms. Yu has previously served in numerous positions, including Head of Finance and Accounting Division and Deputy General Manager of the Bank's Zhengzhou Branch and Deputy General Manager of Finance and Accounting Department of the Head Office from February 1993 to December 1999. Ms. Yu obtained her MBA degree from Fudan University in 2006.

[1] The term of office of the Board of Directors expired on the date of the 2015 Annual General Meeting.

Mr. Hu Huating, age 56, Non-executive Director. Mr.Hu has served as a Non-executive Director of the Bank since September 2004. Mr. Hu served in several positions within the Ministry of Finance from December 1978 to September 2004, including Director of the Bureau for Retired Officials Affairs, Deputy Director of the Economic Construction Department, Assistant Inspector of the Infrastructure Department, Head of the Comprehensive Division and the Second Investment Division, Head of the Second Division of Comprehensive Planning Supplementary Budget Management Department, Deputy Head of the Special Division of Agricultural Taxation Department, Deputy Head of the Central Division of the Supplementary Budget Management Department, Deputy Head of the Wages and Commodity Prices, Division of the Comprehensive Planning Department and Secretary of the General Office. Mr. Hu obtained his Master's degree in Investment Economics from Dongbei University of Finance and Economics in 1998.

Ms. Du Yuemei, age 59, Non-executive Director. Ms. Du has been a Non-executive Director since August 2011. Ms. Du previously held the position of Deputy Supervision Commissioner and Supervision Commissioner of Shanghai Commissioner Office of the Ministry of Finance from August 2002 to August 2011. She served as Deputy Head and the Head of the Budget Division, Deputy Director - General of the Finance Department of Yunnan Province from May 1995 to July 2002, Deputy General Manager of Yunnan International Trust and Investment Corporation from December 1992 to April 1995. Ms. Du obtained her EMBA degree from Shanghai National Accounting Institute in 2006.

Mr. Wang Taiyin, age 49, Non-executive Director. Mr. Wang has been a Non-executive Director since August 2013. Mr. Wang previously held various positions from August 1986 to May 2013 such as Associate Officer and Second Officer of the Technical Expert Division of Human Resource Department and the Grass-root Level Service Department of the Ministry of Finance, First Officer of the Grass-root Level Service Division of Personnel and Education Department, First Officer of the Representative Agency of the Personnel and Education Department (during which served as the governor's assistant of the Municipal Government in Chaoyang County, Liaoning Province from October 1995 to October 1996), Deputy Head and Inspector, Secretary of the Personnel Development Department (enjoy benefit package as Division Chief), Head of the Representative Agency of the Personnel Development Department and Associate Inspector of the Personnel Development Department. Mr. Wang graduated from Zhongnan University of Economics and Law and majored in Political Science.

Mr. Peter Wong Tung Shun, age 62, Non-executive Director. Mr. Wong has been a Non-executive Director of the Bank since August 2005. Mr. Wong currently holds the positions as the Executive Vice President and Chief Executive Officer of HSBC, the Bank's substantial shareholder, as well as the Chief Operation Officer of the HSBC Group, member of the Group's Management Committee, Chairman and Non-executive Director of HSBC Bank (China) Company Limited and, Chairman and Non-executive Director of HSBC Bank (Malaysia) Company Limited. He also serves as Non-executive Director for Hang Seng Bank Limited as well as independent Non-executive Director of Cathay Pacific Airways Limited. Mr. Wong was the Chairman of The Hong Kong Association of Banks in 2001, 2004, 2006 and 2009. His official duties in mainland China include economic consultant for the Governor in the International Consultation Conference on the Future Economic Development of Guangdong Province 2013, member of the 12th Chinese People's Political Consultative Conference ("CPPCC"), Standing Committee and member of the 11th CPPCC in Hubei Province, International Economics Consultant for the Mayor of Chongqing, Vice Chairman, Council Member of the China Banking Association Council, and Council Member of the Red Cross Society of China. He has been a Visiting Professor at Central University of Finance and Economics since June 2011. Before joining HSBC in April 2005, Mr. Wong worked for Citibank and Standard Chartered Bank. Mr. Wong obtained his Masters in Marketing and Finance and in Computer Science from Indiana University in the US in 1976 and 1979 respectively.

Ms. Anita Fung Yuen Mei, age 53, Non-executive Director. Ms. Fung has served as a Non-executive Director of the Bank since November 2010. She currently holds the position as the Group General Manager of HSBC Holdings Plc, Chief Executive Officer of HSBC Hong Kong, Chairman and Director of HSBC Global Asset Management (Hong Kong) Limited, Non-executive Director of HSBC (China) Limited and Director of HSBC Markets (Asia) Limited, etc. Ms. Fung served as Group General Manager of HSBC Holdings Plc and Head of HSBC Global Banking and Capital Markets for Asia-Pacific from January 2010 to September 2011; Group General Manager of HSBC Holdings Plc, Treasurer and Head of Global Capital Markets for Asia-Pacific from May 2008 to January 2010. She previously held various positions including Head of HSBC Bond Market, Head of Asian Fixed Income Trading, Head of Asian Pacific Trading, Joint-Head and Treasurer of Global Capital Markets for Asia-Pacific from September 1996 to April 2008. Ms. Fung obtained her Master's degree in Applied Finance from Macquarie University, Australia in 1995.

Mr. Ma Qiang, age 55, Non-executive Director. Mr. Ma has been a Non-executive Director of the Bank since September 2011. Mr. Ma holds the position of Director of the Equity Management Department (Industrial Investment Department) of National Council for Social Security Fund since December 2010. Mr. Ma previously served as Deputy Chief, Member of the Party Leadership Group, Deputy Chief and Deputy Secretary of the Party Leadership Group (bureau level) of the Tianjin Finance Bureau (the Tianjin Local Tax Bureau) from July 2001 to December 2010. Mr. Ma graduated from Online College of Hunan University in 2004 with Major in Finance.

Mr. Lei Jun, age 44, Non-executive Director. Mr. Lei has been a Non-executive Director of the Bank since August 2008. Mr. Lei is holding the position of General Manager of the Capital Operation Department of Beijing Capital Airport Holding Company since June 2005. He also holds the positions as the Chairman of Goldstate Securities Co., Ltd. He previously served as General Manager of the Mergers and Acquisitions Department in Goldstate Securities Co., Ltd from January 2005 to June 2005; General Supervisor of the Management and Innovation Division in Shanghai Baosteel Group from October 2003 to January 2005 and Division Deputy General Manager in Fortune Trust from June 1998 to October 2003. Mr. Lei obtained his MBA from the University of Hong Kong in 2000.

Ms. Zhang Yuxia, age 58, Non-executive Director. Ms. Zhang has been the Non-executive Director of the Bank since August 2013. Ms. Zhang is holding the position of Chief Accountant of the China National Tobacco Corporation since December 2009; Ms. Zhang previously served as the Director of Financial Management and Supervision (Internal Audit) Department of the State Tobacco Monopoly Administration from July 1998 to December 2009. Ms. Zhang also served as the Deputy Manager (at a level equal to the Deputy Head) of Institution Service Agency of the Ministry of Finance from July 1996 to July 1998 and served as Associate Officer, Second Officer, Deputy Director and Director of the Second National Industrial Division of Industrial and Transportation Finance Department of the Ministry of Finance from February 1982 to July 1996. Ms. Zhang, Senior Accountant and CICPA, obtained her bachelor's degree in accounting of the Department of Industrial Management from Tianjin University of Finance and Economics.

Mr. Wang Weiqiang, age 66, Independent Non-executive Director. Mr. Wang has been the Independent Non-executive Director of the Bank since November 2010. Mr. Wang was an 11th CPPCC member and the member of CPPCC Economic Committee. Mr. Wang has been serving as Chief Supervisor of ICBC International Holdings Limited since June 2008, Chief Supervisor of ICBC from October 2005 to June 2008, Chairman of the Supervisory Committee of ICBC by designation by the State Council from August 2003 to October 2005, and Chairman of the Supervisory Committee of the Agricultural Bank of China by designation by the State Council from June 2000 to July 2003. Mr. Wang served as President of the People's Bank of China's Chengdu Branch and Director of the Bureau for the State Administration of Foreign Exchange's Chengdu Branch from October 1998 to June 2000. Mr. Wang graduated from the Department of Economics and Management of Liaoning University in 1984.

Mr. Peter Hugh Nolan, age 65, recipient of the Commander of the Most Excellent Order of the British Empire, Independent Non-executive Director. Mr. Nolan has been an Independent Non-executive Director of the Bank since November 2010. And since 2012, Mr. Nolan has been Director and Professor of Centre of Chinese Development and Studies, at Cambridge University. Mr. Nolan was a professor in Judge Business School at Cambridge University from 1997 to 2012 and was a lecturer in the Faculty of Economics and Political Science at Cambridge University from 1979 to 1997. Mr. Nolan obtained his Doctoral degree in Economics from University of London in 1981.

Mr. Chen Zhiwu, age 51, Independent Non-executive Director. Mr. Chen has been an Independent Non-executive Director of the Bank since November 2010. Mr. Chen has been a professor of Finance at School of Management of Yale University since July 1999. He also serves as the Independent Non-executive Director of Petro China Corp, Lord Abbett China Asset Management Co., Ltd. and Noah Wealth Management, visiting Professor at Tsinghua University, Cheung Kong Chair Professor and Chief Adviser of Permal Group. Mr. Chen was an Assistant Professor and Associate Professor of Business and Finance at Ohio State University from July 1995 to July 1999. Mr. Chen obtained his Doctoral degree in Finance and Economics from Yale University in 1990.

Mr. Choi Yiu Kwan, age 59, Independent Non-executive Director and holder of the Silver Bauhinia Star award by the Hong Kong SAR Government in 2010. He has been an Independent Non-executive Director since September 2011. Mr. Choi currently serves as an Independent Non-executive Director of the Industrial and Commercial Bank of China (Asia) Limited. Mr. Choi joined the Hong Kong Monetary Authority in 1993 and held different positions including the Head of the Banking Policy Department, the Head of Administration, the Assistant Executive Director (Banking Supervision), the Deputy Chief Executive (Monetary Policy and Reserves Management) and the Deputy Chief Executive (Banking Supervision) until retirement in January 2010. Mr. Choi held various positions in the Office of the Commissioner of Banking of the Hong Kong Government between 1974 and 1993, responsible for supervising the Banking industry. Mr. Choi obtained a Higher Certificate in Accounting from the Hong Kong Polytechnic University and he is a Fellow Member of both the Hong Kong Institute of Bankers and the Treasury Markets Association.

Mr. Liu Tinghuan, age 71, Independent Non-executive Director. Mr. Liu became a Non-executive Director of the Bank in August 2013. Mr. Liu previously served as the Chairman of China Union Pay Co., Ltd. from August 2004 to August 2010; Executive Vice President of the PBOC from February 2000 to July 2004; President of ICBC from January 1997 to February 2000; Executive Vice President of ICBC from August 1985 to January 1997; General Manager of the PBOC Dalian Branch from September 1983 to August 1985. Mr. Liu graduated from Finance and Economics Department of Liaoning University in 1966 and majored in Finance.

Mr. Yu Yongshun, age 63, Independent Non-executive Director. Mr. Yu has been serving as Independent Non-executive Director of the Bank since August 2013 and currently holds the positions as the Chairman of the Supervisory Committee of Huaxin Trust and Independent Director of Cinda Securities Co., Ltd. Mr. Yu served as the General Manager of Internal Audit Department and the Chief Audit Executive of CCB from April 1999 to December 2010. Mr. Yu held various positions of the Deputy General Manager of Financial Planning Department, General Manager of Real Estate Credit Department, General Manager of Xinjiang Uygur Autonomous Region Branch and General Manager of the Second Division of Business Department of CCB from October 1990 to April 1999. Mr. Yu graduated from Liaoning Institute of Finance and Economics (currently known as Dongbei University of Finance and Economics) and majored in Infrastructure Financing in 1977 and graduated from Monetary Banking from the Department of Finance and Trade Economics of Graduate School of Chinese Academy of Social Sciences in 1998. Mr. Yu receives special government allowances issued by the State Council.

II. PROFILE OF SUPERVISORS[1]

Mr. Hua Qingshan, age 61, the Chairman of the Supervisory Committee. Mr. Hua has been the Chairman of the Supervisory Committee of the Bank since August 2007. He served as the Executive Vice President of Bank of China from December 1998 to May 2007, Non-executive Director of BOC Hong Kong (Holdings) Limited from June 2002 to May 2007; Executive Director of Bank of China from August 2004 to May 2007 and Assistant to the President of Bank of China from May 1994 to December 1998. Mr. Hua obtained his Master's degree of engineering from Hunan University in 1996.

Mr. Jiang Yunbao, age 72, External Supervisor. Mr. Jiang has been an External Supervisor of the Bank since May 2011. Mr. Jiang served as member of the Environmental and Resources Protection Committee and Deputy Group Leader of the Energy Group of the Tenth National People's Congress of the PRC from October 2004 to March 2008; Deputy Secretary General of the Standing Committee and member of the Environmental and Resources Protection Committee of the Tenth National People's Congress of the PRC from March 2003 to October 2004; Deputy Secretary General of the Standing Committee of the Ninth National People's Congress of the PRC from March 1998 to March 2003. Mr. Jiang graduated from the Department of Power Mechanical Engineering of Tsinghua University in 1966, majoring in Gas Turbine.

Mr. Lu Jiahui, age 60, External Supervisor. Mr. Lu has been the External Supervisor of the Bank since June 2013. Mr. Lu held several positions for National Audit Office of the People's Republic of China, including Special Commissioner and Auditor (Director General Level) of Guangzhou Office from July 2011 to April 2013 ; Special Commissioner of Shanghai Office from February 2009 to July 2011; Deputy Special Commissioner and Special Commissioner of Wuhan Office from September 2003 to February 2009; Deputy Director of the Audit Department from April 2002 to September 2003; Deputy Special Commissioner of Guangzhou Office from July 2000 to April 2002. Mr. Lu, Senior Accountant and CICPA, graduated as on-the-job graduate from Zhongnan University of Economics and Law and majored in Finance and Investment.

Mr. Teng Tieqi, age 56, Supervisor. Mr. Teng has been the Supervisor of the Bank since June 2013. Mr. Teng is the Deputy Director and Chief Accountant of China FAW Group Corporation. Mr. Teng held several positions in China FAW Group Corporation, including Deputy General Manager since August 2000, Director and Head of Finance Department from November 1998 to August 2000, Assistant to the General Manager from February 1994 to November 1998. During the Period, he served as the First Deputy Manager of FAW — Daewoo Automobile Engine Co., Ltd., Vice Director of FAW Car project office in Yantai, Head of Planning and Finance Department of China FAW Group Corporation. Mr. Teng currently holds the position of Chairman of FAW Capital Holdings Ltd. and FAW Asset Management Ltd., Director of FAW Car Co., Ltd. and FAW-Volkswagen Automotive Co., Ltd., Supervisor of Guotai Junan Securities Co., Ltd. and Guosen Securities Co., Ltd., the Secretary of the Board of Directors of China FAW Group Corporation. Mr. Teng obtained his Master's degree in Mechanical Manufacturing from Jilin University of Technology's Department of Mechanical Engineering in 1985 and is a senior engineer of researcher level.

[1] The term of office of the Supervisory Committee expired on the date of the 2015 Annual General Meeting.

Mr. Gu Huizhong, age 57, Supervisor. Mr. Gu has been a Supervisor of the Bank since August 2010. Mr. Gu holds the position of the Deputy General Manager and Chief Accountant in the Aviation Industry Corporation of China since August 2008. Mr. Gu was the Deputy General Manager of China Aviation Industry Corporation First Group from June 1999 to August 2008, during which he concurrently served as Chief Accountant starting in February 2005. He also served as Deputy Director of the Finance Department of Technology and Industry Committee for National Defence from July 1998 to December 1998. Mr. Gu obtained his Master's degree in International Finance from the Peking University of Aeronautics and Astronautics in 2000 and his EMBA from Cheung Kong Graduate School of Business in 2008.

Mr. Dong Wenhua, age 50, Supervisor. Mr. Dong has been a Supervisor since June 2013. Mr. Dong currently serves as the Chief Accountant of Luneng Group Co., Ltd. Mr. Dong previously served as Director of Financial Assets Department of State Grid Energy Development Co., Ltd. from October 2010 to January 2012; Director of Power Management Unit of Luneng Group Co., Ltd. from January 2010 to October 2010; Deputy General Manager and General Manager of Luneng Group Co., Ltd. from February 2009 to October 2010; Deputy General Manager and Chief Accountant of Luneng Group Co., Ltd. from January 2004 to February 2009; Director of Supervision and Auditing Department of Luneng Group Co., Ltd. from February 2003 to January 2004. Mr. Dong currently holds various positions including Executive Director and Legal Representative of Luneng Qufu Investment and Development Co., Ltd., Executive Director, Legal Representative and General Manager of State Grid (Shanghai) Smart Grid Investment and Development Centre and Shanghai Shen Power Investment Co., Ltd., Executive Director and Legal Representative of Fujian Xiamen Electric Investment Development Co., Ltd., Executive Director and General Manager of Luneng Group Co., Ltd. Mr. Dong graduated from Fudan University and majored in Accounting and Economics from the Central Party School. Mr. Dong is a Senior Accountant.

Mr. Li Jin, age 47, Supervisor. Mr. Li Jin has been a Supervisor of the Bank since August 2007. Mr. Li has been serving as the Deputy General Manager of Huaneng Capital Service Co., Ltd. since September 2006. Mr. Li was the President of Alltrust Insurance Company of China Limited from January 2005 to September 2006, Deputy General Manager and General Manager of China Huaneng Finance Corporation Ltd. from December 2000 to January 2005. Mr. Li obtained his Master's degree in Monetary Banking from the Financial Research Institution of the PBOC in 1989.

Mr. Gao Zhongyuan, age 50, Supervisor. Mr. Gao has been a Supervisor of the Bank since June 2013. Mr. Gao currently holds the position of Deputy General Manager of Sinopec Finance Co., Ltd. Mr. Gao previously held several positions in Sinopec Finance Co., Ltd, including Director of its Lanzhou Office from March 2001 to March 2003, Director of the Internal Audit Control Division from November 2001 to March 2003, Deputy Director of the Internal Audit Control Division from December 1998 to November 2001. Mr. Gao served as Deputy Director of Productive Department in the Head Office of Sinopec from July 1997 to December 1998; Deputy Director of Operational Division of Huaxia Audit Corporation of the China Sinopec from May 1996 to July 1997. Mr. Gao has been serving as Deputy General Manager of Sinopec Finance Co., Ltd since March 2003. He graduated from Zhongnan University of Economics and Law with EMBA degree and is a Senior Accountant (Professor-Level).

Mr. Yan Hong, age 47, Supervisor. Mr. Yan has been a Supervisor of the Bank since August 2008. Mr. Yan has been serving as the Chief Accountant of Daqing Oilfield Limited Company and Daqing Petroleum Administration Bureau since March 2008. Mr. Yan was the Deputy Chief Accountant, Head of Finance and Asset Management Department and the Chief Accountant of Daqing Oilfield Limited Company from March 2002 to March 2008 and the Deputy Head and Head of Finance and Assets Management Department in Daqing Oilfield Limited Company from May 2000 to March 2002. He previously served as the Deputy Chief Accountant in Daqing Oilfield Limited Liability Company's oil rig construction subsidiary from January 1999 to May 2000. Mr. Yan graduated from Shanghai University of Finance and Economics with MBA degree in 2003 and from China Europe International Business School with a MBA degree in 2008.

Ms. Chen Qing, age 53, Employee Representative Supervisor. She has been an Employee Representative Supervisor of the Bank since November 2004. Ms. Chen has served as the Head of the General Office for the Bank's Supervisory Committee since March 2005. From November 2004, Ms. Chen was appointed as the Supervisor (Deputy Director General-level) of the Bank. Ms. Chen was the Supervisor for the key state-owned financial institution — Agricultural Bank of China, Division Chief Level, from August 2003 to October 2004; the Supervisor of Bank of China serving at Division Chief Level, and then as the Deputy Division Head, Division Head from July 2000 to August 2003. Ms. Chen served as Deputy Division Head of Finance Department of National Audit Office of the People's Republic of China from February 1997 to July 2000. Ms. Chen obtained her Bachelor degree in Economics from Renmin University of China in 1984 and a MBA degree from Shanghai University of Finance and Economics in 2009 and she is a senior auditor.

Mr. Shuai Shi, age 45, Employee Representative Supervisor. Mr. Shuai has been an Employee Representative Supervisor of the Bank since August 2008. Mr. Shuai has been serving as the General Manager of the Employee Work Department since December 2007. He is also the Deputy Director of the Labour Union (since January 2008) and the Deputy Secretary of Party Committee. Mr. Shuai served as the Deputy General Manager of the Bank's Huhhot Branch from July 2006 to December 2007 and the Senior Manager of Private Banking Department in the Shanghai Branch from January 2001 to July 2006 (during which he was the Assistant to the Head of Finance Office within the Provincial Government of the Inner Mongolia Autonomous Region from February 2004 to February 2006). Mr. Shuai obtained his Master's degree in Economic Management from School of Economic Management of the Party School of the CPPCC in July 2010 and he is a senior political worker.

Mr. Du Yarong, age 50, Employee Representative Supervisor. Mr. Du has been an Employee Representative Supervisor of the Bank since August 2010. Mr. Du has been serving as the Head of the Office of Discipline Investigation and Supervision since November 2009. He was the Deputy General Manager in Zhejiang Branch from January 2009 to November 2009 and served as the Deputy General Manager in Hangzhou Branch from October 2004 to January 2009. Mr. Du is the Head of the General Office in Hangzhou Branch from April 2004 to October 2004 and is the General Manager in the Xiaoshan Sub-branch of the Hangzhou Branch from May 2001 to April 2004. He was the Deputy Head of the Internal Audit Control Division at the Bank's Head Office from April 2003 to March 2004. Mr. Du also served as Managerial Staff (Division Chief Level), Deputy Head and Head of the Party Committee Office of the Hangzhou Branch from October 1997 to May 2001. Mr. Du graduated from Hangzhou Normal University in 1986.

Mr. Fan Jun, age 55, Employee Representative Supervisor. Mr. Fan has been an Employee Representative Supervisor of the Bank since June 2013. He has been serving as the General Manager of Audit Department of the Bank since April 2005. Mr. Fan previously served as the General Manager of the Internal Audit Control Division of the Bank from September 2004 to April 2005. Mr. Fan held several positions in the Bank, including the General Manager of Guangzhou Branch from September 2001 to September 2004, General Manager of Urumqi Branch from January 1998 to September 2001, Deputy General Manager of Urumqi Branch from December 1996 to January 1998 and Deputy Director and Director of International Business Department in Urumqi Branch from June 1994 to December 1996. Mr. Fan served as Researcher (Deputy Director Level) and Deputy Director of Comprehensive Analysis Department of National Party Policy in Xinjiang Uyghur Autonomous Region. Mr. Fan obtained his Master's degree in Economics and Politics from the Department of Economics of Sichuan University and is a Senior Economist.

III. PROFILE OF SENIOR MANAGEMENT

Mr. Peng Chun[1] (Please refer to details in "Profile of Directors")

Mr. Qian Wenhui[2] (Please refer to details in "Profile of Directors")

Ms. Yu Yali[3] (Please refer to details in "Profile of Directors")

Mr. Shou Meisheng, age 57, Executive Vice President[4], the Commissioner of Discipline Inspection and President of the Labour Union. Mr. Shou was the General Manager of Human Resources Department of the Bank from May 2005 to December 2007, General Manager of International Banking Department of the Bank from June 1998 to May 2005 and General Manager of Dalian Branch of the Bank from January 2002 to March 2004. Mr. Shou obtained his Doctoral degree in Economics from Dongbei University of Finance and Economics in 2006.

Mr. Hou Weidong, age 54, Vice President and Chief Information Officer[5]. Mr. Hou previously held the position of Chief Information Officer from August 2004 to December 2010 and was the General Manager of the Information Technology Department of the Bank from November 2002 to August 2004 and the Deputy General Manager of Computer Department of the Bank from April 2002 to November 2002. Before joining the Bank, he served as Deputy General Manager of Technology Security Department and General Manager of Data Centre in ICBC from November 1998 to April 2002. Mr. Hou obtained his Doctoral degree in Economics from Peking University in 2003.

Mr. Zhu Hexin, age 46, Executive Vice President[6], President of the Beijing Administrative Department and General Manager of the Bank's Beijing Branch. Mr. Zhu has been the Director of Corporate Development and Executive Vice President of the Beijing Administrative Department, the Director of Corporate Development and President of the Beijing Administrative Department, Senior Manager and President of the Beijing Administrative of the Bank from February 2010 to April 2013. He also served as the General Manager of the Corporate Banking Department from July 2010 to October 2011, and has been the General Manager of Beijing Branch since November 2011. His previous positions included the General Manager of Jiangsu Branch from January 2009 to January 2010, the General Manager of Nanjing Branch from November 2006 to January 2009 and the General Manager of Suzhou Branch from November 2001 to November 2006. Mr. Zhu obtained his Bachelor's degree in Engineering from Shanghai University of Finance and Economics in 1991.

1 The term of office as the President last three years starting October 2013;
2 The term of office as the Vice President last three years starting March 2011;
3 The term of office as the Vice President, Chief Financial Officer last three years starting June 2013;
4 The term of office last three years starting September 2012;
5 The term of office last three years starting October 2013;
6 The term of office last three years starting April 2013.

Mr. Yang Dongping, age 57, the Chief Risk Officer of the Bank[1]. Mr. Yang served as Deputy General Manager and General Manager of the Bank's Hong Kong Branch from September 2003 to September 2007. He also held several positions in Wuhan Branch, including Deputy Manager of Securities Business Department, Associate Director and Director of Credit and Load Division, Deputy General Manager and General Manager, General Manager of International Business Division, from May 1989 to September 2003. Mr. Yang obtained his Master's degree in International Finance from Wuhan University in 1998.

Mr. Du Jianglong, age 43, the Secretary of the Board of Directors[2] and Director of the Board Office. Mr. Du worked in the Department of Trade Finance, Department of National Debt Financing and Department of Finance of the Ministry of Finance from July 1997 to July 2009. While working in these departments, he held various positions of Deputy Head of Division I in the Department of Finance, Secretary of the Department of Finance (Division Chief Level), Head of Division I in the Department of Finance and Deputy Director-General of the Department of Finance. During the period, he also took the positions of Supervisor of The Export-Import Bank of China and Agricultural Development Bank of China. Mr. Du obtained his Master's degree in Economics from the Research Institute for Fiscal Science of Ministry of Finance in 1997 and his Master's degree in Economics from University of Manchester in 2003.

Mr. Lv Benxian, age 47, Director of Corporate Development[3], Executive Vice President of the Beijing Administrative Department and General Manager of the Corporate Business Department. Mr. Lv has been the General Manager of Shanghai Branch from March 2010 to December 2012. His previous positions include General Manager of Shenzhen Branch from February 2007 to March 2010, General Manager of Wuhan Branch from December 2003 to February 2007, Deputy General Manager and General Manager of Harbin Branch from August 2000 to December 2003. Mr. Lv obtained his EMBA degree from Dongbei University of Finance and Economics in 2005.

Mr. Ng Siu On, age 60, the HSBC-BoCom Strategic Cooperation Consultant[4]. Mr. Ng joined HSBC in 1978 and held various positions including Regional Director of HSBC HK in New Territories, Network-Assistant to the Executive Vice President and the General Manager of Toronto Branch in Canada of HSBC, Deputy General Manager of Chinese business headquarters, Branch Director, Senior Manager of Commercial Banking, Director of Medium-sized Enterprises, Head of Corporates for HSBC's commercial banking business in Hong Kong and Special Consultant for HSBC's Asia-Pacific CEO on Greater China business from June 1989 to March 2013. Mr. Ng currently holds the positions as the member of the Boy's & Girl's Clubs Association of Hongkong and Honoured Consultant of Hong Kong Institute of Bankers. Mr. Ng obtained his MBA degree from the Chinese University of Hong Kong in 1984.

[1] The term of office last three years starting June 2013.
[2] The term of office last three years starting August 2012.
[3] The term of office last three years starting September 2013;
[4] The term of office last three years starting March 2013.

IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Changes in Directors

On 15 April 2013, Mr. Hu Huaibang resigned as the Chairman of the Board of Directors and Executive Director due to re-designation of work.

On 20 May 2013, Mr. Niu Ximing was elected as the Chairman of the Board of Directors at the Twenty-second Meeting of the Sixth Session of the Board of Directors. His qualification as the Chairman of the Board of Directors has been approved by the CBRC.

On 25 June 2013, resolutions were passed at the 2012 Annual General Meeting of the Bank in relation to the re-election of Mr. Niu Ximing, Mr. Qian Wenhui and Ms. Yu Yali as Executive Directors of the Bank, the re-election of Mr. Hu Huating, Ms. Du Yuemei, Mr. Peter Wong Tung Shun, Ms. Anita Fung Yuen Mei, Mr. Ma Qiang and Mr. Lei Jun as Non-executive Directors of the Bank, the re-election of Mr. Wang Weiqiang, Mr. Peter Hugh Nolan, Mr. Chen Zhiwu and Mr. Choi Yiu Kwan as Independent Non-executive Directors of the Bank, the election of Mr. Wang Taiyin and Ms. Zhang Yuxia as Non-executive Directors of the Bank, and the election of Mr. Liu Tinghuan and Mr. Yu Yongshun as Independent Non-executive Directors of the Bank. The qualifications of the above-mentioned persons in respect of newly elected directors have been approved by the CBRC.

Mr. Zhang Jixiang, Mr. Eric Li Ka-cheung and Mr. Gu Mingchao retired as Directors after the conclusion of the 2012 Annual General Meeting of the Bank.

On 29 October 2013, resolution was passed at the 2013 First Extraordinary General Meeting of the Bank in relation to the election of Mr. Peng Chun as an Executive Director of the Bank. His qualifications as the Vice Chairman and Executive Director have been approved by the CBRC.

2. Changes in Supervisors

On 25 June 2013, resolutions were passed at the 2012 Annual General Meeting of the Bank in relation to the re-election of Mr. Hua Qingshan, Mr. Li Jin, Mr. Gu Huizhong and Mr. Yan Hong as Supervisors of the Bank, the re-election of Mr. Jiang Yunbao and Mr. Lu Jiahui as External Supervisors of the Bank, and the election of Mr. Teng Tieqi, Mr. Dong Wenhua and Mr. Gao Zhongyuan as Supervisors of the Bank. In addition, Ms. Chen Qing, Mr. Shuai Shi and Mr. Du Yarong were re-elected as Employee Representative Supervisors of the Bank, and Mr. Fan Jun was elected as an Employee Representative Supervisor of the Bank at the Employee Representatives' General Meeting of the Bank.

Mr. Jiang Zuqi, Mr. Guo Yu, Mr. Yang Fajia, Mr. Chu Hongjun and Ms. Liu Sha retired after the conclusion of the 2012 Annual General Meeting of the Bank.

3. Changes in Senior Management

On 27 March 2013, Mr. Zhu Hexin was appointed as an Executive Vice President of the Bank, and Mr. Ng Siu On was appointed as the HSBC-BoCom Strategic Cooperation Consultant at the Nineteenth Meeting of the Sixth Session of the Board of Directors. The qualification of Mr. Zhu Hexin as an Executive Vice President of the Bank has been approved by the CBRC.

On 21 August 2013, Mr. Peng Chun was appointed as President of the Bank at the Second Meeting of the Seventh Session of the Board of Directors. His qualification as the President has been approved by the CBRC.

V. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

Name	Position	Gender	Age	Total taxable emoluments received during the Reporting Period[1] (in RMB 0'000) Emoluments	Other benefits	Total	Total benefits received from corporate shareholder (in RMB 0'000)
Niu Ximing	Executive Director and Chairman	Male	57	78.79	22.21	101.00	–
Peng Chun	Executive Director, Vice Chairman and President	Male	52	32.83	9.18	42.01	–
Qian Wenhui	Executive Director and Executive Vice President	Male	52	74.43	18.64	93.07	–
Yu Yali	Executive Director, Executive Vice President, Chief Financial Officer	Female	56	74.43	18.64	93.07	–
Hu Huating	Non-executive Director	Male	56	70.04	16.62	86.66	–
Du Yuemei	Non-executive Director	Female	59	70.04	12.34	82.38	–
Wang Taiyin	Non-executive Director	Male	49	35.02	7.90	42.92	–
Peter Wong Tung Shun	Non-executive Director	Male	62	0	0	0	–
Anita Fung Yuen Mei	Non-executive Director	Female	53	0	0	0	–
Ma Qiang	Non-executive Director	Male	55	0	0	0	–
Lei Jun	Non-executive Director	Male	44	0	0	0	57.62
Zhang Yuxia	Non-executive Director	Female	58	0	0	0	–
Wang Weiqiang	Independent Non-executive Director	Male	66	0	0	0	–
Peter Hugh Nolan	Independent Non-executive Director	Male	65	25.00	0	25.00	–
Chen Zhiwu	Independent Non-executive Director	Male	51	25.00	0	25.00	–
Choi Yiu Kwan	Independent Non-executive Director	Male	59	25.00	0	25.00	–
Liu Tinghuan	Independent Non-executive Director	Male	71	0	0	0	–
Yu Yongshun	Independent Non-executive Director	Male	63	0	0	0	–
Hua Qingshan	Chairman of the Supervisory Committee	Male	61	77.04	22.21	99.25	–
Jiang Yunbao	External Supervisor	Male	72	0	0	0	–
Lu Jiahui	External Supervisor	Male	60	0	0	0	–
Teng Tieqi	Supervisor	Male	56	0	0	0	–
Gu Huizhong	Supervisor	Male	57	0	0	0	–
Dong Wenhua	Supervisor	Male	50	0	0	0	–
Li Jin	Supervisor	Male	47	0	0	0	60.40
Gao Zhongyuan	Supervisor	Male	50	0	0	0	–
Yan Hong	Supervisor	Male	47	0	0	0	–
Chen Qing[4]	Employee Representative Supervisor	Female	53	56.99	13.11	70.10	–
Shuai Shi[4]	Employee Representative Supervisor	Male	45	55.03	13.09	68.12	–
Du Yarong[4]	Employee Representative Supervisor	Male	50	54.62	13.11	67.73	–
Fan Jun[4]	Employee Representative Supervisor	Male	55	57.72	13.11	70.83	–
Shou Meisheng	Executive Vice President and Commissioner of Discipline Inspection	Male	57	74.43	18.64	93.07	–
Hou Weidong	Executive Vice President and Chief Information Officer	Male	54	74.43	18.64	93.07	–
Zhu Hexin	Executive Vice President	Male	46	70.04	16.90	86.94	–
Yang Dongping	Chief Risk Officer	Male	57	70.04	16.77	86.81	–
Du Jianglong	Secretary of the Board of Directors	Male	43	70.04	16.61	86.65	–
Lv Benxian	Director of Corporate Development	Male	47	70.04	16.62	86.66	–
Ng Siu On	HSBC-BoCom Strategic Cooperation Consultant	Male	60	0	0	0	–

Name	Position	Gender	Age	Total taxable emoluments received during the Reporting Period[1] (in RMB 0'000) Emoluments	Other benefits	Total	Total benefits received from corporate shareholder (in RMB 0'000)
Directors and Supervisors resigned/retired							
Hu Huaibang[2]	Former Executive Director and Chairman	Male	58	36.48	9.32	45.80	–
Zhang Jixiang[3]	Former Non-executive Director	Male	60	35.02	8.37	43.39	–
Eric Li Ka-cheung[3]	Former Independent Non-executive Director	Male	60	12.05	0	12.05	–
Gu Mingchao[3]	Former Independent Non-executive Director	Male	70	0	0	0	–
Jiang Zuqi[3]	Former External Supervisor	Male	73	0	0	0	–
Guo Yu[3]	Former Supervisor	Male	39	0	0	0	–
Yang Fajia[3]	Former Supervisor	Male	59	0	0	0	–
Chu Hongjun[3]	Former Supervisor	Male	60	0	0	0	–
Liu Sha[3, 4]	Former Employee Representative Supervisor	Female	58	45.29	13.10	58.39	–

Notes:

1. The final compensation packages for Directors, Supervisors and Senior Management of the Bank have not yet been finalised pursuant to the requirements of the relevant PRC authorities. The final compensation will be disclosed in a separate announcement when determined.
2. On 15 April 2013, Mr. Hu Huaibang resigned as the Executive Director and Chairman of the Bank due to re-designation of work.
3. On 25 June 2013, Mr. Zhang Jixiang, Mr. Eric Li Ka-cheung and Mr. Gu Mingchao retired as Directors of the Bank while Mr. Jiang Zuqi, Mr. Guo Yu, Mr. Yang Fajia, Mr. Chu Hong Jun and Ms. Liu Sha retired as Supervisors of the Bank after the conclusion of the 2012 Annual General Meeting.
4. Employee Representative Supervisors of the Bank received emoluments as employees of the Bank, and did not receive any supervisor's fees from the Bank as the Employee Representative Supervisors.

VI. SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name of shareholders	Position	Class of shares	Number of shares held at the beginning of the year	Increase(or decrease) in shareholdings during the Reporting Period	Number of shares held as at the end of the Reporting Period
Zhang Jixiang	Former Non-executive Director	A shares	37,980	—	37,980
Yang Dongping	Chief Risk Officer	A shares	94,820	—	94,820

Note: Mr. Zhang Jixiang retired at the conclusion of the General Meeting held on 25 June 2013.

As at 31 December 2013, save as disclosed above, none of the Bank's Directors, Supervisors or Chief Executive had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required to be recorded in the register as kept pursuant to section 352 of the SFO, or which were required, pursuant to "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in the Appendix 10 to the Hong Kong Listing Rules, to be notified to the Bank and the Hong Kong Stock Exchange.

VII. HUMAN RESOURE MANAGEMENT

1. Basic Information of Employees

As at the end of 2013, the Bank had a total of 99,919 domestic and overseas employees, representing an increase of 3.8% from the beginning of the year, of which 98,010 employees were based domestically and 1,909 were local employees in overseas branches.

	Head Office	Northern China	Eastern China	Central and Southern China	Western China	North Eastern China	Overseas
Number of employees	14,381	11,726	30,755	17,679	14,037	9,432	1,909
Number of outlets	1	346	1,044	590	356	353	54

Among the domestic employees, 35,390 employees hold professional and technical qualifications, of which 640 employees hold senior professional and technical qualifications, accounting for approximately 0.65% of total domestic employees, 16,990 employees hold intermediate professional and technical qualifications, accounting for approximately 17.33% of total domestic employees, and 17,760 employees hold junior professional and technical qualifications, accounting for approximately 18.12% of total domestic employees.

The average age of the Bank's domestic employees was 34 years old, with 49,980 employees under the age of 30, accounting for approximately 51.0% of total domestic employees, 24,870 employees between the age of 30 and 40, accounting for approximately 25.4% of total domestic employees, 17,891 employees between the age of 40 and 50, accounting for approximately 18.3% of total domestic employees, and 5,269 employees above the age of 50, accounting for approximately 5.4% of total domestic employees.

Among the domestic employees, 7,785 employees possess postgraduate or higher academic degrees, accounting for approximately 7.94% of total domestic employees, 62,122 employees possess undergraduate degrees, accounting for approximately 63.38% of total domestic employees, 23,663 employees possess college diploma, accounting for approximately 24.14% of total domestic employees, and 4,440 employees possess secondary vocational school certificate or lower qualifications, accounting for approximately 4.53% of total domestic employees.

For the year of 2013, there were a total of 2,756 retired employees covered by the Bank's pension scheme.

2. Remuneration Policy

The Bank continued to perfect a remuneration system on the basis of job positions and the labour market rate as a target, in order to optimise the allocation model of remuneration resource and strengthen the self-discipline of incentive scheme. The policy on deferred salaries payment based on performance to key personnel has been adopted by the Group in 2013, which utilised the control of remuneration to corporate governance and risk control, and lead to the steady operation and sustainable development. The Bank also cares about its employees' welfare and continuously improves supplemental benefits system including the enterprise annuity and supplemental medical insurance in addition to the basic social insurance.

The remuneration of Directors who receive remuneration from the Bank shall be determined in accordance with the Articles of Association of the Bank and applicable regulations after taking into consideration of their performance and the result of the annual evaluation.

3. Performance Management

The Bank continuously seeks to optimise its performance management framework and improves performance evaluation processes for operating team management and employees at each level, including Divisions of Head Office, provincial branches and overseas institutions. Senior Managements and employees are evaluated based on their performance goals and capabilities underlying key indicators. The assessment results are linked with remuneration to optimise the guiding effect of performance management.

4. Employee Training

In 2013, adhering to our development strategy and the need for innovative transformation, the Bank comprehensively facilitated the training and development projects to enhance qualities and capabilities of management and leading cadre at all levels, and focused on the team building for international, comprehensive and wealth management talents and various talents. The quality and efficiency of the trainings were continuously improved, the scale of trainings maintained a leading position among its peers, and such trainings are fundamental to the Bank to build a strong team of human capital with talents, experience and expertise, which fully played the pilot, fundamental and strategic role for supporting the Bank's scientific outlook for development.

5. Employee Pension Scheme

Details of the Bank's employee pension scheme are set out in Note 30 to the Consolidated Financial Statements.

The board of directors hereby presents its report and the audited Consolidated Financial Statements of the Group for the fiscal year ended 31 December 2013.

I. PRINCIPAL ACTIVITIES

The Group is principally engaged in the provision of banking and related financial services. Details of the Group's operating results by business segments for the year are set out in Note 45 to the Consolidated Financial Statements.

II. RESULTS AND PROFIT DISTRIBUTION

1. The Operating Performance of the Group during the Year Are Set Out in Page 146 of the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

2. Details on Distributable Reserves of the Group Are Set Out in Note 32 to the Consolidated Financial Statements.

3. The Proposal or Plan of the Profit Distribution and Conversion of Capital Reserve Funds to Share Capital in Last Three Years

(In millions of RMB unless otherwise stated)

	2011	2012	**2013Note**
Number of bonus shares for every 10 shares	—	—	**—**
Cash dividends per 10 shares (before tax, RMB)	1.00	2.40	**2.60**
Total amount of dividends	6,189	17,823	**19,308**
Net profit for the year	50,735	58,369	**62,295**
Distribution proportion (%)	12.20	30.54	**30.99**

Note: The profit distribution plan for the year of 2013 shall be subject to the consideration and approval of the shareholders at the general meeting of the Bank.

There is no proposal or plan of the conversion of capital reserve to share capital of the Bank.

4. The Formulation, Implementation or Adjustment of the Cash Dividend Policy

The proposal in relation to the amendments to the Articles of Association of Bank of Communications Co., Ltd. was approved at the 2012 Annual General Meeting of the Bank held on 25 June 2013. The amended Articles of Association clearly stated that the Bank may distribute dividends in cash or shares; the Board of Directors and the shareholders' general meeting shall give full play to the opinions of the Independent Directors, the Supervisory Committee and public investors, communicate and exchange views with public investors through a variety of channels, and accept supervisions of the Independent Directors, the

Supervisory Committee and public investors on the profit distribution of the Bank; the profit distribution of the Bank should focus on the reasonable return for investors, and the profit distribution policy should maintain continuity and stability; except in special circumstances, the Bank shall distribute dividends mainly in the form of cash if it records profit in the year and the accumulated undistributed profit is also positive, and the total profit distributed in the form of cash dividends for the last three years shall not be less than 30% of the average annual distributable profit of the Bank for the last three years. For further details, please refer to Article 242 of the Articles of Association. (The Articles of Association has been published on the official website of the Bank at www.bankcomm.com, the SSE website at www.sse.com.cn and the Hong Kong Stock Exchange HKExnews website at www.hkexnews.hk).

The profit distribution policy of the Bank complies with the requirements of the Articles of Association as well as the approval procedures, fully protects the legitimate rights and interests of medium and small investors, has been commented by Independent Directors and has clear standards of dividends and dividends ratio. The conditions and procedures of the adjustment and modification on the profit distribution policy are in compliance with relevant requirements and transparent.

III. CAPITAL RESERVE

Details on the movement of capital reserve of the Group during the Reporting Period are set out on Page 149 of the Consolidated Statement of Changes in Equity.

IV. CHARITABLE DONATIONS

Charitable donations made by the Group during the year 2013 amounted to RMB30.8277 million (2012: RMB16.18 million).

V. FIXED ASSETS

Changes in the Group's fixed assets during the year are set out in Note 22 to the Consolidated Financial Statements.

IV. PUBLIC FLOAT

During 2013 and for the period up to the latest practicable date prior to the printing of this Annual Report, the Bank had fulfilled the minimum public float requirement as agreed by the Hong Kong Stock Exchange, based on the information that is publicly available and within the knowledge of the Directors.

VII. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACT

None of the Directors or Supervisors of the Bank has entered into any service contract with the Bank or any of its subsidiaries which would entail compensation if terminated within one year (other than statutory compensation).

VIII. INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS OF SIGNIFICANCE

During the Reporting Period, neither the Bank nor any of its subsidiaries had entered into any significant contract relating to the business of the Bank in which any of the Directors or Supervisors has any material direct or indirect interest, nor were there any such contract subsisting during or at the end of the Reporting Period.

IX. MANAGEMENT CONTRACT

During the Reporting Period, the Bank neither entered into nor had any subsisting contract for the provision of management services of the whole or any part of the Bank's business.

X. INTERESTS OF DIRECTORS AND SUPERVISORS IN COMPETING BUSINESS OF THE BANK

During the Reporting Period, none of the Directors or Supervisors of the Bank had any interest in any business that competes or is likely to compete, whether directly or indirectly, with the Bank's business.

XI. PURCHASE, SALE OR REDEMPTION OF SHARES OF THE BANK

During the Reporting Period, neither the Bank nor any of its subsidiaries purchased, sold or redeemed any shares of the Bank.

XII. PRE-EMPTIVE RIGHTS AND SHARE OPTION ARRANGEMENTS

There are no provisions regarding pre-emptive rights of the shareholders under the Bank's Articles of Association and the relevant laws and regulations of the People's Republic of China and currently the Bank does not have any arrangements with respect to share options.

XIII. SHARE APPRECIATION RIGHTS

As part of the incentive scheme, the Bank has granted to members of Senior Management share appreciation rights. These share appreciation rights issued do not involve any issue of new shares or dilution of the shareholding of the existing shareholders. Details of the share appreciation rights are set out in Note 13 to the Consolidated Financial Statements.

As at 31 December 2013, the Bank had not granted to its Directors or Supervisors any rights to subscribe for the shares or debentures of the Bank or any of its subsidiaries, nor have any such rights to subscribe for the above shares or debentures been exercised by them. The Bank and its subsidiaries also had not entered into any agreement or arrangement which was to enable the Directors or Supervisors to acquire benefits by means of the acquisition of shares or debentures of the Bank or any other relevant companies.

XIV. MAJOR CUSTOMERS

During the Reporting Period, the total interest income and other operating income from the five largest customers of the Group accounted for less than 2% of the Group's total interest income and other operating income. None of the Bank's Directors, their associates or shareholders (which, to the knowledge of the Directors, owns more than 5% of the Bank's issued share capital), has any beneficial interest in the Bank's five largest customers.

XV. INCOME TAX

As stipulated in the *Notice on Issues relating to Enterprise Income Tax Withholding over Dividends Distributable to Their H Share Holders Who are Overseas Non-resident Enterprises by Chinese Resident Enterprises* (Guo Shui Han [2008] No. 897) published by the State Administration of Taxation, when Chinese residents enterprises distribute annual dividends for the year 2008 and years thereafter to their H-share holders who are overseas non-resident enterprises, the enterprise income tax shall be withheld at a uniform rate of 10%. Non-resident enterprises may apply for tax refund in accordance with relevant provisions including taxation agreement (arrangement) after receiving dividends.

In accordance with the *Notice on Issues relating to Individual Income Tax after the Abolishment of Guo Shui Fa [1993] No. 045* published by the State Administration of Taxation, when foreign individuals holding H shares obtained dividend and/or bonus shares from the non-foreign invested companies incorporated in PRC that issue H shares, the individual income tax is usually withheld at a uniform rate of 10%. The specific rate applied to foreign individuals may be different according to his/her residential status and the tax treaties signed between the country of his/her residence and the People's Republic of China.

Shareholders should consult their tax advisers regarding tax consequences of owning and disposing of the H shares of the Bank.

XVI. CONTINUING CONNECTED TRANSACTIONS

1. The Inter-bank Transactions Master Agreement

HSBC is a substantial shareholder of the Bank, therefore HSBC, together with its subsidiaries and associates (the "HSBC Group") are all connected persons of the Bank. The Bank and its subsidiaries have regularly engaged in various transactions in the normal course of banking business with the HSBC Group, such as sales and purchases of bonds, sales and purchases of money market instruments, foreign currency transactions, swap and option transactions, factoring and third party loans guaranteed by the HSBC Group. To regulate the continuing transactions mentioned above, the Bank has entered into the continuing connected transaction agreement with HSBC in 2005, which was subsequently renewed in 2008.

On 30 June 2011, the Bank further renewed and entered into an interbank transactions master agreement (the "**Interbank Transactions Master Agreement**") with HSBC for a term of three years, commencing from 1 June 2011 to 31 May 2014, and set the relevant caps for the continuing connected transactions contemplated thereunder for the two years ending 31 December 2013, and the period from 1 June 2011 to 31 December 2011 and from 1 January 2014 to 31 May 2014, respectively.

The continuing connected transactions contemplated under the Interbank Transactions Master Agreement mainly include bond transactions, money market transactions, foreign currency transactions and swap and option transactions.

There is no fixed price or rate for the transactions under the Interbank Transactions Master Agreement. However, the parties agreed to apply the prevailing market prices or rates normally used by independent counterparties to the particular type of transactions under the Interbank Transactions Master Agreement.

Pursuant to the Hong Kong Listing Rules, the transactions contemplated under the Interbank Transactions Master Agreement are only subject to reporting, announcement and annual review requirements, and are exempt from the independent shareholders' approval requirement.

For the year ended 31 December 2013, the continuing connected transactions under the Interbank Transactions Master Agreement have not exceeded their respective annual caps:

(1) Each of the realised gains or losses and unrealised gains or losses (as appropriate) arising from the non-exempt continuing connected transactions has not exceeded RMB5.237 billion.

(2) The fair value of the foreign currency transactions, swap and option transactions with the HSBC Group (whether recorded as assets or liabilities) has not exceeded RMB11.139 billion.

2. The Independent Non-executive Directors' Annual Review of the Non-exempt Continuing Connected Transactions

Upon careful review of the continuing connected transactions in 2013, each of the Independent Non-executive Directors of the Bank considers that the continuing connected transactions entered into by the Group were:

(1) in the ordinary and usual course of business of the Bank;

(2) either on normal commercial terms or if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Bank than terms available to or from (as appropriate) independent third parties; and

(3) in accordance with the Interbank Transactions Master Agreement and on terms that are fair and reasonable and in the interests of the shareholders of the Bank as a whole.

3. The Auditors' Annual Review of the Non-exempt Continuing Connected Transactions

The auditors have issued a letter to the Board of Directors in respect of the continuing connected transactions in 2013 confirming that:

(1) the non-exempt continuing connected transactions were approved by the Board of Directors;

(2) the non-exempt continuing connected transactions were in accordance with the pricing policies of the Bank;

(3) the non-exempt continuing connected transactions were conducted in accordance with the terms of the Interbank Transactions Master Agreement; and

(4) the actual transaction amount of the non-exempt continuing connected transactions in 2013 had not exceeded their respective caps.

4. During the Reporting Period, the balance of transactions between the Bank and HSBC Group are as follows:

(1) As at 31 December 2013, the aggregate balance of deposits placed in and loans made to the HSBC Group by the Bank amounted to RMB478 million, and the interest income arising from these deposits and loans were approximately RMB10 million in 2013.

(2) As at 31 December 2013, the aggregate balance of deposits placed in and loans made to the Bank by the HSBC Group amounted to RMB25.162 billion, and the interest expense arising from these deposits and loans were approximately RMB244 million in 2013.

The transactions set out in items (1) and (2) above are exempt from complying with the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.65(1) and Rule 14A.65(4) of the Hong Kong Listing Rules.

Save as disclosed above, there is no related party transaction or continuing related party transaction set out in Note 44 to the Consolidated Financial Statements that constitutes the connected transaction or continuing connected transaction that need to be disclosed under the Hong Kong Listing Rules. Regarding to the connected transaction and continuing connected transactions, the Bank has complied with the disclosure requirements as specified from time to time under the Hong Kong Listing Rules.

By order of the Board of Directors
Mr. Niu Ximing
Chairman

30 March 2014, Shanghai, PRC

Report of the Supervisory Committee

In 2013, in accordance with the requirements of the Company Law, Guidelines on Corporate Governance of Commercial Banks, Guidelines to Commercial Banks' Supervisory Committee, and the Bank's Articles of Association etc. Supervisory Committee aimed at safeguarding Shareholders' interests, supporting scientific development and building a sound corporate governance mechanism, as well as monitoring the Board of Directors establishing stable operation principle, value criterion and forming development strategy appropriate to the company and supervised, checked, and rectified the areas concerning operation policies, risk management and internal control. Supervisory Committee also monitored and rectified execution performance of Board of Directors and Senior Management's execution performance. The detailed report is as follows.

I. MAIN RESPONSIBILITIES OF THE SUPERVISORY COMMITTEE

During the Reporting Period, the Supervisory Committee fulfilled its supervisory responsibilities through Supervisory Committee meetings, discharge of duties review and seminars, discharge of duties assessments; attendance at Shareholders' General Meetings, Board of Directors' meetings, and Special Committees' meetings; participation in periodic working conference, the President-in-charge meetings, supervision joint conferences and financial auditing conference. It also received work progress reports from Senior Management and the relevant branches and department, carried out on-site inspections and investigations, and reviewed financial information such as periodic reports, analysed business data, and reviewed internal and external investigation reports. The Supervisory Committee had performed its duties in an effective and diligent manner and had comprehensively carried out its supervisory duties.

1. Dedication to the Bank's Major Tasks Fulfilling the Supervisory Responsibilities

(1) Promote strategy transition

— Investigate bills business. Because the Banker's acceptance was exercised a decentralised management model with administrative units, we propose to focus our resources and improve the head office's management and control capability for bill business. Employee's remuneration was not directly linked to performance so that it was impossible to inspire enthusiasm of creating profit or effectively guard against moral hazard problems. Therefore it was proposed to improve the performance appraisal system, strengthen information platform construction, and increasing bargaining power. For lack of adequate due diligence when the acceptance bill was accepted and other repeated misconduction, it was proposed to standardise operation process, effectively control risky procedures, set jobs reasonably, strengthen employee training, so that "process-oriented, program-oriented" can be achieved. For branches artificially adjusted bill maturity to obtain head office's bonus for performance appraisal by the approach of packaged accounting and fictitious bills, it was proposed to further regulate bill operation preventing a significant loss from minor aspects.

— Investigate wealth management business. For issues that some financing customers were free of credit approval or credit criterion, some financing capital was invested in “heavily-polluting, highly-energy-consuming and over-capacity sectors, real estate and financing platform, assets of wealth management were not taken into the rage of post-loan management, it was proposed to improve the credit policy and customer selection criteria as well as treat assets of wealth management as loans so as to do the whole process management. For the increased pressure of liquidity management caused by the centralised maturity to the end of months and quarters, it was proposed to set reasonable level of maturity mismatches and smooth product maturity point. To solve the problem of the imbalances between risks and benefits for parent and subsidiaries and for on— and off-balance sheet, it was recommended to be concerned at capital measurement, risk reserve accrual and performance appraisal to promote the distinct and smooth risk transmission mechanism.

(2) Strive to control risk

— Investigate retail credit. For risk issues such as steel trading and wealth management, it was proposed to further improve the ability to identify significant risk and control risk. For the problem of low efficiency and long term of retail credit review and approval, it was proposed to draw on the experience of the same industry, multi-dimensionally set approval authority, give the approver the necessary rights and responsibilities to improve market responsiveness, and to better control risk. Suggestions on small enterprise’s loan procedures regarding issues such as lax credit granting investigation, delayed report to credit review meeting and loans without sufficient credibility are presented with classified industrial characteristics, product features and market conditions.

— Investigate the risk management of corporate credit. It was recommended that big base shall be paid attention by off-site analysis and in-depth field research; for structural problems that high concentration in loan, high proportion of medium and long term loan, it was proposed to focus on over capacity industry, big enterprise of heavy debt burden and loans of cluster enterprises. For the issue that line of credit for the same customer was not centralised managed, it was proposed to integrate information channels, reduce department span, giving the post-loan manage department the responsibility of halting high risk business and freezing the amount. For the issue that branches’ rights increased caused by the revoke of region credit approval and senior credit execution’s responsibility was increased, it was proposed to establish reporting system for significant events, including execution of credit approval, double-line leave reporting system for senior credit execution’s non-attendance at credit review meeting, and strengthen execution power to achieve releasing right moderately and powerful control.

2. Perfect the Corporate Governance, Develop Supervision In-depth Discharge of Duties

During the Reporting Period, the Supervisory Committee prepared the "Summary Report of Discharge of Duty Appraisal for 2013" and " the Supervisory Committee's Appraisal of the Discharge of Duties by the Board of Directors and Senior Management and the Special Committees of Board of Directors for the 2013" by reviewing annual discharge of duty reports for individual Director and Senior Management, holding seminars and performing discharge of duties assessments of all the supervisors and general managers of some branches and operating units, as well as based on the investigation of supervisory committee and results of its daily supervision.

It was recommended that the Board of Directors do top-level design of strategic management, enhanced supervision and assessment on the strategy execution, promoted the implementation of strategy, improve the management policy of credit risk, market risk and operational risk, formulate the policy to identify country risk, information technology risk and reputational risk, etc., as well as continually promote the full coverage of a comprehensive risk management system. Board of Directors was also recommended to pay attention to the rapid decline in the capital adequacy ratio, improve capital management, strengthen the management of market value, improve information disclosure, actively respond to interest rate and exchange rate deregulation, accelerate the reform and innovation and restructure and development, as well as adhere to different development paths.

It was proposed that senior management strive to resolve outstanding issues, strengthen capital management and face the challenges arising from interest rate liberalisation. Senior management was also recommended to improve balance sheet structure, business structure and profit structure to consolidate its customer base, attract deposits and achieve sustainable development. Because of differentiation development strategy, there were certain things that should be done and should not be done. Recommendations also included structure adjustments, business model improvement, promoting the transition to Trinity operation model, changing traditional operation model of outlets, explore mobile and internet finance, developing non-interest income, product system improvement, strengthening access guideline for emerging business, building brand products. The Bank shall takes effective measures to reduce the volume of high risk loans in "heavily-polluting, highly-energy-consuming and over-capacity sectors" and in enterprises with high debt ratio, attach importance to liquidity risk management and ensure capital sage and steady operation.

Evaluated the discharge of duties performed by Senior Management and Directors of the Board for the year of 2013 based on their working performance and responsibility, and put forward the rectification deadline and rectification requests for the directors who were evaluated at basic competent.

In compliance with CBRC's requirements on qualification of Directors and Senior Management, fulfill resign audit report while Hu Huaibang served as Chairman, Niu Ximing served as the President of Bank and Zhu Hexin served as Executive Director of Management Department in Beijing.

3. Improve Supervision Manners, Exploit Supervision Efficiency

— Strengthen communication with the outside. The Supervisory Committee strengthened communication with regulatory organisations, gave working reports to them to understand trends of supervisory, industry information and supervisory suggestions. Attended seminars held by CBRC, China Investment Corporation and Association of Shanghai Listed Companies, so as to exchange working experience to improve the ability to discharge of duties.

— Strengthen work guidance and communication with internal superivisory bodies. Communicate the latest situation and problems of operation management through attending joint conference of supervisory. Held meetings of Supervisory Directors from subsidiaries, so as to grasp subsidiaries' operation and supervisory information and forming joint supervisory power.

— Integrated information resources. Through analyzing internal audit report and recommendations from external supervisory and data mining based on Credit Management Information System (CMIS), Assets Risk Management System (ARMS), Customers Information Identification System (CIIS), Audit Support System and Enterprise database, the Supervisory Committee found out the universal problems and particular problems existed in operation management. According to "Guidelines for the Supervisory Committee of Commercial Banks", the Bank should strengthen guidance of internal audit working. Analyse security analysts' reports, compare the Bank's data with the same industry's data as well as expand thoughts of reviewing financial reports.

4. Held Meetings of the Supervisory Committee, and Enhanced Supervising Efficiency

In 2013, the Supervisory Committee held five meeting on 25 and 27 March, 25 April, 25 June, 21 August, and 30 October. During the meetings of the Supervisory Committee, 18 resolutions were considered and approved, including the "2012 Report of the Supervisory Committee", a report presented during the Shareholders General Meeting. With regard to the monitoring of discharge of duties, the Supervisory Committee considered and approved the "Opinion of the Supervisory Committee on the Discharge of Duty by the Board of Directors and Senior Management in 2012". With regard to the monitoring of revenue and expenditures, 7 resolutions were considered and approved, including the "2012 Annual Report", "2012 Management Accounts", "2012 Profit Distribution Plan". With regard to the improvement of the Supervisory Committee, Supervisors considered and approved 7 proposals, including the "2012 Report of Self-evaluation on Duties Performed by the Supervisory Committee", "2013 Work Plan of the Supervisory Committee" and "the resolution for the re-election of Supervisory Committee". The Supervisory Committee deepened the discussion and research in order to carry out a number of recommendations.

— Received reports from Senior Management. According to key points of the Bank work, the Supervisory Committee strengthen monitoring and guiding and received four work progress reports, including the progress of retail credit business improvement, credit risk management, risk management of wealth management and progress of implementation of *Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)*.

— Received reports from auditors. Combined with reviewing regularly reports, the Supervisory Committee carried out suggestions regarding the coverage of audit working, sample selection and key points of the work, so as to monitor the independence and effectiveness of the external audit.

— Attached great importance to problem rectification. With regard to the key problems discovered in internal and external audit, the Supervisory Committee' suggestion and recommendation and management suggestions carried out by the CPAs, the Supervisory Committee was responsible for de-compositing these works to related departments and monitoring implementation and report the rectification progress, so as to promote resolving problems.

— Invite representative of supervisory organisations to attend meetings, in order to make supervisory organisations understand the Supervisory Committee's operation and accept the supervision of regulators and strengthen internal discipline.

All supervisory committee members seriously participated in the meeting, and put forward a number of suggestions. During the reporting period, the term of the Sixth Board of Supervisors expired and the Supervisory Committee initiatively communicated with regulators to select appropriate supervisory members among shareholders and external supervisory members and set Special Committees under the Supervisory Committee based on the expertise of supervisory memebers, ensuring the smooth running of the seventh Board of Supervisors. There were 18 members on the Supervisory Committee in two supervisory committees, in which 10 members attended 100% at the Supervisory Committee meetings by themselves. The 10 members were Hua Qingshan, Jiang Yunbao, Jiang Zuqi, Lu Jiahui, Yang Fajia, Chu Hongjun, Liu Sha, Chen Qing, Du Yarong, Fanjun. Three members attended the Supervisory Committee meetings 80%, who were Gu Huizhong, Yan Hong, and Shuai Shi. Gao Zhongyuan, Li Jin, Guo Yu, Teng Tieqi and Dong Wenhua attended the Supervisory Committee meetings 67%, 60%,50%,33% and 33% respectively.

Attendance at the Supervisory Committee meetings by Supervisory Committee members		
Supervisory Committee Member	Attendance in person	Attendance in person percentage (%)
Hua Qingshan	5/5	100
Jiang Yunbao	5/5	100
Jiang Zuqi	2/2	100
Lu Jiahui	3/3	100
Teng Tieqi	1/3	33
Gu Huizhong	4/5	80
Dong Wenhua	1/3	33
Li Jin	3/5	60
Gao Zhongyuan	2/3	67
Yan Hong	4/5	80
Chen Qing	5/5	100
Shuai Shi	4/5	80
Du Yarong	5/5	100
Fan Jun	3/3	100
Guo Yu	1/2	50
Yang Fajia	2/2	100
Chu Hongjun	2/2	100
Liu Sha	2/2	100
Average attendance in person percentage		**83**

Note:

1. Mr. Lu Jiahui, Mr. Teng Tieqi, Mr. Dong Wenhua, Mr. Gao Zhongyuan, Mr. Fan Jun has been the Bank's supervisor since June 25, 2013.
2. Mr. Jiang Zuqi, Mr. Guoyu, Mr. Yang Fajia, Mr. Chu Hongjun, Ms. Liu Sha has not been as the Bank's supervisor since June 25, 2013.

During reporting period, according to "Guidelines to Commercial Banks' Supervisory Committee" and "Guidelines to Commercial Banks' Corporate Governance", the Supervisory Committee strived to improve the transparency of supervision based on risk control. The Board of directors, Senior Management and the Supervisory Committee adhered to principals of independent operation, effect control and coordinated operations to operate scientifically and efficiently, ensuring executing, monitoring, decision-making and promoting the improvement of cooperate governance mechanism.

II. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS

1. Truthfulness of the Financial Statements

The financial statements present, truly and fairly, the financial position and operating results of the Group.

2. Use of Proceeds

During the Reporting Period, the Bank raised approximately RMB10 billion through issuing financial bonds in China's interbank bond market. It was used to offer loans to small and micro enterprises to support development of small and micro enterprises, which is consistent with what the Bank had promised.

3. Acquisition and Disposal of Assets

During the Reporting Period, pursuant to the approval from CBRC, the Bank made a capital injection of RMB1.5 billion into Bocom International Trust. After the capital injection, the Bank's proportion of shareholding remained 85%, and the registered capital of Bocom International Trust increased from RMB2 billion to RMB3.765 billion. The Bank made a capital injection of RMB2 billion into Bocom Leasing. After the capital injection, the Bank's proportion of shareholding remained at 100%, and the registered capital of Bocom Leasing was RMB6 billion. The Supervisory Committee is not aware of any acquisition or disposal of assets by the Bank which may harm the interest of the shareholder or which may cause impairment to the Bank's assets.

4. Related Party Transactions

During the Reporting Period, the Supervisory Committee was not aware of any related party transactions entered into by the Bank that would damage the interest of the Bank or its shareholders.

5. The Auditor's Report

Deloitte Touche Tohmatsu CPA LLP and Deloitte Touche Tohmatsu have issued unqualified audit reports on the financial position and operating results of the Group in 2013 and the Supervisory Committee has no objection to the report.

6. The Execution of the Resolutions of the Shareholders' General Meetings

The Supervisory Committee has no objection to the proposals submitted to the Shareholders' General Meetings and considered that the Board of Directors well performed the resolutions of the Shareholders' General Meetings.

7. Implementation of Information Disclosure

During the Reporting Period, the Bank proactively invited the supervision by the public. The Supervisory Committee has not identified any false records, misleading statements or material omissions.

8. Internal Control System

During the Reporting Period, the Bank attached significant importance to the development of its internal control system, with continuous enhancement made to perfect its internal control systems and management ability. The Supervisory Committee has no objection to the "Internal Control Self-Appraisal Report for 2013" of the Bank.

9. The Performance of Performing Social Responsibility

During the Reporting Period, the Bank vigorously performed its corporate social responsibility. The Supervisory Committee had no objection to the "Corporate Social Responsibility Report for 2013" of the Bank.

10. Compliance with Applicable Laws

During the Reporting Period, the Bank undertook its business pursuant to applicable laws and its decision-making process was in compliance with relevant laws, regulations and the Bank's Articles of Association. The Board of Directors and Senior Management were diligent, hardworking, proactive, prudent and practical and no instances of any breach of laws or regulations which would damage the interests of the Bank and shareholders have been identified. The Supervisory Committee evaluated the discharge of duties performed by Directors and Senior Management for the year of 2013, in accordance with the "Guidelines of Corporate Governance of Commercial Bank", "Guidelines of Supervisory Committee of Commercial Bank", "Guidelines of Method on Duty Appraisal of Directors of Commercial Banks (Provisional)" issued by the CBRC, the "Guidelines of Appointment and Behaviour of Directors in Listed Companies" issued by Shanghai Stock Exchange and the "Supervision of the Supervisory Committee over Senior Management and members of the Board of Directors" issued by the Bank. As at the end of 2013, there were 25 incumbent Directors and Senior Management at the Bank. The Supervisory Committee did not evaluate 5 newly appointed Director because the appointment was less than six months from the effective date. In accordance with the "Guidelines of Supervisory Committee of Commercial Bank", the evaluation of the other 20 Directors and Senior Management are divided into three categories: "competent, basic competent and incompetent". The results of 19 Directors and Senior Management were evaluated at "competent" and one other at "basic competent".

The Bank diligently implemented the central government's policy "seek improvement in stability". Surrounding the theme of "promote deposit; stabilise profit; control risks, the Bank fully implemented the central government's macroeconomic control policy, moved forward with implementation of the existing strategy, proactively explore new thoughts and new fields of reform, continually to improve the real economy's strength and financial service level. Facing a complex global economic and domestic economic and financial environment, the Bank shall vigorously adjust structure, promote transformation development, strengthen comprehensive risk management, and further upgrade the Bank's ability of prudent development.

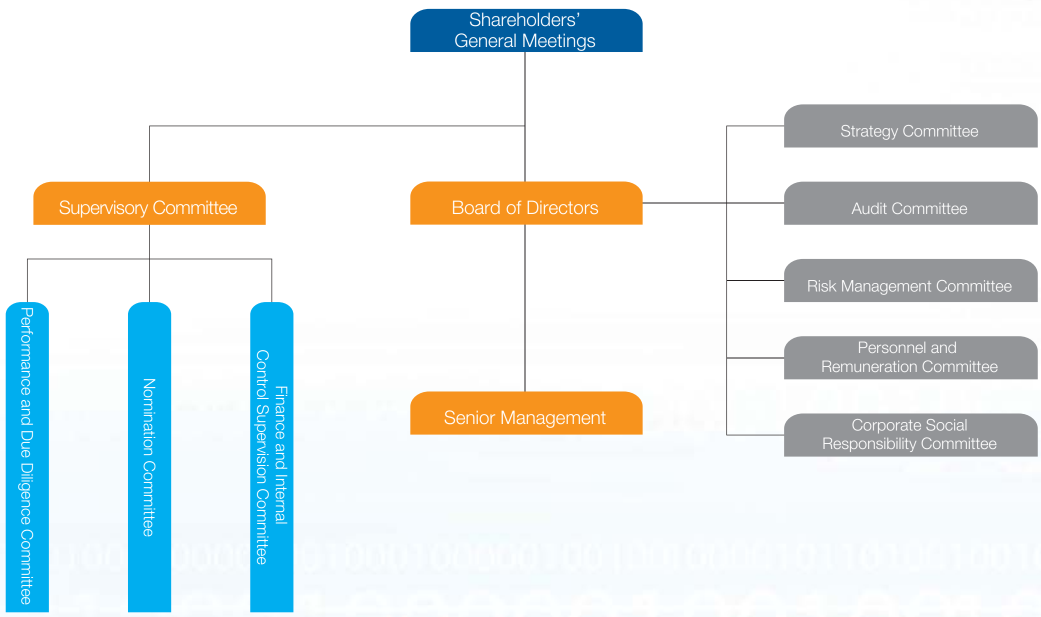
Corporate Governance Report

A sound corporate governance is the institutional guarantee for sustainable development and is the key aspect for prudent operation of a commercial bank. Targeting at "Best Bank in Corporate Governance", the Bank always adheres to enhance normative and efficient corporate governance as key initiatives in order to promote reform and development and is committed to developing a modern corporate governance mechanism comprising the Shareholders' General Meeting, the Board of Directors, the Supervisory Committee and Senior Management with clear defined roles and responsibilities, mutual coordination and efficient operation, to protect the legitimate rights and interests of shareholders and other stakeholders.

The corporate governance of the Bank abided strictly with the Company Law, the Securities Law and each requirement by China Securities Regulatory Commission. For the year ended 31 December 2013, the Board of Directors of the Bank confirmed that the Bank had fully complied with the code provisions under the Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules, and had also followed most of the best recommended practices contained in the Corporate Governance Code.

I. CORPORATE GOVERNANCE STRUCTURE

The Bank has established an effective, balanced and independent corporate governance structure, with clearly defined roles and responsibilities for the Shareholders' General Meetings, Board of Directors, Supervisory Committee and Senior Management.



Note: the chart shows the corporate governance structure of the Bank as at the end of the Reporting Period

II. CORPORATE GOVERNANCE SYSTEM CONSTRUCTION

The Bank's 2012 Annual General Meeting considered and approved the amendment of Articles of Association, which further improved the profit distribution polices of the Bank, established a stable and predictable cash dividend mechanism, and improved the role and responsibility of Independent Directors based on the requirements by relevant regulatory policies. Corporate governance structure was further developed.

III. SHAREHOLDERS AND SHAREHOLDERS' GENERAL MEETINGS

As at 31 December 2013, the total issued share capital of the Bank was 74,262,726,645 shares, consisting of 52.85% A shares and 47.15% H shares. There is no controlling shareholder of the Bank. The largest shareholder, the Ministry of Finance, and the second largest shareholder, HSBC, held 26.53% and 19.03% equity interest in the Bank respectively. The Bank is independent from all shareholders in terms of its business, employees, assets, institutions and finance, and possesses independent and complete autonomy capacity over its business and operations. The Bank was listed as a whole. Therefore, part of the restructuring and other causes contributing to industry competition or related party transactions do not exist.

Pursuant to the Articles of Association, the shareholders have the right to obtain relevant information, including the Articles of Association, the share capital condition, records of the Shareholders' General Meeting, resolutions of the Board of Directors' meeting, and resolutions of the Supervisory Committee meeting. Shareholders can also inquire the Board of Directors through the contact information on the page 6 under the "Investor Services" section in this Annual Report.

The Shareholders' General Meeting is the highest authority of the Bank. The shareholders who individually or jointly holding more than 10% of the voting shares of the Bank have the right to request in written form to convene the Extraordinary General Meeting. The shareholders who individually or jointly holding more than 3% of the voting shares of the Bank have the right to make proposals to the Shareholders' General Meeting in written form. The Bank takes various voting measures, including onsite voting and online voting, to facilitate Shareholders' participation, and to ensure that shareholders can exercise their rights. Each matter which was independent by nature was put forward by a separate proposal and voted by poll in the General Meetings.

During the Reporting Period, the Bank held one Shareholders' Annual General Meeting and one Extraordinary General Meeting. All resolutions passed at the General Meetings have been fully executed. The resolution announcements for all the Shareholders' General Meetings have been published and disclosed on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Bank, as well as in China Securities Journal, Shanghai Securities News and Securities Times.

On 25 June 2013, the Bank held 2012 Shareholders' Annual General Meeting in Shanghai. Proposals such as "2012 Annual Report of the Board of Directors of Bank of Communications Co., Ltd.", "2012 Annual Report of the Supervisory Committee of Bank of Communications Co., Ltd.", the "Report of the Financial Account for 2012", the "Profit Distribution Plan for 2012", "Proposal in respect of the Appointment of Auditors for the Year of 2013", "Proposal in respect of the new session of Board of Directors", "Proposal in respect of the new session of Supervisory Committee", "2012 Remuneration Plan for Directors and Supervisors of Bank of Communications Co., Ltd.", "2013 Fixed Assets Investments Plan of Bank of Communications Co., Ltd." and the "Resolution in relation to the Amendments of 'the Articles of Association of Bank of Communications Co., Ltd.' were considered and approved at the meeting.

On 29 October 2013, the Bank held the 2013 First Extraordinary General Meeting in Shanghai. "Proposal in respect of the Appointment of Mr. Peng Chun as an Executive Director of Bank of Communication Co., Ltd." was considered and approved at the meeting.

Attendance at the Shareholders' General Meetings by Board's members during the Reporting Period was as follows:

	Attendance	Attendance
Executive Directors		
Niu Ximing	2/2	100%
Peng Chun	/	/
Qian Wenhui	2/2	100%
Yu Yali	2/2	100%
Non-executive Directors		
Hu Huating	2/2	100%
Du Yuemei	2/2	100%
Wang Taiyin	1/1	100%
Peter Wong Tung Shun	0/2	0%
Anita Fung Yuen Mei	0/2	0%
Ma Qiang	2/2	100%
Lei Jun	0/2	0%
Zhang Yuxia	1/1	100%
Independent Non-executive Directors		
Wang Weiqiang	1/2	50%
Peter Hugh Nolan	2/2	100%
Chen Zhiwu	1/2	50%
Choi Yiu Kwan	2/2	100%
Liu Tinghuan	1/1	100%
Yu Yongshun	1/1	100%
Directors resigned/retired		
Hu Huaibang	/	/
Zhang Jixiang	1/1	100%
Eric Li Ka-cheung	0/1	0%
Gu Mingchao	0/1	0%

Note: Please refer to the "Directors, Supervisors, Senior Management and Human Resource Management" section in this Annual Report for changes in Directors (same applies hereinafter).

IV. BOARD OF DIRECTORS AND SPECIAL COMMITTEES UNDER THE BOARD OF DIRECTORS

1. Composition of the Board of Directors

The Bank understands and agrees the importance of diversification of members of the Board of Directors, which the Bank views as the vital aspect to support the improvement of corporate governance and to achieve the sustainable development of the Bank. Hence, the Bank has adopted a policy namely "Diversification Policy of Members of the Board of Directors of the Bank", according to which, the Bank shall set the composition of members of the Board of Director considering gender, age, nationality, academic background, professional qualification, industry expertise, etc. During the process of member selection and appointment of members of the Board of Directors afterwards, a comprehensive assessment is required to understand capabilities, skills, relevant experience, background and the objective evaluation of the potential contributions to the Bank of each candidate pursuant to the consideration of member diversification to ensure various perspective and opinion during the term of office and the composition of Board of Directors best compatible with the development strategy of the Bank.

The term of office of the Sixth Session of the Board of Directors ended on the date of 2012 Annual General Meeting of the Bank. The formation of the Seventh Session of the Board of Directors was approved on the twentieth meeting of the Sixth Session of the Board of Directors, nominated by the Ministry of Finance that holds more than 3% of the voting shares of the Bank and finally elected by the 2012 Annual General Meeting. As at the end of 2013, the Board of Directors comprised 18 members, including four Executive Directors, namely Mr. Niu Ximing, Mr. Peng Chun, Mr. Qian Wenhui, and Ms. Yu Yali; eight Non-executive Directors, namely Mr. Hu Huating, Ms. Du Yuemei, Mr. Wang Taiyin, Mr. Peter Wong Tung Shun, Ms. Anita Fung Yuen Mei, Mr. Ma Qiang, Mr. Lei Jun and Ms. Zhang Yuxia; six Independent Non-executive Directors, namely Mr. Wang Weiqiang, Mr. Peter Hugh Nolan, Mr. Chen Zhiwu, Mr. Choi Yiu Kwan, Mr. Liu Tinghuan and Mr. Yu Yongshun. The number of the Independent Non-executive Directors of the Bank accounted for one-third of the total number of Directors, which met the relevant regulatory requirements. Please refer to the "Directors, Supervisors, Senior Management and Human Resource Management" section in this Annual Report for the changes of the Board members, biographical details and term of office of the Directors.

The Chairman of the Board of Directors is Mr. Niu Ximing. Mr. Peng Chun serves as the Vice Chairman of the Board of Directors and President of the Bank. The roles and responsibilities of the Chairman and President are independent and clearly defined from each other.

2. Responsibilities of the Board of Directors

The Board of Directors is the strategic decision-making body of the Bank and responsible to the Shareholders' General Meeting. Moreover, it performs its duties within the terms of reference as stipulated under the laws, regulations and the Articles of Association, and as authorised by the Shareholders' General Meetings, to protect the legal interests of the Bank and its shareholders.

Its main responsibilities include convening Shareholders' General Meetings and reporting to such meetings, executing the resolutions approved at the Shareholders' General Meetings and formulating the Bank's business plans and investment strategies. The Board of Directors also listens to the report of the President and monitors the performance of senior management.

During the Reporting Period, pursuant to the laws, regulations and the Articles of Association of the Bank, the Board of Directors took their core responsibilities of "strategy formulation, risk control and capital management" to balance "expansion with better efficiency" and "compliance for sustainable development" during the whole process of transformation development and focused on 7 key areas: first, formulated comprehensive and integrated corporate governance plans to fully exploit talents of members of the Board of Directors and its subordinated Special Committees by improving operating procedures; second, further promoted the development strategy with strengthened implementation supervisory to continuously expand businesses featured in "BoCom Strategy"; third, fully carried out its "Second Round of Reform", carefully adhering to the macroeconomic control policy to improve service capabilities and to upgrade customer experience and to improve its comparative advantages; fourth, promoted enterprise comprehensive risk management framework to conduct strengthened regular assessment on risk management and periodical internal control focusing on key areas and innovative business and safeguarded the safe operation of those businesses; fifth, the implementation of the advanced capital measurement approach required massive assessment and supervision on capital management, making the Bank actively expand various financing channels; sixth, optimised communication platform to support the connection with analysts and investors, continuously enhancing the quality of information disclosure and information transparency; seventh, carried forward the "Green Credit" policy, actively participating in social welfare events and maintaining stakeholders' interests to consciously fulfil its corporate social responsibilities.

3. Meetings of the Board of Directors

The Bank has developed the "Procedural Rules of the Board of Directors' Meeting" to strictly outline matters in respect of the requirements for convening and giving notice for a meeting, the procedures, agenda and records of the meeting and so on. During the Reporting Period, the Board of Directors held eight meetings (including seven on-site meetings and one meeting via circulation of written resolutions) and considered and passed 50 resolutions such as annual report of the Board of Directors, President's report, financial accounts report, profit distribution plan, the election of the Board of Directors, establishment of domestic branches and representative office in Toronto, and Medium Term Note ("MTN") issuance plan in Europe. The five Special Committee under the Board of Directors held 19 meetings during the Reporting Period, and considered and passed 59 resolutions. All the aforementioned meetings were held in compliance with the Articles of Association, the "Procedural Rules of the Board of Directors' Meetings", and provisions of the "Corporate Governance Code".

The summary of attendance at the meetings of the Board of Directors during the Reporting Period was as follows:

	Attendance at Meetings	Attendance Percentage (%)	Attendance at Meetings in Person	Attendance in Person Percentage (%)
Executive Directors				
Niu Ximing	8/8	100.00%	8/8	100.00%
Peng Chun	/	/	/	/
Qian Wenhui	8/8	100.00%	8/8	100.00%
Yu Yali	8/8	100.00%	8/8	100.00%
Non-executive Directors				
Hu Huating	8/8	100.00%	8/8	100.00%
Du Yuemei	8/8	100.00%	8/8	100.00%
Wang Taiyin	2/2	100.00%	2/2	100.00%
Peter Wong Tung Shun	8/8	100.00%	5/8	62.50%
Anita Fung Yuen Mei	8/8	100.00%	7/8	87.50%
Ma Qiang	8/8	100.00%	8/8	100.00%
Lei Jun	8/8	100.00%	8/8	100.00%
Zhang Yuxia	2/2	100.00%	1/2	50.00%
Independent Non-executive Directors				
Wang Weiqiang	8/8	100.00%	7/8	87.50%
Peter Hugh Nolan	8/8	100.00%	7/8	87.50%
Chen Zhiwu	8/8	100.00%	6/8	75.00%
Choi Yiu Kwan	8/8	100.00%	8/8	100.00%
Liu Tinghuan	2/2	100.00%	2/2	100.00%
Yu Yongshun	2/2	100.00%	2/2	100.00%
Directors resigned/ retired				
Hu Huaibang	2/2	100.00%	2/2	100.00%
Zhang Jixiang	5/5	100.00%	5/5	100.00%
Eric Li Ka-cheung	5/5	100.00%	4/5	80.00%
Gu Mingchao	5/5	100.00%	5/5	100.00%
Average attendance percentage		**100.00%**		**92.24%**

4. Special Committees under the Board of Directors

The Board has set up five Special Committees, being the Strategy Committee, the Audit Committee, the Risk Management Committee, the Personnel and Remuneration Committee and the Social Responsibility Committee. The discharge of duty of the respective Committees is summarised as follows during the Reporting Period:

(1) Strategy Committee. The Committee is primarily responsible for inspecting and assessing of the implementation of the corporate governance system, research and analysis of the business objectives, formulating the medium-and-long term development planning, major equity investment plans and capital management of the Bank.

As at the end of 2013, the Strategy Committee comprised five members including Exectuive Director Mr. Niu Ximing, Exectuive Director Mr. Peng Chun, Exectuive Director Mr. Qian Wenhui, Exectuive Director Ms. Yu Yali and Non-executive Director Mr. Peter Wong Tung Shun, among which Mr. Niu Ximing serves as the Chairman of the Strategy Committee. During the Reporting Period, the Strategy Committee held three meetings and discussed on 10 subjects including Internal Assessment Report on Capital Adequacy for Year 2013-2015, extension of expiration date and authorisation period of financial debt issuance, RMB-denominated bond issuance in Hong Kong, establishment of MTN issuance plan in Europe by the branch in Hong Kong, capital injection in Xinjiang Shihezi Bocom Rural Bank Company Limited, and presented its recommendations to the Board of Directors.

(2) Audit Committee. The Committee is mainly responsible for proposing the appointment, change or removal of the Bank's auditors, supervising the Bank's internal audit rules and the implementation of such rules, acting as the communication channel between the Bank's internal and external auditors, reviewing the Bank's financial information and related disclosures, overseeing the Bank's accounting policies, financial conditions and financial reporting procedures, and monitoring the implementation of the Bank's internal control.

As at the end of 2013, the Audit Committee of the Board of Directors comprised five members, including Independent Non-executive Director Mr. Yu Yongshun, Non-executive Director Ms. Du Yuemei, Non-executive Director Ms. Zhang Yuxia, Independent Non-executive Director Mr. Choi Yiu Kwan and Independent Non-executive Director Mr. Liu Tinghuan, among which the Independent Non-executive Director Mr. Yu Yongshun serves as the Chairman of the Audit Committee. During the Reporting Period, the Audit Committee and external auditors held four meetings and discussed on 20 subjects including financial accounts report, profit distribution plan, annual reports and results announcements, the appointment of auditor for 2013, and fixed asset investment plan for 2013, and presented its recommendations to the Board of Directors.

(3) Risk Management Committee. The Committee is mainly responsible for supervising and controlling the risk management and control of the Bank's credit, market, operational and compliance, etc., performing periodic assessment on the Bank's risk management and risk tolerance and its risk management capabilities, reviewing significant connected transactions, fixed asset investments, asset disposals, asset pledges or external guarantees. It also presents its recommendations to the Board of Directors in relation to the possible enhancements on the Bank's risk management and internal controls. In addition, it is responsible for the management of connected transactions, including monitoring and reviewing significant connected transactions as well as controlling the associated risks.

As at the end of 2013, the Risk Management Committee comprised five members, including Independent Non-executive Director Mr. Wang Weiqiang, Non-executive Director Mr. Ma Qiang, Non-executive Director Mr. Lei Jun, Independent Non-executive Director Mr. Peter Hugh Nolan and Independent Non-executive Director Mr. Chen Zhiwu, among which the Independent Non-executive Director, Mr. Wang Weiqiang, serves as the Chairman of the Risk Management Committee. During the Reporting Period, the Risk Management Committee held five meetings and discussed on 16 subjects including the formal application for implementation of the advanced capital measurement approach, comprehensive risk management assessment report, risk appetite structure, liquidity risk indicators and operation and working progress of the risk measurement system, and presented its recommendations to the Board of Directors.

(4) Personnel and Remuneration Committee. The Committee is primarily responsible for formulating the remuneration and incentive plans for Directors, Supervisors and Senior Management according to the strategic plan and operational targets approved by the Board of Directors, presenting its remuneration plans to the Board of Directors and monitoring its implementation, as well as developing the criteria and procedures for election and appointment of Directors and Senior Management and performing initial assessments. It maintains the capacity of both a Nomination Committee and a Remuneration Committee, which effectively optimised the Bank's corporate governance structure and improved the efficiency of the Bank's operation.

As at the end of 2013, the Personnel and Remuneration Committee comprised five members, including Independent Non-executive Director Mr. Liu Tinghuan, Non-executive Director Mr. Wang Taiyin, Non-executive Director Ms. Anita Fung Yuen Mei, Independent Non-executive Director Mr. Choi Yiu Kwan and Independent Non-executive Director Mr. Yu Yongshun, among which the Independent Non-executive Director, Mr. Liu Tinghuan, serves as the Chairman of the Personnel and Remuneration Committee. During the Reporting Period, the Personnel and Remuneration Committee held six meetings to review 10 proposals, including the appointment of Senior Management, election of the Board of Directors, and the remuneration plan for Directors, Supervisors and Senior Management, and presented its recommendations to the Board of Directors.

(5) Social Responsibility Committee. The Committee is primarily responsible for researching and formulating the Bank's social responsibility strategy and policy, monitoring, inspecting and evaluating the related implementation, and approving external donations according to the authorisation approved by the Board of Directors.

As at the year end of 2013, the Social Responsibility Committee comprised five members, including Executive Director Mr. Peng Chun, Executive Director Mr. Qian Wenhui, Non-executive Director Mr. Hu Huating, Non-executive Director Mr. Ma Qiang and Independent Non-executive Director Mr. Chen Zhiwu, among which the Vice Chairman, Mr. Peng Chun serves as the Chairman of the Committee. During the Reporting Period, the Social Responsibility Committee held one meeting and reviewed three proposals including the corporate social responsibility report and "Green Credit Policy", and presented its recommendations to the Board of Directors.

(6) During the Reporting Period, all the aforementioned meetings of the Board's Committees regarding their convening methods, voting methods and relevant approvals were held in compliance with relevant laws, regulations, the Articles of Association and Guidance on Board's Committees. The summary of attendance at the meetings (including written opinion) was as follows:

	Strategy Committee	Audit Committee	Risk Management Committee	Personnel and Remuneration Committee	Social Responsibility Committee
Niu Ximing	3/3				1/1
Peng Chun	/				/
Qian Wenhui	3/3				1/1
Yu Yali	3/3				
Hu Huating					1/1
Du Yuemei		4/4			
Wang Taiyin				2/2	
Peter Wong Tung Shun	3/3				
Anita Fung Yuen Mei				6/6	
Ma Qiang			5/5		1/1
Lei Jun			5/5		
Zhang Yuxia		2/2			
Wang Weiqiang			5/5		
Peter Nolan			5/5		
Chen Zhiwu			5/5		1/1
Choi Yiu Kwan		4/4		6/6	
Liu Tinghuan		2/2		2/2	
Yu Yongshun		2/2		2/2	
Hu Huaibang	1/1				
Zhang Jixiang				4/4	
Eric Li Ka-cheung		2/2			
Gu Mingchao		2/2		4/4	

5. Independent Non-Executive Directors

As at the end of the Reporting Period, there were six Independent Non-executive Directors at the Bank, and the qualifications are in compliance with the domestic laws and regulations, as well as relevant provisions of the Hong Kong Listing Rules. The independence of the Bank's Independent Non-executive Directors is well maintained as they do not have any business or financial interests in the Bank or its subsidiaries and they have not assumed any executive positions in the Bank. In addition, the Bank has received annual independence confirmation letters from all Independent Non-executive Directors and considers that each of the Independent Non-executive Directors is independent.

During the Reporting Period, the time that each Independent Non-executive Directors devoted to the work is in compliance with the requirements of the "Working Practice of Independent Directors" of the Bank. Currently, three Special Board Committees, being the Audit Committee, the Risk Management Committee and the Personnel and Remuneration Committee are all chaired by Independent Non-executive Directors. These Independent Non-executive Directors actively participated in discussions during the Board meetings, thereby promoting objectivity in the Board's decision making process. In addition to attending Board meetings, each Independent Non-executive Director communicated with Senior Management regularly through various channels including on-site inspections and discussion sessions. The Independent Non-executive Directors have given their opinions on significant matters which arose during the Reporting Period, including connected transactions, nomination of Directors and appointment of Senior Management and had no objections to the resolutions of the Board of Directors or any other matters.

6. Participation in Trainings and Inspections by Directors during the Report Period

During the Reporting Period, the Board of Directors vigorously organised all the Directors to attend different trainings and inspections, continuously upgrading their execution ability of duty and strengthening the Board of Directors' function of strategic decision-making. The main training includes:

(1) Mr. Niu Ximing, Mr. Qian Wenhui, Ms. Yu Yali, Mr. Hu Huating, Ms. Du Yuemei, Mr. Peter Wong Tung Shun, Ms. Anita Fung Yuen Mei, Mr. Ma Qiang, Mr. Lei Jun, Mr. Wang Weiqiang, Mr. Peter Hugh Nolan, Mr. Chen Zhiwu, Mr. Choi Yiu Kwan attended a training course with the topic of "disclosure of inside information and insider dealings" held by DLA Piper and King & Wood Mallesons.

(2) Ms. Yu Yali, Mr. Hu Huating, Ms. Du Yuemei, Mr. Wang Taiyin, Mr. Ma Qiang, Mr. Leijun, Ms. Zhang Yuxia, Mr. Yu Yongshun attended Directors and Supervisors for Large-scale Banks Training Courses held by China Banking Regulatory Commission.

(3) Ms. Du Yuemei, Mr. Wang Taiyin attended Training Courses for Directors and Supervisors From Listed Companies held by Shanghai Securities Regulatory Bureau.

(4) Mr. Wang Taiyin, Mr. Ma Qiang, Mr. Choi Yiu Kwan, Mr. Yu Yongshun attended the training course with the topic of "Issues of Liquidity Management Of Commercial Banks".

(5) Mr. Wang Taiyin, Ms. Zhang Yuxia, Mr. Liu Tinghuan and Mr. Yu Yongshun read and studied the training materials provided by DLA Piper in relation to the discharge of duties of the newly appointed Directors.

(6) All Non-executive Director and Independent Non-executive Directors went to head business departments and domestic branches to conduct more than twenty researches around topics including risk management, internal control management, financial innovation, small-sized business loans, corporate governance structure and so on.

7. Responsibility of the Board of Directors for the Financial Statements

The Directors are responsible for the preparation of financial statements to give a true and fair view of the Group's business condition, operating results and cash flows in each accounting period. In preparing for the financial statements for the year ended 31 December 2013, the Group has selected and consistently applied appropriate accounting policies and has made reasonable and prudent accounting judgements and estimates. The Directors have acknowledged their responsibility for the preparation of financial statements and the auditor's acknowledgement of their responsibility has been stated on page 145 of the Annual Report.

8. Specific Notification and Independent Opinion by the Independent Non-Executive Directors on External Guarantees Provided by the Bank

The Independent Non-executive Directors consider that the provision of external guarantees is in the ordinary course of the Bank's business and is approved by the banking regulatory authorities in China. The Bank has developed prudent risk management and monitoring policies, particularly on the standard of the credit assessment of guarantee, as well as operational and credit approval procedures, etc., so as to effectively manage the risks of its external guarantee business.

V. SUPERVISORY COMMITTEE AND SPECIAL COMMITTEES UNDER THE SUPERVISORY COMMITTEE

Supervisory Committee is the Bank's supervisory body and responsible to the Shareholders' General Meeting. Its main responsibilities include: it reviews financials of the Bank and supervises operational behaviours of Directors and Senior Management. It provides recommendations on the dismissal of Directors and Senior Management in event of violation of laws and administrative regulations, Article of Association or resolutions of Shareholders' General Meetings. It also devises corrective actions on any misconduct of Directors and Senior Management of the Bank which harms the Bank's interests. The Supervisory Committee checks the financial information submitted by the Board of Directors at the Shareholders' General Meeting such as the financial reports and profit distribution plans. For items in doubt, it is authorised to commission, on behalf of the Bank, CPAs and practicing auditors to review. It is authorised to propose the convening of an Extraordinary General Meeting, convene and preside over and investigate in Shareholders' General Meeting when the Board of Directors does not fulfil its duty to convene and preside over the Shareholders' General Meetings under the provisions of the Company Law.

There are 13 members on the Supervisory Committee, including the Chairman, two External Supervisors, six Shareholder Representative Supervisors, and four Employee Representative Supervisors. Mr. Hua Qingshan serves as the Chairman of the Supervisory Committee. The Supervisory Committee has three Special Committees: The Performance and Due Diligence Supervision Committee, has four members including the Chairman of the Supervisory Committee, being the Chairman of the Performance and Due Diligence Supervision Committee, two External Supervisors and one Employee Representative Supervisor. They are responsible for the supervision of the performance of the Board of Directors and Senior Management and its members. The Nomination Committee has five members, with the External Supervisor as the Chairman, two Shareholder Representative Supervisors, and two Employee Representative Supervisors. They are responsible for the development of Supervisor's election and appointment procedures and standards, assessment of the qualification of the elected and appointed Supervisors, and evaluation of their annual performance. The Finance and Internal Control Supervision Committee, has seven members, including the Chairman being the External Supervisor, four Shareholder Representative Supervisors and two Employee Representative Supervisors. They are responsible for the supervision of financial management, internal controls and risk management of the Bank.

The Supervisory Committee agreed on the matters under supervision during the Reporting Period.

Please refer to the "Report of the Supervisory Committee" for work performance of the Supervisory Committee and its Special Committees.

VI. SENIOR MANAGEMENT

The Bank's Senior Management comprises of President, Executive Vice President, Chief Financial Officer, Chief Information Officer, Chief Risk Officer, Corporate Business Director and BoCom-HSBC Strategic Cooperation Consultant. The Bank adheres to a system whereby the President, as the ultimate responsible officer, reports to the Board of Directors. All other functional departments, branch offices and Senior Management report to President. President has the authority to manage the Bank's business in compliance with the relevant laws and regulations, the Articles of Association and authorisation from the Board of Directors, with primary responsibilities including but not limited to managing day-to-day operations, executing the resolutions of General Meeting and the meeting of Board of Directors, drafting annual business plan and investment strategy planning and executing such plans upon the approval by General Meeting or the meeting of Board of Directors.

During the Reporting Period, Senior Management committed to business and management work authorised by the Articles of Association and the Board of Directors, and completed the business targets determined by the Board of Directors as required. The Board of Directors was satisfied with the performance of Senior Management for the year 2013.

VII. INTERNAL CONTROL

1. Internal Control System Overview

Pursuant to the "Guidelines on Internal Controls for Commercial Banks" issued by the CBRC and the "Internal Control Code for Companies" jointly issued by the Ministry of Finance and other four departments along with relevant guidelines and requirements, the Bank developed its sound internal control system framework which is embedded with principles and practises of comprehensive risk management. The Bank's internal control objective is to guarantee the legitimacy and compliance of its operating management to national laws and regulations and the internal regulations of the Bank, the accuracy, completeness and reliability of the financial information, effectiveness of the risk management system and the security of assets, thus facilitating the Bank to ultimately realise its development strategy and operation objectives. During the Reporting Period, the Board of Directors confirms that the internal control system in the Bank and its subsidiaries is efficiently and steadily operated.

2. Internal Control Measures

Under the complex external operational environment during 2013, the Bank continues to facilitate the framework and takes various effective means of risk management to optimise its internal control system. First, the classified management framework is further promoted which transfers the front desk towards divisional structure and professional construction while improving the corporate credit granting and retail credit management structure. Second, the operational management is continuously improved adhering to the "Trinity" network principle underlying the coordination and establishment of comprehensive branch outlet and the matrix reform of the existing branches managed by provinces. Third, to strengthen the comprehensive risk management control system, the "1+3+2" Risk Management Committee System is adopted by domestic and overseas branches which clarified the communication combined with decision making process to strengthen the responsibility of "general manager of each branch" regarding risk management events. In the meantime, the Bank leverages the risk structure of small scaled middle office, improved business management and risk control system, formulating a risk control structure, guideline, process and measures covering the core areas concerning the retail credit, offshore, personal banking, etc. Fourth, pursuant to the practical use and the management guidelines on major risks on credit, market, operation, etc., the Bank introduces various measures to enhance liquidity management of domestic and overseas branches, optimising balance sheet structure. Fifth, to strengthen the credit management, the centralised credit granting management framework covering credit and non-credit business is adopted to promote differentiated authorisation system, optimising the existing loan structure and reduction of fund and collateral enhancement of potential risk loans by means of risk investigation and prevention regarding major risk areas such as massive loan default and webs of guarantee. Sixth, the Bank launches the retail credit management reform to optimise its framework construction and adjustments of retail credit management structure of tier-1 branches, clarifying responsibilities of front, middle and back office to enhance risk management of, and increase the controlling capabilities of retail credit management. Seventh, risk management regarding major risks such as wealth management, long forward and business seal authorisation are further improved by conducting special audit to prevent bank-wide business risks. Eighth, to deepen the development combining businesses and technologies, the Bank moves forward on the "531" project construction to promote the business innovation underlying centralised data processing platform for domestic and overseas branches, facilitating information system to improve relevant risk management. In addition, the Bank introduces the first long range duel-access system across the globe and carries forward branch-level disaster recovery program by improving the IT systematic risk management.

The internal control system of the Bank has been well managed in an efficient and steady way in 2013. In 2014, adhering to "attract deposits, stable profit and risk management", compliance to laws and regulations and steady management, the Bank will maintain the reasonable growth of its deposit balance and profits while maintaining asset quality and continuously improving risk management capabilities.

VIII. ACCOUNTABILITY OF MAJOR MISTAKES IN INFORMATION DISCLOSURE OF ANNUAL REPORT

The Bank is devoted to enhancing the quality of its annual report and improving the disclosure of the report. Through building the disclosure system of annual report and formulating and implementing the "Administrative Measures for Information Disclosure", "Administrative Measures for Major Information Report", "Administrative Measures for Major Information Report of Subsidiaries" and "Administrative Measures for the Confidentiality of Inside Information", the Bank effectively prevents the major mistakes by identifying information disclosure deadlines for reporting, compiling and examining of inside information, enhancing responsibilities of various positions, and implementing accountability for mistakes to effectively avoid the material mistakes on information disclosure. During the Reporting Period, there was no major mistake regarding information disclosure found by the Bank.

IX. MANAGEMENT OF INSIDE INFORMATION

The Bank attached great importance to the management of inside information and insiders with inside information and took necessary measures to prevent insider dealing. The Bank strictly executed the rules and regulations such as "Insider Registration Policy of Bank of Communications Co. Ltd." and "Administrative Measures for the Confidentiality of Inside Information", effectively implementing the confidentiality management of inside information and registration management of insiders of inside information. The Bank strictly controlled the range of insiders and practiced timely registration, especially when periodical results were to be published or major events occurred. During the Reporting Period, there was no reveal regarding inside information.

X. SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Bank requires that the Directors, Supervisors and Senior Management of the Bank should strictly adhere to the "Rules on the Administration of Shares held by Directors, Supervisors and Senior Management Personnal of Listed Companies and the Changes of Such Shares" issued by the CSRC. The Bank also adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "**Model Code**") as set out in Appendix 10 to the Hong Kong Listing Rules. The Bank has made specific enquiries of all the Directors,Supervisors and Senior Management of the Bank and all of them confirmed that they had complied with the above-mentioned rules in 2013.

XI. AUDITOR'S REMUNERATION

The Group's financial statements for the year ended 31 December 2013 prepared in accordance with China Accounting Standards have been audited by Deloitte Touche Tohmatsu CPA LLP. The financial statements prepared in accordance with the International Financial Reporting Standards have been audited by Deloitte Touche Tohmatsu. The audit fees are RMB31.47 million. In addition, the internal control audit service provided by Deloitte Touche Tohmatsu CPA LLP with the audit fee of RMB2.7 million.

During the Reporting Period, the fees for non-audit services provided by Deloitte and its associated companies to the Group are approximately RMB2.44 million. The non-audit services provided mainly included the translation of financial reports, the assurance of report of corporate social responsibilities and commitment letter of overseas bond issue. The Audit Committee was satisfied that such services provided had not impaired the independence of Deloitte.

Deloitte Touche Tohmatsu CPA LLP has provided the Group 9 years audit service while Deloitte Touche Tohmatsu has provided the Group 3 years audit service.

Deloitte Touche Tohmatsu CPA LLP has resigned as the Bank's external auditor starting next year based on service period limitation pursuant to "the Measures for Financial Enterprises to Select and Employ Accounting Firms by Bidding (Provisional)" issued by Ministry of Finance. The Board of Directors proposed to appoint PricewaterhouseCoopers CPA LLP and PricewaterhouseCoopers as the Bank's external auditor starting 2014 which is subject to approval of the 2013 Annual General Meeting.

XII. INVESTOR RELATIONS (IR)

The Bank attached great importance to the management of capital value and adhered to maximise shareholders' benefits. The bank kept effective and deep communication with capital market, popularised the operational highlights and characteristics, and recommended long-term investment value of the bank's stocks.

In 2013, the Bank continuously created new measures in investor relations management, ensuring the initiative and efficient communication with investors and further strengthening communication with the capital market to enhance the quality and effectiveness of investors' communication. The Bank organised reverse road shows in themes "BoCom IT system construction and e-banking business development" and "BoCom comprehensive and international development strategy". These activities increased investors and analysts' understanding in bank's development strategies and business features and upgraded the acknowledgement of the market to the investment values of the Bank through holding topic lectures and forums and hosting visits by investors.

In 2013, on the basis of existing communication channels such as investor hotline, investor email, IR webpage and so on, the Bank established "e-interaction platform of the Shanghai Stock Exchange" management framework and maintaining its mechanism, building comprehensive communication with investors in order to further increase communication platform for investors. The Bank actively explored new channels of information delivery, taking investor communication information into WeChat public platform and pushing information to investors.

In 2013, the Bank held four results press conferences and road shows in major international financial centres. These activities allowed the Bank to have deep and effective communication with the investors, analysts and the press about development strategy, the operating results and future objectives of the Bank. In addition, the Bank also maintained timely and smooth interaction and communication with investors through holding analysts seminar, participation in investment forums held by famous securities companies and hosting visits by investors. Through these activities, the Bank's IR team managed to communicate with over 1,000 investors and analysts in total in this year.

Corporate Social Responsibilities

The Bank upheld its belief of "strong harmony and integrity, constant pursuit for excellence and growing with the society" and vigorously performed its corporate social responsibilities, maximising the interests of stakeholders, shareholders, clients and employees and achieve the first class standards well across the globe.

I. CLARIFICATION OF RESPONSIBILITY

The Bank is the first among domestic listing companies to establish the Corporate Social Responsibility Committee under the Board of Directors. During the Reporting Period, the committee members were changed. The Committee now comprises five members of Executive Directors, Non-executive Directors and Independent Non-executive Directors with President Peng Chun serving as the Chairman, which reflected high degree of representation. During the Reporting Period, five major tasks have been carried forward, namely promotion of corporate social responsibilities, implementation of "Green Credit" policy, safeguarding the rights of interests related parties, improvement of internal and external communication, and further development of the Corporate Social Responsibility Committee.

During the Reporting Period, pursuant to the "Guidance on BoCom Corporate Social Responsibility", the Bank set up means and defined responsibilities towards the practice of corporate social responsibility and took concrete actions in four key areas including "clarification of responsibility, support of real economy, promotion of "Green Credit" policy, achievement of mutual benefits" in line with the predetermined measures of "2013 key improvement of corporate social responsibility".

The communication between the Bank and its stakeholders is noteworthy as the identification of the expectation and requirements of eight major stakeholders including clients, shareholders, government agencies, employees, environment, community, partners and non-governmental organisations. Hence, the Bank chose the key issues underlying corporate social responsibility and set up objectives.

Social contribution value per share in the past three years

2011	2012	**2013**
RMB2.93	RMB3.16	**RMB3.28**

Note: "social contribution value per share" (SCVPS) is calculated according to the relevant provisions in "Notice on Strengthening Listed Companies' Assumption of Social Responsibility and the Guidelines on Listed Companies' Environmental Information Disclosure" issued by Shanghai Stock Exchange on 14 May 2008 and with the consideration of characteristics in banking operation. SCVPS = earnings per share + (tax revenues paid to the state + salaries paid to employees + loan interest paid to creditors + and donations to social welfare)/share capital as at the end of the Reporting Period.

II. SUPPORT TO REAL ECONOMY

During the Reporting Period, under the complex economic environment, the Bank followed the policies of national macro-economic control, persisted on the core of supports to real economy, and concentrated on providing financial support to four key areas such as expansion of domestic demands, urbanisation and improvement of people's livelihood, central and western China development, strategic emerging industries and systematically important projects. As a result, the growth rate of the balance of loan made to central and western China, SMEs, agriculture related enterprises continued to exceed the average growth rate of the total loan balance.

(in billions of RMB)

	2011	2012	2013
Total Loan Balance	2,561.750	2,947.299	**3,266.368**
Central and western China	651.973	752.150	**844.064**
SMEs	922.580	1,112.793	**1,247.966**
Agriculture related enterprises	384.807	478.308	**540.785**

Note: Central and western China includes Shanxi Province, Anhui Province, Jiangxi Province, Henan Province, Hubei Province, Hunan Province, Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Guangxi Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region, Xinjiang Uyghur Autonomous Region and Inner Mongolia Autonomous Region, etc.

III. IMPROVEMENT OF PEOPLE'S LIVELIHOOD

As a financial intermediary, the Bank further promoted its financial support in smoothing the economy towards areas of consumption, healthcare, measures of settlement and residential construction underlying the improvement of people's livelihood. During the Reporting Period, the growth rate of the balances of loans made to individual, education, science, culture and public health and the construction of affordable housing exceeded the average growth rate of the total loan balance.

(in billions of RMB)

	2011	2012	2013
The construction of affordable housing	24.626	29.254	**33.260**
Science, education, culture and public health industries	30.223	35.161	**46.114**
Individual	509.307	601.522	**751.310**

IV. GREEN CREDIT

The implementation of "Green Credit" policy of the Bank has been carried forward for six years amid various projects underwent during the Reporting Period. Accomplishments such as the proportion of number of "green" customers and the relative outstanding balance remained at high levels, more loans made to enterprises in low-carbon economy, energy-saving and environmental protection, and a further decrease in the proportion of loans made to aspects of "heavily-polluting, highly-energy-consuming and over-capacity" sectors.

	2011	2012	2013
The proportion of "green" customers	99.28%	99.46%	**99.56%**
The proportion of loan balance made to "green" customers	99.72%	99.80%	**99.80%**
The proportion of loan balance made to "heavily-polluting, highly-energy-consuming and over-capacity" sectors	3.21%	2.83%	**2.21%**
Loan balance made to energy-saving and emission reduction sectors (in billions of RMB)	123.536	144.028	**165.836**

Note: "loan balance made to energy-saving and emission reduction sectors" is the balance of the first class "green" customers according to the Bank's policy underlying low-carbon economy, environmental protection and resource comprehensive utilisation.

V. GREEN SERVICE

The Bank is dedicated to the development of an e-banking model in order to provide more efficient, low-cost, faster and suitable financial products and services. Through various measures towards e-banking innovation, the era of "green finance" emerges and more customers are attracted to use e-banking to build a more environmental friendly society.

	2011	2012	2013
Channel diversion rate of e-banking services	66.44%	73.17%	**78.33%**

VI. GREEN OPERATION

The Bank is dedicated to becoming an environmental friendly enterprise by adopting related practice in its operation. During the Reporting Period, various conferences were organised with electronic devices thanks to the advancement of information technology and the implementation of green operation, which saved much energy and costs. The Bank further promoted energy-saving operation through energy-saving improvement and environmental friendly product procurement to decrease its resource consumption. Furthermore, suppliers of the Bank are encouraged to protect the environment, follow the procurement standards and build energy efficient buildings.

VII. CUSTOMER SERVICE

To become a leading financial institution relying on a foundation of good customer recognition, the Bank endeavored to be at the forefront of this field and push forward transformation development through improvement of services. Hence, the Bank focused on improving service capabilities reflecting the quality and efficiency pursuant to the standardised, regulated and characterised services to provide better customer experience with fewer complaints and good recognition in the industry.

	2011	2012	**2013**
Customer Satisfaction Index	704	694	**787**
Number of product innovation projects	66	97	**101**
The successful rate of UnionPay card inter-bank transaction	99.986%	99.982%	**99.997%**
The number of domestic branch outlet	2,637	2,701	**2,690**
Number of branches awarded "Top-100"	9	—	**20**

Note 1: "Customer Satisfaction Index" derived from China Retail Banking Satisfaction Study by J.D. Power.

Note 2: The "Top-100" model branch assessment is rated twice a year by the China Banking Association.

VIII. CARES ABOUT EMPLOYEES

As at the end of the Reporting Period, the Bank had a total of 98,010 domestic employees, representing an increase of 3.74% as compared with the corresponding period of the prior year, of which 54% are female employees while the overseas employees amounted to 1,909, of which over 95% are local residents.

	2011	2012	**2013**
Total number of employees	90,149	96,331	**99,919**
The number of female employees served as medium-to-top management	2,150	2,277	**2,360**
The number of ethnic minorities	3,395	2,914	**3,205**

During the Reporting Period, the number of job offers by the Bank amounted to 25 thousands, of which 7.5 thousand positions opened towards first-year graduates to relieve the employment pressure of graduates and maintain social harmony. The Bank won the title as the "2013 China Best Employer" with further brand promotion of its employment market. In addition, the Bank offered fair and appropriate positions and benefits to 132 handicapped employees.

The Bank designs competitive packages with regard to cost efficiency, regional variance and industry average salaries, provides and facilitates comprehensive training projects for employees at various levels, areas and positions to continuously improve employees' capabilities. The Bank introduces caring projects namely "employee well-being and massive visits" and helps employees in financial distress situations, in addition to employee sponsored meetings and mental health consultation namely "inner peace towards further development" continued to be promoted.

IX. DEVOTION TO PUBLIC WELFARE

The Bank is dedicated to public charity and makes numerous donations for disaster recovery, disabled person support and poverty alleviation during the Reporting Period. The projects such as "Gateway to Tomorrow" academic grant, "petty cash donation box" and support in predetermined areas are well executed. The Bank also provides support to aspects of academic and sports events to spread positive energy to society through innovative ways. Employees of the Bank proactively participate in volunteer activities such as community services and environment protection.

(in thousands of RMB)

2013 total donation 30,827.7			
Disaster recovery	Disabled person support	Poverty alleviation	Others
9,869.0	8,600	7,793.1	4,565.6

2013 Donation Landscape of the Bank

"Gateway to Tomorrow" — disabled students' grant	Donations to 25 provinces and cities, including Hebei Province, Shanxi Province, Inner Mongolia Autonomous Region, Liaoning Province, Jiling Province, Heilongjiang Province, Jiangsu Province, Anhui Province, Jiangxi Province, Fujian Province, Shandong Province, Henan Province, Hubei Province, Hunan Province, Guangxi Province, Hainan Province, Chongqing, Sichuan Province, Yunnan Province, Guizhou Province, Shaanxi Province, Ningxia Hui Autonomous Region, Gansu Province, Qinghai Province and Xinjiang Uyghur Autonomous Region.
"Gateway to Tomorrow" — facilitators' allowance in special education	Donations to 6 provinces and cities, including Beijing, Hebei Province, Henan Province, Jiangsu Province, Sichuan Province and Tibet Autonomous Region.
"Gateway to Tomorrow" — award to distinguished disabled students and facilitators in special education	Donations across the country.
Petty cash donation box	Donations across the country excluding Tibet Autonomous Region.
Poverty alleviation	Dedication in Julu and Shexian in Hebei Province, Wuxiang in Shanxi Province, Guyang and Aohan Banner in Inner Mogolia Autonomous Region, Xifeng in Liaoning Province, Jinyu and Helong in Jilin Province, Ningan, Huanan and Shangzhi in Heilongjiang Province, Ganyu, Jiangyin and Sheyang in Jiangsu Province, Chunan and Ninghai in Zhejiang Province, Changting and Ninghua in Fujian Province, Ruichang in Jiangxi Province, Rongcheng and Jining in Shandong Province, Tongcheng in Hubei Province, Yueyang and Anhua in Hunan Province, Wuhua in Guangdong Province, Bama in Guangxi Autonomous Region, Pengshui in Chongqing, Dege and Yanbian in Xichuan Province, Weixi, Luoping and Chuxiong in Yunnan Province, Wuqi County in Shaanxi Province, Tianzhu in Gansu Province, Yanchi in Ningxia Autonomous Region and Yumin in Xinjiang Uyrghur Autonomous Region.
Disaster recovery	Donations to Lushan in Sichuan Province, Fushun in Liaoning Province, Shanxi Province, Songyuan in Jilin Province, Yanan in Shaanxi Province, Yuyao in Zhejiang Province, Chaoyang in Guangdong Province, Daozhen in Guizhou Province, Minxian and Zhangxian in Gansu Province.

Note: The donation landscape excluding areas with contributions less than RMB50 thousand.

X. OUTLOOK

Major tasks underlying the Group's 2014 corporate social responsibility

Optimisation of Corporate Governance	Improvement of operation mechanism with better capital and market value management to become the "best bank in corporate governance"
Support of real economy	Pursuant to national macroeconomic control policy, transform and develop to serve the real economy, enhancing financial support to areas such as central and western China development, systematically important projects, expansion of domestic demands, agriculture related enterprises and the construction of affordable housing
Promotion of "Green Credit" policy	Conducts assessment on green credit towards further development, appraise and analyze the development results and improvements of green credit and adopts tailored measures in response of issues raised; continues the application of energy-efficient operation and procurement policy and dedicates to environment protection with its stakeholders
Achievement of mutual benefits	Improves service capabilities by adhering to its customer policy of rights; facilitates supports towards professionals and experts and improves employees' happiness index; devotes to public charity in innovative ways
Clarification of responsibility	Amends and introduces guidance on the "Corporate Social Responsibility"; enhance culture spread with internal advocacy of employees and corporate social responsibility; sets public image by the means of external exchange and competition

I. MATERIAL LITIGATION AND ARBITRATION AND ISSUES QUESTIONED BY THE MEDIA GENERALLY

During the Reporting Period, the Bank had not been involved in any material litigation and arbitration, or issues questioned by the media generally.

As at 31 December 2013, the Bank had been involved in certain outstanding litigations as defendant or third party with an amount of approximately RMB1.153 billion. After consultations with the legal advisers, the Bank is of the view that these litigations will not have any significant impact on the financial position of the Group.

II. RELATED PARTY TRANSACTIONS

During the Reporting Period, all the transactions between the Bank and its related parties were ordinary operating capital flows at arms-length. No significant related party transaction occurred during the Reporting Period.

During the Reporting Period, details of continuing related party transactions of the Bank are disclosed in Note 44 to the Consolidated Financial Statements set out in this Annual Report. No outstanding loan balance of individual related party of the Bank as at 31 December 2013.

III. MATERIAL CONTRACTS AND PERFORMANCE OF OBLIGATIONS THEREUNDER

1. Material Trust, Sub-contract and Lease

During the Reporting Period, the Bank has not held in trust to a material extent or entered into any material sub-contract or lease arrangement in respect of assets of other corporations, and no other corporation has held in trust to a material extent or entered into any material sub-contract or lease arrangement in respect of the Bank's assets.

2. Material Guarantees

The provision of guarantees is one of the off-balance-sheet businesses carried out by the Bank in its ordinary and usual course of business. During the Reporting Period, the Bank did not provide any material guarantees that need to be disclosed except for the financial guarantee services within the business scope as approved by the regulatory authority.

3. Other Material Contracts

During the Reporting Period, the Bank had not entered into any other material contracts.

IV. IMPLEMENTATION OF UNDERTAKINGS

In the process of the non-public issuance of A shares and H shares of the Bank in 2012, the subscribers of the A shares undertook not to transfer such A shares within 36 months from the date of completion of the issuance. Please refer to the section headed "Share Captial and Substantial Shareholders — Securities Issuance and Listing" in this annual report for details.

As of 31 December 2013, the subscribers had performed their undertakings.

V. DISCIPLINARY ACTIONS AGAINST THE LISTED COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, SHAREHOLDERS WITH MORE THAN 5% SHAREHOLDINGS, ACTUAL CONTROLLERS AND ACQUIRERS

During the Reporting Period, neither the Bank, nor any of its Directors, Supervisors, Senior Management, shareholders with more than 5% shareholdings, actual controllers or acquirers was subject to any investigation, administrative penalty or circulation of criticism by CSRC or public reprimand by the stock exchanges.

VI. OTHER SIGNIFICANT EVENTS

1. Holdings of Equity Interest in Other Listed Companies

(in RMB unless otherwise stated)

Stock code	Stock short name	Initial investment amount	Percentage of equity interest in the company (%)	Book value as at the end of the Reporting Period	Gains/(losses) during the Reporting Period	Changes in owners' equity during the Reporting Period	Accounting items	Source of shares
600068	GEZHOUBA	134,200,800.00	1.42	195,426,000.00	–	(75,505,500.00)	Investment securities – available-for-sale	Foreclosed assets
600094	DAMINGCHENG	19,201,120.72	0.29	22,188,937.45	14,526,249.82	(25,610,782.61)	Investment securities – available-for-sale	Foreclosed assets
00067	LUMENA NEWMAT	96,241,360.48	0.54	36,129,945.27	3,991,705.31	(4,877,890.63)	Investment securities – available-for-sale	Equity investment
600757	CHANGJIANG CHUANMEI	22,397,258.16	0.27	24,501,046.86	–	4,595,969.16	Investment securities – available-for-sale	Foreclosed assets
V	Visa Inc.	6,066,233.02	–	31,584,548.55	–	9,419,539.91	Investment securities – available-for-sale	Equity investment
000851	GOHIGH	6,104,596.15	0.23	11,659,840.72	–	5,555,244.57	Investment securities – available-for-sale	Foreclosed assets
600155	*ST BAOSHUO	19,614,012.99	0.72	10,826,500.00	–	2,990,005.96	Investment securities – available-for-sale	Foreclosed assets
600556	*ST BEISHENG	1,536,396.00	0.13	1,833,432.56	–	(261,187.32)	Investment securities – available-for-sale	Foreclosed assets
00006	POWER ASSETS	1,418,553.55	–	1,599,545.62	–	(122,065.10)	Investment securities – available-for-sale	Equity investment
00966	CHINA TAIPING	1,652,443.37	0.01	2,311,440.72	–	262,418.97	Investment securities – available-for-sale	Equity investment
	Others	13,294,959.86		5,188,387.43	52,653,663.19	40,643,798.00		
	Total	**321,727,734.30**		**343,249,625.18**	**71,171,618.32**	**(42,910,449.09)**		

Notes:

1. The table above sets out the equity investments in other listed companies held by the Group, that are classified as financial assets at fair value through profit or loss and investment securities-available-for-sale during the Reporting Period.
2. Gain/(loss) during the Reporting Period refers to the impact of such investments on the Group's consolidated net profit.

2. Holdings of Equity Interest in Unlisted Financial Institutions

(in RMB unless otherwise stated)

Name of institution	Initial investment amount	Number of shares held	Percentage of equity interest in the company (%)	Book value as at the end of the Reporting Period	Gains/(losses) during the Reporting Period	Changes in owners' equity during the Reporting Period	Accounting items	Source of shares
Jiangsu Changshu Rural Commercial Bank Co., Ltd.	489,500,000.00	101,340,337	10.00	489,500,000.00	38,002,626.25	–	Investment securities – available-for-sale	Equity investment
China Union Pay Co., Ltd.	146,250,000.00	112,500,000	3.90	146,250,000.00	4,500,000.00	–	Investment securities – available-for-sale	Equity investment
China National Aviation Fuel Group Finance Corporation	120,000,000.00	N/A	10.00	120,000,000.00	–	–	Investment securities – available-for-sale	Equity investment
Bank of Tibet Co., Ltd.	300,000,000.00	300,000,000	20.00	343,951,618.67	41,810,596.37	–	Investment in an associate	Equity investment
Shaanxi Coal and Chemical Industry Group Finance Corporation	100,000,000.00	N/A	10.00	100,000,000.00	–	–	Investment securities – available-for-sale	Equity investment
Total	**1,155,750,000.00**			**1,199,701,618.67**	**84,313,222.62**	**–**		

3. Purchases and Sales of Equity Interest of Other Listed Companies

(in RMB unless otherwise stated)

	Number of shares held at the beginning of the Reporting Period	Number of shares purchased/ (sold) during the Reporting Period	Number of shares held as at the end of the Reporting Period	Fund utilised	Gains
Purchase	41,400	354,348	395,748	2,525,293.00	–
Sales	247,223,508	(212,592,130)	34,631,378	–	93,093,294.46

Note: All changes in the number of shares held as shown in the table above are results of purchases and sales of shares of other listed companies by the subsidiaries of the Bank, except for disposal of shares obtained as collateral for loans in the course of business of the Bank.

Deloitte.
德勤

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TO THE SHAREHOLDERS OF BANK OF COMMUNICATIONS CO., LTD.
(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Bank of Communications Co., Ltd. (the "Bank") and its subsidiaries (collectively referred to as the "Group") set out on pages 146 to 300, which comprise the consolidated and Bank's statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Bank are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
30 March 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

(All amounts expressed in millions of RMB unless otherwise stated)

Group

	Notes	Year ended 31 December 2013	2012 (Restated)
Interest income		259,292	240,596
Interest expense		(128,634)	(120,470)
Net interest income	4	130,658	120,126
Fee and commission income	5	29,405	24,126
Fee and commission expense	6	(3,437)	(3,244)
Net fee and commission income		25,968	20,882
Dividend income	7	103	80
Net (losses)/gains arising from trading activities	8	(734)	1,269
Net gains arising from de-recognition of investment securities	21	159	329
Insurance business income		1,357	741
Other operating income	9	7,517	4,757
Impairment losses on loans and advances to customers	10	(18,410)	(14,537)
Insurance business expense		(1,173)	(630)
Other operating expense	11	(65,578)	(57,810)
Share of profit of an associate		42	4
Profit before tax		79,909	75,211
Income tax	14	(17,448)	(16,739)
Net profit for the year		62,461	58,472
Other comprehensive (loss)/income			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets			
Changes in fair value recorded in equity		(3,779)	(259)
Changes in fair value reclassified from equity to profit or loss		(176)	(43)
Translation difference on foreign operations		(903)	(35)
		(4,858)	(337)
Item that will not be reclassified subsequently to profit or loss:			
Actuarial gains on pension benefits		27	4
Other comprehensive loss for the year	37	(4,831)	(333)
Total comprehensive income for the year		57,630	58,139
Net profit attributable to:			
Shareholders of the Bank		62,295	58,369
Non-controlling interests		166	103
		62,461	58,472
Total comprehensive income attributable to:			
Shareholders of the Bank		57,466	58,010
Non-controlling interests		164	129
		57,630	58,139
Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB)	15	0.84	0.88

The accompanying notes presented on pages 152 to 300 form a part of these consolidated financial statements.

* For details of the dividends paid or proposed please refer to Note 34.

Consolidated Statement of Financial Position

(All amounts expressed in millions of RMB unless otherwise stated)

Group

	Notes	As at 31 December 2013	As at 31 December 2012 (Restated)
ASSETS			
Cash and balances with central banks	16	896,556	816,846
Due from banks and other financial institutions	17	566,429	520,963
Financial assets at fair value through profit or loss	18	73,310	52,161
Loans and advances to customers	20	3,193,063	2,879,628
Investment securities — loans and receivables	21	119,726	30,395
Investment securities — available-for-sale	21	221,253	204,608
Investment securities — held-to-maturity	21	670,615	598,615
Investment in an associate	40	344	302
Property and equipment	22	57,179	45,536
Deferred income tax assets	29	17,224	12,501
Other assets	23	145,238	111,824
Total assets		5,960,937	5,273,379
LIABILITIES			
Due to banks and other financial institutions	24	1,126,563	942,989
Financial liabilities at fair value through profit or loss	25	28,640	23,060
Due to customers	26	4,157,833	3,728,412
Certificates of deposit issued	27	24,619	9,572
Other liabilities	28	113,435	110,769
Current tax liabilities		6,107	7,125
Deferred income tax liabilities	29	18	5
Debt securities issued	31	82,238	70,000
Total liabilities		5,539,453	4,891,932
EQUITY			
Capital and reserves attributable to shareholders of the Bank			
Share capital	32	74,263	74,263
Capital surplus	32	113,383	113,383
Other reserves		164,585	114,404
Retained earnings		67,330	77,868
		419,561	379,918
Non-controlling interests		1,923	1,529
Total equity		421,484	381,447
Total equity and liabilities		5,960,937	5,273,379

The consolidated financial statements on pages 146 to 300 were approved and authorised for issue by the Board of Directors on 30 March 2014 and signed on its behalf by:

Chairman of Board: Niu Ximing *Vice Governor and Chief Financial Officer: Yu Yali*

The accompanying notes presented on pages 152 to 300 form a part of these consolidated financial statements.

Statement of Financial Position

(All amounts expressed in millions of RMB unless otherwise stated)

Bank

	Notes	As at 31 December 2013	As at 31 December 2012 (Restated)
ASSETS			
Cash and balances with central banks	16	895,884	816,345
Due from banks and other financial institutions	17	574,086	521,774
Financial assets at fair value through profit or loss	18	73,198	51,433
Loans and advances to customers	20	3,187,874	2,876,774
Investment securities — loans and receivables	21	117,059	30,020
Investment securities — available-for-sale	21	219,056	202,072
Investment securities — held-to-maturity	21	669,089	597,558
Investments in subsidiaries	39	13,735	10,238
Investment in an associate	40	344	302
Property and equipment	22	49,467	41,303
Deferred income tax assets	29	17,000	12,434
Other assets	23	54,241	41,690
Total assets		5,871,033	5,201,943
LIABILITIES			
Due to banks and other financial institutions	24	1,064,768	891,318
Financial liabilities at fair value through profit or loss	25	28,622	23,060
Due to customers	26	4,154,180	3,726,167
Certificates of deposit issued	27	24,619	9,572
Other liabilities	28	99,254	99,867
Current tax liabilities		5,748	6,960
Deferred income tax liabilities	29	8	—
Debt securities issued	31	79,200	68,000
Total liabilities		5,456,399	4,824,944
EQUITY			
Capital and reserves attributable to shareholders of the Bank			
Share capital	32	74,263	74,263
Capital surplus	32	113,412	113,412
Other reserves		162,807	113,821
Retained earnings	33	64,152	75,503
Total equity		414,634	376,999
Total equity and liabilities		5,871,033	5,201,943

The accompanying notes presented on pages 152 to 300 form a part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

(All amounts expressed in millions of RMB unless otherwise stated)

					Other reserves							
	Share capital Note 32	Capital surplus Note 32	Statutory reserve Note 33	Discretionary reserve Note 33	Statutory general reserve Note 33	Revaluation reserve for available-for-sale financial assets Note 33	Translation reserve on foreign operations	Actuarial changes reserve (Restated)	Retained earnings Note 33, 34 (Restated)	Attributable to the shareholders of the Bank	Non-controlling interests	Total
Balance at 1 January 2012 (Restated)	61,886	69,465	19,033	48,240	29,299	(647)	(1,841)	(5)	46,372	271,802	986	272,788
Net profit for the year (restated)	–	–	–	–	–	–	–	–	58,369	58,369	103	58,472
Other comprehensive income (restated)	–	–	–	–	–	(328)	(35)	4	–	(359)	26	(333)
Total comprehensive income	–	–	–	–	–	(328)	(35)	4	58,369	58,010	129	58,139
Shares issued	12,377	44,200	–	–	–	–	–	–	–	56,577	–	56,577
Cost of shares issued	–	(282)	–	–	–	–	–	–	–	(282)	–	(282)
Establishment of a new subsidiary	–	–	–	–	–	–	–	–	–	–	74	74
Capital increase in a subsidiary	–	–	–	–	–	–	–	–	–	–	375	375
Dividends paid (Note 34)	–	–	–	–	–	–	–	–	(6,189)	(6,189)	(35)	(6,224)
Transfer to reserves	–	–	5,757	9,917	5,010	–	–	–	(20,684)	–	–	–
Balance at 31 December 2012 (Restated)	74,263	113,383	24,790	58,157	34,309	(975)	(1,876)	(1)	77,868	379,918	1,529	381,447
Balance at 1 January 2013	74,263	113,383	24,790	58,157	34,309	(975)	(1,876)	(1)	77,868	379,918	1,529	381,447
Net profit for the year	–	–	–	–	–	–	–	–	62,295	62,295	166	62,461
Other comprehensive income	–	–	–	–	–	(3,953)	(903)	27	–	(4,829)	(2)	(4,831)
Total comprehensive income	–	–	–	–	–	(3,953)	(903)	27	62,295	57,466	164	57,630
Capital increase in subsidiaries	–	–	–	–	–	–	–	–	–	–	265	265
Dividends paid (Note 34)	–	–	–	–	–	–	–	–	(17,823)	(17,823)	(35)	(17,858)
Transfer to reserves	–	–	6,209	20,353	28,448	–	–	–	(55,010)	–	–	–
Balance at 31 December 2013	74,263	113,383	30,999	78,510	62,757	(4,928)	(2,779)	26	67,330	419,561	1,923	421,484

The accompanying notes presented on pages 152 to 300 form a part of these consolidated financial statements.

Consolidated Statement of Cash Flows

(All amounts expressed in millions of RMB unless otherwise stated)

	Year ended 31 December	
	2013	2012 (Restated)
Cash flows from operating activities:		
Profit before tax	79,909	75,211
Adjustments for:		
Impairment allowances on loans and advances to customers	18,410	14,537
Provision for/(reversal of) impairment losses on foreclosed assets	53	(3)
Unwind of discount on allowances during the year	(1,245)	(900)
Impairment of finance lease receivables	577	312
Provision for impairment of other receivables	32	9
Insurance contracts reserve	796	259
Impairment of investment securities	86	332
Reversal of outstanding litigation and unsettled obligation	(14)	(221)
Depreciation of property and equipment	4,364	3,616
Amortisation of rent and renovation	545	528
Share of profit of an associate	(42)	(4)
Net (gains)/losses from fair value hedges	(7)	3
Amortisation of land use rights	24	129
Amortisation of intangible assets	247	223
Interest income from investment securities	(35,186)	(30,075)
Net gains arising from de-recognition of investment securities	(159)	(329)
Net gains on disposal of property and equipment	(41)	(88)
Increase in revaluation of investment property	(18)	(20)
Interest expense on debt securities issued	3,431	3,212
Interest expense on certificates of deposit issued	334	188
Dividend income	(103)	(80)
Operating cash flows before movements in operating assets and liabilities	71,993	66,839
Net increase in mandatory reserve deposits	(51,509)	(60,868)
Net increase in due from banks and other financial institutions	(101,871)	(34,739)
Net increase in financial assets at fair value through profit or loss	(21,128)	(3,739)
Net increase in loans and advances to customers	(330,412)	(387,876)
Net increase in other assets	(26,641)	(37,735)
Net increase in due to banks and other financial institutions	183,574	88,490
Net increase in financial liabilities at fair value through profit or loss	5,830	4,103
Net increase in due to customers	429,421	445,180
Net increase in other liabilities	1,789	14,807
Net increase in business tax payable	1	484
Income tax paid	(21,864)	(18,342)
Net cash from operating activities	139,183	76,604

Consolidated Statement of Cash Flows *(Continued)*

(All amounts expressed in millions of RMB unless otherwise stated)

	Year ended 31 December	
	2013	2012
Cash flows from investing activities:		
Purchase of investment securities	(422,563)	(342,833)
Disposal or redemption of investment securities	234,229	265,870
Dividends received	103	80
Interest received from investment securities	32,078	27,389
Acquisition of intangible assets and other assets	(1,027)	(1,115)
Disposal of intangible assets and other assets	46	15
Purchase and construction of property and equipment	(15,105)	(9,763)
Disposal of property and equipment	747	968
Net cash used in investing activities	(171,492)	(59,389)
Cash flows from financing activities:		
Proceeds from shares issued	—	56,577
Issuance cost paid for shares issued	—	(282)
Proceeds from debt securities issued	42,818	10,572
Interest paid on debt securities issued	(3,635)	(3,619)
Dividends paid to shareholders of the Bank	(17,823)	(6,189)
Repayment of debts securities issued	(15,533)	(12,803)
Capital contribution by non-controlling interests	265	449
Dividends paid to non-controlling interests	(35)	(35)
Net cash from financing activities	6,057	44,670
Effect of exchange rate changes on cash and cash equivalents	(1,952)	78
Net (decrease)/increase in cash and cash equivalents	(28,204)	61,963
Cash and cash equivalents at the beginning of the year	271,598	209,635
Cash and cash equivalents at the end of the year (Note 38)	243,394	271,598
Net cash flows from operating activities include:		
Interest received	219,826	207,553
Interest paid	(115,941)	(105,147)

The accompanying notes presented on pages 152 to 300 form a part of these consolidated financial statements.

1 GENERAL

Bank of Communications Co., Ltd. (the "Bank") is a commercial and retail bank providing banking services mainly in the People's Republic of China ("PRC"). The Bank was reorganised as a joint stocks national commercial bank on 1 April 1987, in accordance with the approval notice (Guo Fa (1986) No. 81) issued by the State Council of the PRC and the approval notice (Yin Fa (1987) No. 40) issued by the People's Bank of China ("PBOC"). Headquartered in Shanghai, the Bank operates 202 cities level and above branches in the Mainland China and also branches in Hong Kong, New York, Singapore, Seoul, Tokyo, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney and Taipei. The Bank's A shares are listed on Shanghai Stock Exchange and its H shares are listed on The Stock Exchange of Hong Kong Limited.

The principal activities of the Bank and its subsidiaries (collectively referred to as the "Group") are the provision of corporate and personal banking services, conducting treasury business, the provision of asset management, trustees, insurance, finance lease and other financial services.

2 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to the periods presented unless otherwise stated.

2.1 Basis of presentation

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") and disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment property which are measured at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of *IFRS 2 Share-based Payment*, leasing transactions that are within the scope of *IAS 17 Leases*, and measurements that have some similarities to fair value but are not fair value, such as value in use in *IAS 36 Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements in conformity with IFRSs and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and of the Hong Kong Companies Ordinance require the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

Critical accounting estimates and judgments in applying accounting policies *(Continued)*

(a) *Impairment losses on loans and advances*

The Group reviews its loan portfolios to assess impairment on a quarterly basis, unless known circumstances indicate that impairment may have occurred as of an interim date. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the group. The impairment loss for a loan and advance that is individually assessed for impairment is the difference between estimated discounted future cash flows and book value. When loans and advances are collectively assessed for impairment, management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) *Fair value of financial instruments*

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques (e.g. discounted cash flow model). To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty's), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

(c) *Income taxes*

The Group is subject to income tax in various jurisdictions; principally, in Mainland China and Hong Kong. Significant estimates are required in determining the provision for income tax. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated issues from tax audit based on estimates of whether additional taxes will be due. In particular, the deductibility of certain items in PRC is subject to tax authority approval. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax and current tax liabilities and deferred income tax assets and liabilities in the period during which such a determination is made.

(d) *Held-to-maturity investments*

The Group follows the guidance of International Accounting Standards ("IAS") 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to hold these investments to maturity other than for specific circumstances defined in IAS 39 such as, selling or reclassifying an insignificant amount close to maturity, it will be required to reclassify the entire portfolio of assets as available-for-sale. The investments would then be measured at fair value, not at amortised cost.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

Critical accounting estimates and judgments in applying accounting policies *(Continued)*

(e) *Impairment of available-for-sale financial assets and held-to-maturity investments*

The Group follows the guidance of IAS 39 to determine when an available-for-sale financial asset or held-to-maturity investment is impaired. The Group determines that an available-for-sale equity investment is impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires management judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, credit ratings, delinquency rates and counterparty risk.

Objective evidence of impairment for a debt investment exists when one or more events have occurred after the initial recognition of the available-for-sale debt investment and held-to-maturity debt investment that reduce the estimated future cash flows to be received on the debt investment. The Group recognises an impairment loss for the debt investment when there is objective evidence that the debt investment is impaired.

(f) *Actuarial assumptions for insurance contract reserves*

The determination of the liabilities under life and long-term insurance contracts is based on estimates of future benefit payments, premiums and relevant expenses made by the Group, and the margins. Assumptions about mortality rates, morbidity rates, lapse rates, discount rates and expenses assumption are made based on the most recent historical analysis and current and future economic conditions. The liability uncertainty arising from uncertain future benefit payments, premiums and relevant expenses, is reflected in the risk margin.

The residual margin relating to the life and long-term insurance contracts is amortised over the expected life of the contracts, based on the assumptions (mortality rates, morbidity rates, lapse rates, discount rates and expenses assumption) that are determined at inception of the contracts.

(g) *Consolidation of structured entities*

When assessing whether to consolidate structured entities, the Group reviews all facts and circumstances to determine whether the Group, as manager, is acting as agent or principal. The Group is deemed to be a principal, and hence controls and consolidates the structured entity, when it acts as manager and cannot be removed without cause, has variable returns through significant unit holdings and/or a guarantee, and is able to influence the returns of the structured entities by exercising its power.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

Application of new and revised IFRSs

(a) *New and revised IFRSs issued and applied*

In the current year, the Group has applied certain new, revised or amendments to IFRSs, which were applicable for the Group's financial year beginning on 1 January 2013 and the relevant impact is set out below:

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* for the first time in the current year. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and the 'income statement' is renamed as a 'statement of profit or loss'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The Group has renamed 'statement of comprehensive income' as 'statement of profit or loss and other comprehensive income' and the presentation of items of other comprehensive income has been modified accordingly upon the adoption of the amendments.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

The Group has applied for the first time IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011) together with the amendments to IFRS 10, IFRS 11 and IFRS 12 regarding the transitional guidance.

Key requirements of these five standards that are relevant to the Group are described below.

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and SIC 12 *Consolidation — Special Purpose Entities* will be withdrawn upon the effective date of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive.

In June 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these IFRSs for the first time.

The application of IFRS 12 will affect the Group's disclosures regarding subsidiaries, associate, and structured entities in the consolidated financial statements. Except for the impact mentioned above, the application of the above new and revised standards on consolidation, joint arrangements and disclosures has no material impact on the Group's consolidated financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

Application of new and revised IFRSs *(Continued)*

(a) New and revised IFRSs issued and applied (Continued)

IFRS 13 Fair Value Measurement

The Group has applied IFRS 13 *Fair Value Measurement* prospectively for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

The application of IFRS 13 results in more disclosures on the fair value information of the assets and liabilities in the Group's consolidated financial statements. Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised. Disclosures are set out in Note 3.4.

Amendments to IFRS 7 *Disclosures — Offsetting Financial Assets and Financial Liabilities*

The Group has applied the amendments to IFRS 7 *Disclosures — Offsetting Financial Assets and Financial Liabilities* for the first time in the current year. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The application has been applied retrospectively and the application of the amendments has no material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

IAS 19 (as revised in 2011) Employee Benefits

The Group has applied the amendments to IAS 19 (as revised in 2011) *Employee Benefits* and related consequential amendments for the first time in the current year.

IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net-interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset. These changes have had an impact on the amounts recognised in profit or loss and other comprehensive income in prior years. In addition, IAS 19 (as revised in 2011) introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures.

The amendments to IAS 19 have been applied retrospectively by the Group. Pursuant to the amendments, the Group reclassified the actuarial gains or losses on pension benefits originally recognised in profit or loss to other comprehensive income retrospectively. The impact of the retrospective application is set out in Note 2.1 Basis of presentation: Comparatives.

(All amounts expressed in millions of RMB unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

Application of new and revised IFRSs *(Continued)*

(a) *New and revised IFRSs issued and applied (Continued)*

Annual Improvements to IFRSs 2009–2011 Cycle

The Group has applied the *Annual Improvements to IFRSs 2009–2011 Cycle* in the current year. The improvements include a number of amendments to various IFRSs. Amendments to IFRSs include the amendments to *IAS 1 Presentation of Financial Statements* and the amendments to *IAS 32 Financial Instruments: Presentation*.

The amendments to IAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

The amendments to IAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes.

Annual Improvements to IFRSs 2009–2011 Cycle has been applied by the Group. Pursuant to the amendments to IAS 1, the Group did not present the consolidated statement of financial position as at 1 January 2012 as the impact of retrospective application of the amendments to IAS 19 did not have a material effect. Except for the impact of the amendments to IAS 1, the directors of the Bank consider that the application of the amendments included in the *Annual Improvements to IFRSs 2009–2011 Cycle* has no material impact on the Group's consolidated financial statements.

(b) *New and revised IFRSs issued but not yet effective*

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments[3]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[1]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2010–2012 Cycle[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2011–2013 Cycle[2]
IFRS 14	Regulatory Deferral Accounts[5]
IFRIC 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Available for application — the mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalised
4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions
5 Effective for first annual IFRS financial statements beginning on or after 1 January 2016

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

Application of new and revised IFRSs *(Continued)*

(b) New and revised IFRSs issued but not yet effective (Continued)

Annual Improvements to IFRSs 2010–2012 Cycle

The *Annual Improvements to IFRSs 2010–2012 Cycle* include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to IFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to IFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to IFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to IFRS 8 (i) require an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of IFRS 13 clarify that the issue of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.

The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to IAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors do not anticipate that the application of the amendments included in the Annual Improvements to IFRSs 2010–2012 Cycle will have a material effect on the Group's consolidated financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

Application of new and revised IFRSs *(Continued)*

(b) New and revised IFRSs issued but not yet effective (Continued)

Annual Improvements to IFRSs 2011–2013 Cycle

The Annual Improvements to IFRSs 2011–2013 Cycle include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of IAS 40; and

(b) the transaction meets the definition of a business combination under IFRS 3.

The directors do not anticipate that the application of the amendments included in the Annual Improvements to IFRSs 2011–2013 Cycle will have a material effect on the Group's consolidated financial statements.

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of IFRS 9 are described as follows:

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

Application of new and revised IFRSs *(Continued)*

(b) New and revised IFRSs issued but not yet effective (Continued)

IFRS 9 Financial Instruments *(Continued)*

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors anticipate that the adoption of IFRS 9 in the future may have a significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities. It is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed. Information about changes in the fair value of financial liabilities attributable to changes in credit risk of financial liabilities that are designated as at fair value through profit or loss is disclosed in note 25.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

The amendments to IAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans that are either constructive or set out in the formal terms of the plan based on whether those contributions are linked to service or not linked to service.

Such contributions that are not linked to service would affect the remeasurement of net defined benefit liability (or asset). For contributions that are linked to service, they would reduce service cost as follows:

- Contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method;

- Contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The directors of the Bank do not anticipate that the application of these amendments to IAS 19 will have a significant impact on the Group's consolidated financial statements as the Group does not have any contributions to defined benefit plan made by employees or third parties.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The directors of the Bank anticipate that the application of these amendments to IAS 32 will not have a material effect on the disclosures of the Group's consolidated financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

Application of new and revised IFRSs *(Continued)*

(b) New and revised IFRSs issued but not yet effective (Continued)

Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements regarding the fair value hierarchy, key assumptions and valuation techniques used when the recoverable amount of an asset or CGU was determined based on its fair value less costs of disposal.

The directors of the Bank do not anticipate that the application of these amendments to IAS 36 will have a significant impact on the Group's consolidated financial statements.

Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative hedging instrument is novated under certain circumstances.

The amendments also clarify that any change to the fair value of the derivative hedging instrument arising from the novation should be included in the assessment of hedge effectiveness.

The directors of the Bank do not anticipate that the application of these amendments to IAS 39 will have any effect on the Group's consolidated financial statements.

IFRIC 21 Levies

IFRIC 21 Levies addresses the issue of when to recognise a liability to pay a levy. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The directors of the Bank anticipate that the application of IFRIC 21 will have no material effect on the Group's consolidated financial statements.

Comparatives

As mentioned in Note 2.1 Basis of presentation: Application of new and revised IFRSs, the Group has applied *IAS 19 (as revised in 2011) Employee Benefits* for the first time in the current year. Pursuant to the amendments, retrospective adjustments were made to certain items in equity as at 31 December 2012 and 1 January 2012, and certain items in profit or loss and other comprehensive income for the year ended 31 December 2012 were restated. Comparative consolidated financial statements are presented based on the restated figures and such adoption has no impact to the basic and diluted earnings per share for the year ended 31 December 2012 as previously reported.

Items in the Group's consolidated statement of financial position and the Bank's statement of financial position as at 31 December 2012 and 1 January 2012 and the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2012 affected by the application of the IAS 19 (as revised in 2011), are as follows:

(All amounts expressed in millions of RMB unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

Comparatives *(Continued)*

Group

	As at 31 December 2012		
	Before restatement	Impact of restatement	Restated
EQUITY			
Capital and reserves attributable to shareholders of the Bank			
Other reserves	114,405	(1)	114,404
Retained earnings	77,867	1	77,868
Effects on total equity	192,272	—	192,272

Group

	As at 1 January 2012		
	Before restatement	Impact of restatement	Restated
EQUITY			
Capital and reserves attributable to shareholders of the Bank			
Other reserves	94,084	(5)	94,079
Retained earnings	46,367	5	46,372
Effects on total equity	140,451	—	140,451

Bank

	As at 31 December 2012		
	Before restatement	Impact of restatement	Restated
EQUITY			
Capital and reserves attributable to shareholders of the Bank			
Other reserves	113,822	(1)	113,821
Retained earnings	75,502	1	75,503
Effects on total equity	189,324	—	189,324

Bank

	As at 1 January 2012		
	Before restatement	Impact of restatement	Restated
EQUITY			
Capital and reserves attributable to shareholders of the Bank			
Other reserves	93,800	(5)	93,795
Retained earnings	44,914	5	44,919
Effects on total equity	138,714	—	138,714

(All amounts expressed in millions of RMB unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

Comparatives *(Continued)*

Group

	Year ended 31 December 2012		
	Before restatement	Impact of restatement	Restated
Other operating expense	(57,805)	(5)	(57,810)
Profit before tax	75,216	(5)	75,211
Income tax	(16,740)	1	(16,739)
Net profit for the year	58,476	(4)	58,472
Other comprehensive income			
Actuarial gains on pension benefits	—	4	4
Other comprehensive loss for the year	(337)	4	(333)
Total comprehensive income for the year	58,139	—	58,139
Net profit attributable to:			
Shareholders of the Bank	58,373	(4)	58,369

Impact on profit or loss and other comprehensive income for the period upon the application of IAS 19 (as revised in 2011):

Group

	Year ended 31 December 2013
Increase in other operating expense	(36)
Decrease in income tax	9
Decrease in net profit for the year	(27)
Increase in actuarial gains on pension benefits	36
Increase in income tax in relation to actuarial gains on pension benefits	(9)
Decrease in other comprehensive loss for the year	27
Decrease in net profit attributable to:	
Shareholders of the Bank	(27)
Non-controlling interests	—

The adoption of IAS 19 (as revised in 2011) has no impact to the basic and diluted earnings per share for the year ended 31 December 2013.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation

2.2.1 Subsidiary undertakings and goodwill

The consolidated financial statements incorporate the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are not consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree at the non-controlling interests' proportionate share of the acquiree's net assets.

The excess of the consideration transferred the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

2.2.2 Transactions with non-controlling interests

For acquisition of additional interests in subsidiaries from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive are reclassified to profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

2.2.3 Structured entities

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entities, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual agreement. Structured entities often have restricted activities and a narrow and well defined objective. Examples of structured entities include investment funds, trusts, securitisation vehicles and asset backed financings. Involvement with consolidated and unconsolidated structured entities is disclosed in Note 41 and 42.

2.2.4 Investment in an associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised only to the extent of interests in the associate that are not related to the Group.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Derivative financial instruments

Derivative financial instruments include, but not limited to, interest rate derivative and foreign exchange derivative. Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently measured at fair value. Changes in fair value of these derivative financial instruments are recognised in profit or loss. Fair values are obtained from quoted market prices in active market or are determined using valuation techniques, including discounted cash flow model and options pricing model as appropriate. All derivatives are recognised as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivatives embedded in non-derivative host contracts are treated as a separate derivative when their characteristics and risks are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in profit or loss.

2.4 Hedge accounting

The Group designates certain derivatives as hedging instruments for fair value hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values of the hedged item attributable to the hedged risk.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting.

Any adjustment to the carrying amount of the hedged item for the designated risk for interest-bearing financial instruments is amortised to profit or loss, with amortisation commencing no later than when the hedged item ceases to be adjusted. The amortisation is based on a recalculated effective interest rate at the date amortisation commences such that the adjustment is fully amortised by maturity.

2.5 Financial assets

The Group's financial assets are initially measured at fair value and classified into one of the four categories, including financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. Investment securities comprise held-to-maturity investments, available-for-sale financial assets and debt securities classified as loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Financial assets *(Continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss have two subcategories, including financial assets held for trading and those designated as at fair value through profit or loss on initial recognition.

A financial asset is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of selling in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative, except for a derivative that is designated and effective as a hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

A financial asset may be designated as at fair value through profit or loss upon initial recognition only when one of the following conditions is satisfied: (1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring assets or recognising the gains or losses on them on different bases; or (2) The financial asset forms part of a group of financial assets or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis.

Financial assets at fair value through profit or loss are subsequently measured at fair value. Any gains or losses arising from changes in the fair value and any dividend or interest income earned on the financial assets are recognised in profit or loss.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative that are not either designated or classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in other comprehensive income accumulated in equity is reclassified to profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Interest income on available-for-sale debt instruments are calculated using the effective interest method and recognised in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Financial assets *(Continued)*

De-recognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Asset securitisation

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to structured entities which then issue securities to investors. The Group holds part of the subordinated tranche notes, which are not transferrable before both the principals and interests of the senior tranche notes are repaid. The Group serves as the asset management supplier, providing services including loan collection for the investment pool, keeping accounting records related to the investment pool and issuing reports as the service agency. The assets under securitisation are used to repay the principals and interests of the senior tranche notes first after deducting related taxation and expenses, and the remaining assets under securitisation are repaid to the Group and other subordinated tranche notes investors. The Group derecognises the transferred assets in full or in part as per the extent of the risks and rewards retained.

The Group evaluates the extent to which it retains the risks and rewards of ownership of the financial assets and determines whether it retains control while applying the accounting policy in respect of asset securitisation.

- The financial asset is derecognised when the Group transfers substantially all the risks and rewards of ownership of the financial asset.

- The financial asset is continued to recognise when the Group retains substantially all the risks and rewards of ownership of the financial asset.

- When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and does not retain control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.

- When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and retains control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. The Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment of financial assets could include the following observable events:

(1) Significant financial difficulty of the issuer or obligor;

(2) A breach of contract, such as a default or delinquency in interest or principal payments;

(3) The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

(4) It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(5) The disappearance of an active market for that financial asset because of financial difficulties;

(6) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

— adverse changes in the payment status of borrowers in the group; and

— national or local economic conditions that correlate with defaults on the assets in the group;

(7) Any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of investments in equity instruments may not be recovered;

(8) A significant or prolonged decline in the fair value of equity instrument investments; and

(9) Other objective evidence indicating impairment of the financial asset.

(a) Impairment of financial assets carried at amortised cost

For a financial asset that is individually significant, the Group assesses the asset individually for impairment. For a financial asset that is not individually significant, the Group assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment. Assets for which an impairment loss is individually recognised are not included in a collective assessment of impairment.

If financial assets carried at amortised cost are impaired, the carrying amounts of the financial assets are reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of reduction is recognised as an impairment loss in profit or loss and is recorded through the use of an allowance account. When a financial asset is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. If, subsequent to the recognition of an impairment loss on financial assets carried at amortised cost, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed. However, the reversal is made to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Impairment of financial assets *(Continued)*

(b) Impairment of available-for-sale financial assets

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value previously recognised directly in other comprehensive income is reclassified to profit or loss.

If, subsequent to the recognition of an impairment loss on available-for-sale financial assets, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed. The amount of reversal of impairment loss on available-for-sale equity instruments is recognised as other comprehensive income, while the amount of reversal of impairment loss on available-for-sale debt investments is recognised in profit or loss.

(c) Impairment of financial assets measured at cost

If an impairment loss has been incurred on an investment in unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, or on a derivative financial asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the carrying amount of the financial asset is reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The amount of reduction is recognised as an impairment loss in profit or loss. The impairment loss on such financial asset is not reversed once it is recognised.

2.7 Financial liabilities/Equity instruments

The Group classifies financial liabilities and equity instruments according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

All financial liabilities are initially measured at fair value and classified either as financial liabilities at fair value through profit or loss or other financial liabilities.

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss consist of financial liabilities held for trading and those designated as at fair value through profit or loss on initial recognition.

A financial liability is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of repurchasing in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative, except for a derivative that is a designated and effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

A financial liability may be designated as at fair value through profit or loss upon initial recognition only when one of the following conditions is satisfied: (1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring liabilities or recognising the gains or losses on them on different bases; or (2) The financial liability forms part of a group of financial liabilities or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis.

Financial liabilities at fair value through profit or loss are subsequently measured at fair value. Any gains or losses arising from changes in the fair value or any interest expenses related to the financial liabilities are recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Financial liabilities/Equity instruments *(Continued)*

(b) Other financial liabilities

For a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, it is subsequently measured at cost. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with gain or loss arising from derecognition or amortisation recognised in profit or loss.

(c) De-recognition of financial liabilities

The Group derecognises a financial liability or part of it only when the underlying present obligation or part of it is discharged, cancelled or expired. An agreement between the Group (an existing borrower) and an existing lender to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

When the Group derecognises a financial liability or a part of it, it recognises the difference between the carrying amount of the financial liability derecognised and the consideration paid and payable (including any non-cash assets transferred or new financial liabilities assumed) in profit or loss.

2.8 Interest income and expense

Interest income and expense are recognised in profit or loss for interest-bearing financial instruments using the effective interest method. If the difference between effective interest rate and contract interest rate is relatively small, then the contract interest rate can be used as well.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (including a group of financial assets or financial liabilities) and of allocating the interest income or interest expense 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 or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (but does not consider future credit losses). The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.9 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are over a period of time, fee and commission income are accrued over that period when the services are rendered. For other services, fee and commission income are recognised when the services are rendered.

2.10 Dividend income

Dividends are recognised when the right to receive the dividends is established.

2.11 Assets transferred under repurchase agreements

(a) Financial assets sold under repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date at a fixed or determinable price are not derecognised in the statement of financial position. The proceeds from selling such assets are presented under “securities sold under repurchase agreements” in the statement of financial position. The difference between the selling price and repurchasing price is recognised as interest expense during the term of the agreement using the effective interest method.

(All amounts expressed in millions of RMB unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Assets transferred under repurchase agreements *(Continued)*

(b) Financial assets purchased under reverse repurchase agreements

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognised in the statement of financial position. The cost of purchasing such assets is presented under "loans or securities purchased under reverse repurchase agreements" in the statement of financial position. The difference between the purchasing price and reselling price is recognised as interest income during the term of the agreement using the effective interest method.

2.12 Precious metals

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals that are related to the Group's trading activities are initially and subsequently recognised at fair value, with changes in fair value arising from re-measurement recognised directly in profit or loss in the period in which they arise.

2.13 Property and equipment

The Group's property and equipment mainly comprise land and buildings, equipment, transportation equipment, property improvement and construction in progress.

The assets purchased or constructed are initially measured at acquisition cost.

Subsequent expenditures incurred for the property and equipment are included in the cost of the property and equipment if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognised. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Land and buildings comprise primarily branch office premises and office premises. The estimated useful lives, depreciation rate and estimated residual value rate of land and buildings, equipment, transportation equipment and property improvement are as follows:

Type of assets	Estimated useful lives	Estimated residual value rate	Depreciation rate
Land and buildings	25 years–50 years	3%	1.94%–3.88%
Equipment	3 years–11 years	3%	8.82%–32.33%
Transportation equipment (excluding transportation equipment under operating leases)	4 years–8 years	3%	12.13%–24.25%
Property improvement	5 years–10 years	–	10%–20%
Transportation equipment under operating leases	15 years–25 years	5%–10%	3.60%–6.33%

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a property and equipment when it is ready for intended use.

Equipment under operating leases where the Group is the lessor is aircraft or vessel. The estimated useful lives and depreciation rate of the aircraft or vessel are determined per their conditions and the estimated residual values are determined by external appraiser using historical data item by item.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Foreclosed assets

Foreclosed assets are initially recognised at fair value. At each reporting date, foreclosed assets are subsequently measured at lower of its carrying amount or fair value less cost of sale. When the fair value less cost of sale is lower than the foreclosed asset's carrying amount, an impairment loss is recognised in profit or loss.

When a foreclosed asset is disposed, the difference between the disposal proceed and the carrying amount is recognised in profit or loss.

2.15 Land use rights

Land use rights are classified as other assets and amortised using the straight-line method over the lease term.

2.16 Intangible assets

An intangible asset is measured initially at cost. When an intangible asset with a finite useful life is available for use, its original cost is amortised over its estimated useful life using the straight-line method. An intangible asset with an indefinite useful life is not amortised.

For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at the end of each reporting period, and makes adjustments when necessary.

An intangible asset is derecongnised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecongnised.

2.17 Investment property

Investment property is a property held to earn rentals or for capital appreciation or both and initially measured at cost.

As there is an active property market in the location in which the Group's investment property is situated, and the Group can obtain the market price and other relevant information regarding the same or similar type of property from the property market so as to reasonably estimate the fair value of the investment property; therefore, the Group uses the fair value model for subsequent measurement of the investment property, with changes in the fair value included in profit or loss for the period in which they arise.

When an investment property is sold, transferred, retired or damaged, the Group recognises the amount of any proceeds on disposal net of the carrying amount and related taxes in profit or loss for the period.

2.18 Impairment of non-financial assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Goodwill, intangible assets with indefinite useful life and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that the assets may be impaired.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(a) The Group as lessor

At the commencement of the lease term, the aggregate of the minimum lease receivable at the inception of the lease and the initial direct costs is recognised as a finance lease receivable, and the unguaranteed residual value is recorded at the same time. The difference between the aggregate of the minimum lease receivable, the initial direct costs and the unguaranteed residual value, and the aggregate of their present values is recognised as unearned finance income. Unearned finance income is recognised as finance income for the period using the effective interest method over the lease term. Contingent rents are credited to profit or loss in the period in which they are actually incurred. The net amount of financial lease receivables less unearned finance income is listed as other assets for presentation.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

(b) The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term.

2.20 Cash and cash equivalents

Cash comprises cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are the Group's short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

2.21 Provisions

Provisions are recognised when the Group has a present obligation related to a contingency, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

Where all or some of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement is recognised as a separate asset only when it is virtually certain that reimbursement will be received, and the amount of reimbursement recognised does not exceed the carrying amount of the provision.

2.22 Current and deferred income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Current and deferred income taxes *(Continued)*

Deferred income tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income, in which case the current and deferred tax are also recognised in other comprehensive income.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2.23 Share capital

(a) Share capital

Share capital comprises ordinary shares issued.

(b) Share issue costs

External costs directly attributable to the issuance of new shares are shown in equity as a deduction from the proceeds.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Share capital *(Continued)*

(c) Dividends on ordinary shares

Dividends on ordinary shares are recognised in the period in which they are declared and approved by the Bank's shareholders.

2.24 Acceptances

Acceptances comprise the Group's commitments on payment for bills that are issued by customers. Acceptances are accounted for as financial guarantees and credit related commitments and are disclosed as contingent liabilities and commitments.

2.25 Employee benefits

(a) Staff benefit and retirement benefit obligations

In the reporting period in which an employee has rendered services, the Group recognises the employee benefits payable for those services as a liability. The Group participates in the employee social security systems, such as basic pensions, medical insurance, housing funds and other social securities established by the government in accordance with relevant requirements. The related expenditures are charged to profit or loss in the period when they are incurred.

The Group pays supplementary retirement benefits to employees in Mainland China who retired before 31 December 2008. The Group accrues a liability based on actuarial techniques and recognises all actuarial gains and losses in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Employees in Mainland China who retired after 1 January 2009 participate in the defined contribution plan established (the "Annuity Plan") by the Group. The Group contributes a certain portion of the employees' gross salaries to the Annuity Plan. Related expenses are recognised in profit or loss when incurred.

The Group pays the welfare benefits for employees, who have not yet reached the statutory retirement age limit and are approved by the Group to voluntarily retire from their employment, from the internal retirement date to the statutory retirement age limit. These welfare benefits are recognised in profit or loss based on the discounted cash flow calculation over the implementation period. The Group reviews present value of the welfare benefits on each reporting date, with any changes recognised in profit or loss.

(b) Share-based compensation

A share-based payment is a transaction which the Group grants equity instruments, or incurs liabilities for amounts that are determined based on the price of equity instruments, in return for services rendered by employees. The Group's share-based payments are cash-settled share-based payments.

Cash-settled share-based payments are measured at the fair value of the liabilities incurred by the Group, which are determined based on the price of the share or other equity instruments. Until the liability is settled, the Group remeasures the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

The value of share appreciation rights ("SARs") granted by the Group is determined by applying the Binomial Option Pricing Model.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.26 Foreign currency translation

Renminbi ("RMB") is the currency of the primary economic environment in which the Bank and the Group's domestic subsidiaries operate. Therefore, the Bank and the Group's domestic subsidiaries choose RMB as their functional currency. The Bank and the Group's foreign subsidiary chooses its functional currency on the basis of the primary economic environment in which it operates. The Group adopts RMB to prepare its financial statements.

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions.

At the reporting date, foreign currency monetary items are translated into RMB using the spot exchange rates at the reporting date. Exchange differences arising from the differences between the spot exchange rates prevailing at the reporting date and those on initial recognition or at the previous reporting date are recognised in profit or loss for the period, except that (1) exchange differences related to hedging instruments for the purpose of hedging against foreign exchange risks are accounted for using hedge accounting; (2) exchange differences arising from available-for-sale non-monetary items (such as shares) denominated in foreign currencies and changes in the carrying amounts (other than the amortised cost) of available-for-sale monetary items are recognised as other comprehensive income; and (3) exchange differences arising on a foreign currency monetary item that forms part of the Bank's net investment in a foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income.

On disposal of the Group's entire interest in a foreign operation, or upon a loss of control over a foreign operation due to disposal of certain interest in it or other reasons, the Group transfers the accumulated exchange differences arising on translation of financial statements of this foreign operation and foreign currency monetary items that form part of the net investment in such foreign operation attributable to the owners' equity of the Group and presented under shareholder's equity in the statement of financial position, to profit or loss in the period in which the disposal occurs.

In case of a disposal or other reason that does not result in the Group losing control over a foreign operation, the proportionate share of accumulated exchange differences arising on translation of financial statements are re-attributed to non-controlling interests and are not recognised in profit and loss. For partial disposals of equity interests in foreign operations which are associates, the proportionate share of the accumulated exchange differences arising on translation of financial statements of foreign operations is reclassified to profit or loss.

2.27 Contingent liabilities and contingencies

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and the amount can be reliably measured, it will then be recognised as a provision.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.28 Insurance contracts

(a) *Insurance contract*

Insurance contract of the Group's insurance subsidiaries includes direct insurance contracts and reinsurance contracts. For contracts entered into by the Group and policyholders, the Group undertakes insurance risks when the occurrence of deaths, disabilities, diseases, maturities, contractual age or payment term is likely to cause the Group to undertake the insurance claim liability. Direct insurance contracts are contracts that the Group undertakes significant insurance risks. Reinsurance contracts signed between the Group and other insurers are accounted for as reinsurance contracts when a significant portion of insurance risk has been transferred.

(b) *Income and cost of the insurance contract*

Premium revenue will be recognised by the Group when a direct insurance contract has been entered into whereby the related insurance obligation has been assumed; it is probable that the economic benefits associated with the direct insurance contract will flow to the insurer; and the amount of revenue associated with the direct insurance contract can be measured reliably. For direct life insurance contracts, premium revenue of those contracts which require periodic payments of premiums shall be recognised according to the amount of premiums due within the accounting period; and premium revenue of those lump-sum-payment contracts shall be recognised according to the amount of premium due on a lump sum basis. For direct non-life insurance contracts, premium revenue shall be determined based on the total written premiums of the direct non-life insurance contracts.

Upon early termination of a direct insurance contract, the insurer shall determine, according to the terms of the insurance contract, the amount needed to be refunded to the policyholder and recognise the amount in profit or loss for the period as a surrender charge.

Costs of direct insurance contracts are the gross outflows of economic benefits arising under direct insurance contracts that result in decreases in owner's equity, other than those relating to profit appropriation to owners. Costs of direct insurance contracts mainly include handling costs, commissions, costs of claims and benefits, and different kinds of insurance contract reserves accrued.

(c) *Insurance contract reserves*

The Group calculates insurance contract reserves at each reporting date to reflect insurance contract liability. The Group's insurance contract reserves are comprised of the life-insurance contract reserves and non-life insurance contract reserves. The life insurance contract reserves include life insurance liability reserves, long-term health liability reserves, which are composed of unearned premium reserves and outstanding claim reserves. The non-life insurance contract reserves include unearned premium reserves and outstanding claim reserves.

2.29 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.30 Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from the Group's consolidated financial statements where the Group acts in a fiduciary capacity such as trustee, custodian or agent.

The Group conducts entrusted lending for the third-party lenders. The Group grants loans to borrowers, as trustee, according to the instruction of the third-party lenders who fund these loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the risks and rewards of the entrusted loans and the funding for the corresponding entrusted funds, they are not recognised as assets and liabilities of the Group.

2.31 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the senior management team as represented by the governor as its chief operating decision maker.

An operating segment is a component of the Group with all of the following conditions are satisfied: (1) that component can earn revenues and incur expenses from ordinary activities; (2) the component's operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (3) discrete financial information for the component is available to the Group. If two or more operating segments have similar economic characteristics, and certain conditions are satisfied, they may be aggregated into a single operating segment.

Intra-segment income and expenses are eliminated. Income and expenses directly associated with each segment are considered in determining segment performance.

The Group has the following segments: Northern China, North Eastern China, Eastern China, Central and Southern China, Western China, Head Office, and Overseas.

2.32 Offset financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the assets and settle the liability simultaneously.

3 FINANCIAL RISK MANAGEMENT

Overview

The Group's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of a certain degree of risks or a portfolio of risks. Risk management is core to the financial business, and business risks are inevitable as a result. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and latest best practice.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

Overview *(Continued)*

The Board of Directors sets out strategies and risk preference for overall risk management strategy and decides the risk tolerance level. The senior management establishes related risk management policies and procedures under the strategy approved by the Board of Directors, including policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. The Chief Risk Officer assumes the overall risk management responsibility on behalf of the senior management. The Risk Management Department at Head Office undertakes the overall risk management function of the Group. The risk management division in each Head Office's department, the Risk Management Department of each domestic and overseas branch and subsidiary undertakes the specific risk management function. In addition, internal audit department is responsible for the independent review of risk management and the control environment.

The main types of financial risks of the Group are credit risk, liquidity risk and market risk which also includes foreign exchange risk, interest rate risk and other price risk.

3.1 Credit risk

The Group is exposed to credit risk, which is the risk that a customer or counterparty will be unable to or is unwilling to meet its obligations under a contract. Significant changes in the economy, credit quality of a particular industry segment in the Group's portfolio, could result in a loss amount different from the loss provision at the end of the reporting date. Credit risk increases when counterparties are within similar industry segments or geographical regions. Credit exposures arise principally from loans and advances, investment securities, derivative instruments and due from banks and other financial institutions. There is also credit risk in off-balance sheet financial arrangements such as loan commitments, financial guarantees, acceptances and letters of credit. The majority of the Group's operation is located within Mainland China, where different regions in China have their own unique characteristics in economic development. For example, the economic development in the eastern provinces is better than that in the western provinces. The Risk Management Department at Head Office is responsible for the overall management of the Group's credit risk, and reports to the Bank's senior management and Board of Directors regularly. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a particular borrower. Such limits are monitored on a regular basis and subject to an annual review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers to meet interest and principal repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also controlled by obtaining collaterals and corporate and individual guarantees.

3.1.1 Credit risk assessment

(a) *Loans and advances to customers and off-balance sheet commitments*

In assessing credit risk of loan and advances to corporate customers and off-balance sheet commitments at a counterparty level, the Group considers three factors: (i) the "probability of default" by the customer or counterparty on its contractual obligations; (ii) current exposure to the counterparty and possible future development, from which the Group derives the "exposure at default"; and (iii) the recovery ratio on the defaulted obligation (the "loss given default").

Exposure at default is based on the loan amount the Group has already lent out at the time of default. For a commitment, the Group includes any amount already drawn plus any further amount that may have been drawn by the time of default, should it occur.

Loss given default or loss severity represents the Group's expectation of the extent of loss on a claim should a default occurs. It is expressed as the loss percentage per unit of exposure and typically varies by nature of counterparty, type and seniority of claim and availability of collaterals or other credit mitigations.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk assessment *(Continued)*

(a) Loans and advances to customers and off-balance sheet commitments (Continued)

These credit risk measurements, which reflect expected loss (the expected loss model), are in accordance with the banking regulations and requirements of regulatory measures of the Basel Committee on Banking Supervision (the "Basel Committee"), and are applied in the daily operations of the Group. In contrast, the provision for impairment of IAS 39 is based on the loss that has been incurred rather than the expected loss at the date of the consolidated statement of financial position.

According to the Basel New Capital Accord and requirements of internal rating system supervision guidelines issued by China Banking Regulatory Commission ("CBRC"), an internal rating system was implemented in the Group. The Bank summarised a series of financial and other related factors to build the internal credit rating model for corporate customers, which is based on historical data collection, data statistics and data analysis on the characteristics of risks of the clients before the default occurs. Internal rating model applies the principle of regression to forecast the probability of default in the future 12 months, and then matches the probability of default with relevant rank of default risk which decides the borrower's credit rank within the internal rating system. In order to improve the system's accuracy and stability, the back-test will be performed against the actual default status of borrowers and rating results every six months by the Bank.

The Group periodically identifies potential risks in the corporate loan assets based on its three-hierarchy risk identification method through the asset risk management system, and applies discounted cash flow model to assess the expected losses on loan-by-loan basis to identify impaired loan assets. With regard to the impaired loan assets, the Group develops customer-based action plan, appointed certain employee for further clearing, retrieval and disposal, and provides impairment allowance in accordance with the expected losses. With regard to the loan assets not impaired, the Group performs collective assessment based on its migration model.

The Group has issued credit commitments, guarantees and letters of credit. The primary purpose of these instruments is to ensure that funds are available to customers as required. These instruments represent irrevocable assurances that the Group will make payments in the events that a customer cannot meet its obligations to third parties. These instruments carry similar credit risk as loans, so the Group manages such credit risk together with loan portfolio.

The Group monitors the overdue status of its loans and advances to individual customers to manage credit risk. The Group analyses credit exposures by industry, geography and customer type. This information is monitored regularly by senior management.

In the internal rating system, the credit rating of domestic customers and businesses has been divided into 15 non-default grades and one default grade based on the probability of default. The criteria of the grade of non-default customers and businesses are assessed based on the probability of default in the future 12 months. Customers and businesses with default grade are those meet the Group's definition of default.

(b) Debt securities

For debt securities and other bills, external ratings (such as Standard and Poor's) are used by the Group when available for managing the credit risk. The investment in those securities and bills is to have better credit quality assets while maintaining readily available funding sources.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk assessment *(Continued)*

(c) *Derivative instruments*

The Group maintains strict limits on net open derivative investment positions (i.e., the difference between long and short contracts), by both amount and maturity. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favorable to the Group (i.e., assets where their fair value is positive), which, in relation to derivative instruments, is only a fraction of the contract's notional amount used to express the amount outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market fluctuations. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except when the Group requires margin deposits from counterparties. The management has set limits of these contracts according to counterparty, and regularly monitor and control the actual credit risk when the Group concludes foreign exchange and interest rate contracts with other financial institutions and clients.

(d) *Due from banks and other financial institutions*

The Group manages the credit quality of due from and placements with banks and other financial institutions considering the size, financial position and the external credit rating of the banks and financial institutions. The Head Office monitors and reviews the credit risk of due from and placements with banks and other financial institutions by counterparties periodically. Limits are placed on different counterparties.

3.1.2 Risk limit control and mitigation measures

The Group manages, limits and controls concentrations of credit risk wherever they are identified — in particular, to individual counterparties, company and groups, industry segments and geographical regions.

The Group structures the levels of credit risk it undertakes by placing limits in relation to one borrower, or groups of borrowers. Such risks are monitored on a regular basis and subject to annual or more frequent review, whenever necessary.

The exposure to any single borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Risk limit control and mitigation measures *(Continued)*

Some other specific control and risk mitigation measures are outlined below:

(a) Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most useful practice is to accept collaterals. The Group implements guidelines on the acceptability of specific classes of collateral. The principal types of collateral for loans and advances to customers are:

- Residential properties;
- Business assets such as premises, inventory and accounts receivable;
- Financial instruments such as debt securities and stocks.

The value of collaterals at the time of loan origination is determined by the Credit Authorisation Department and the amount of the loans granted is subject to loan-to-value ratio limits based on collateral types. The principal types of collateral for corporate loans and individual loans are as follows:

Collateral	**Maximum loan-to-value ratio**
Cash deposits with the Group	90%
PRC treasury bonds	90%
Financial institution bonds	90%
Publicly traded stocks	60%
Rights to collect fees or right of management	60%
Properties	70%
Land use rights	70%
Vehicles	50%

Long-term loans and advances to corporate and individual customers are generally secured; while revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Group will seek additional collaterals from the counterparties as soon as impairment indicators are noted for the relevant individual loans and advances.

For loans guaranteed by a third-party guarantor, the Group will assess the financial condition, credit history and ability to meet obligations of the guarantor.

Collaterals held as security for financial assets other than loans and advances to customers are determined by the nature of the instrument. Debt securities, treasury bonds and PBOC bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 *Risk limit control and mitigation measures* *(Continued)*

(b) *Master netting arrangements*

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities in the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as each transaction subject to the arrangement is affected by credit risk.

3.1.3 *Impairment and provision policies*

The internal rating system described in Note 3.1.1 focuses more on credit-quality mapping from the inception of lending activities. In contrast, impairment allowances recognised for financial reporting purposes are the losses that have been incurred at the end of the reporting date based on objective evidence of impairment (see Note 2.6). Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

The internal rating system assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions (e.g. equity ratio, profit margin);
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Other observable data indicating that there is a measurable decrease in the estimated future cash flows from such loans and advances.

The Group's policy requires the review of individual financial assets that have objective evidence of impairment at least quarterly or more regularly when individual circumstances require. Impairment allowances on individually assessed financial assets are determined by an evaluation of the incurred loss at the reporting date on a case-by-case basis, and are applied to all individually impaired financial assets. The assessment normally encompasses collaterals held (including re-confirmation of its enforceability) and the anticipated cash flows for that individual asset.

Collectively assessed impairment allowances are provided for: losses that have been incurred but have not yet been identified, by using the available historical experience, judgment and statistical techniques.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

Group

	As at 31 December 2013	As at 31 December 2012
Assets		
Balances with central banks	877,263	798,027
Due from banks and other financial institutions	566,429	520,963
Financial assets at fair value through profit or loss (debt securities and derivatives)	73,203	51,433
Loans and advances to customers		
– Loans to corporate entities	2,455,136	2,286,909
– Loans to individuals	737,927	592,719
Investment securities — loans and receivables	119,726	30,395
Investment securities — available-for-sale (debt securities)	219,104	202,046
Investment securities — held-to-maturity	670,615	598,615
Other financial assets	137,668	106,441
	5,857,071	5,187,548
Off-balance sheet exposures		
Guarantees, acceptances and letters of credit	1,059,432	927,111
Other credit related commitments	491,287	436,565
	1,550,719	1,363,676

Bank

	As at 31 December 2013	As at 31 December 2012
Assets		
Balances with central banks	876,612	797,544
Due from other banks and financial institutions	574,086	521,774
Financial assets at fair value through profit or loss (debt securities and derivatives)	73,198	51,433
Loans and advances to customers		
– Loans to corporate entities	2,454,517	2,287,267
– Loans to individuals	733,357	589,507
Investment securities — loans and receivables	117,059	30,020
Investment securities — available-for-sale (debt securities)	218,010	200,819
Investment securities — held-to-maturity	669,089	597,558
Other financial assets	48,842	36,665
	5,764,770	5,112,587
Off-balance sheet exposures		
Guarantees, acceptances and letters of credit	1,059,189	926,530
Other credit related commitments	491,232	436,542
	1,550,421	1,363,072

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements *(Continued)*

The above table represents a worst case scenario of credit risk exposure to the Group as at 31 December 2013 and 2012, without taking account of any related collaterals or other credit enhancements. For on-balance sheet assets, the exposures above are based on carrying amounts as reported in the statement of financial position.

As shown above, 55% of the total on-balance sheet exposure is derived from loans and advances to customers (2012: 56%).

Management is confident in its ability to continuously control and sustain a minimal exposure to credit risk to the Group based on the following performance of its loans and advances portfolio:

- Mortgage loans, which represent the biggest portion in the individual portfolio, are backed by collaterals;
- 99% of the loans and advances portfolio are neither past due nor impaired (2012: 99%);
- The individually assessed impaired loans to loans and advances to customers is 1.05%. (2012: 0.92%).

3.1.5 Loans and advances to customers

Group

	As at 31 December 2013		As at 31 December 2012	
	Loans and advances to customers	Due from banks and other financial institutions	Loans and advances to customers	Due from banks and other financial institutions
Neither past due nor impaired	3,217,747	566,417	2,906,618	520,951
Past due but not impaired	14,311	12	13,686	12
Individually impaired	34,310	—	26,995	—
Gross	3,266,368	566,429	2,947,299	520,963
Less: allowance for collectively assessed impairment losses	(57,123)	—	(55,187)	—
Less: allowance for individually assessed impairment losses	(16,182)	—	(12,484)	—
Net	3,193,063	566,429	2,879,628	520,963

Bank

	As at 31 December 2013		As at 31 December 2012	
	Loans and advances to customers	Due from banks and other financial institutions	Loans and advances to customers	Due from banks and other financial institutions
Neither past due nor impaired	3,212,499	574,074	2,903,881	521,762
Past due but not impaired	14,300	12	13,675	12
Individually impaired	34,201	—	26,793	—
Gross	3,261,000	574,086	2,944,349	521,774
Less: allowance for collectively assessed impairment losses	(57,015)	—	(55,141)	—
Less: allowance for individually assessed impairment losses	(16,111)	—	(12,434)	—
Net	3,187,874	574,086	2,876,774	521,774

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 ***Loans and advances to customers*** *(Continued)*

As at 31 December 2013, the Group's total impairment allowances for loans and advances to customers are RMB73,305 million (2012: RMB67,671 million) of which RMB16,182 million (2012: RMB12,484 million) represents those for individually assessed impaired loans and the remaining amount of RMB57,123 million (2012: RMB55,187 million) represents those for collectively assessed impaired loans. Further information about the impairment allowances for loans and advances to customers is provided in Note 20.

As at 31 December 2013, the Group's total loans and advances to customers increased by 10.83% as a result of the continuous increase of market demand in Mainland China. When entering into a new market or new industry, the Group targets at large enterprises or other financial institutions with good credit ratings or customers with sufficient collaterals in order to minimise the potential risk of increased credit risk exposure.

(a) *Loans and advances neither past due nor impaired*

The Group monitors the credit risk of loans and advances neither past due nor impaired of domestic branches by applying its internal 16 grading system to customers.

Group
As at 31 December 2013
Neither past due nor impaired

	Internal Rating System				
	Grade 1–8	Grade 9–12	Grade 13–15	Unrated	Total
Mainland corporate loans and advances					
— Loans	1,869,733	131,835	4,168	—	2,005,736
— Discounted bills	25,222	2,522	29	27,413	55,186
— Trade finance	110,961	2,471	40	—	113,472
Mainland individual loans and advances	645,610	33,648	1,143	31,314	711,715
Total	2,651,526	170,476	5,380	58,727	2,886,109
Overseas branches, offshore center and subsidiaries					331,638

Bank
As at 31 December 2013
Neither past due nor impaired

	Internal Rating System				
	Grade 1–8	Grade 9–12	Grade 13–15	Unrated	Total
Mainland corporate loans and advances					
— Loans	1,869,733	131,835	4,168	—	2,005,736
— Discounted bills	25,222	2,522	29	27,413	55,186
— Trade finance	110,961	2,471	40	—	113,472
Mainland individual loans and advances	645,610	33,648	1,143	31,314	711,715
Total	2,651,526	170,476	5,380	58,727	2,886,109
Overseas branches and offshore center					326,390

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances to customers *(Continued)*

(a) *Loans and advances neither past due nor impaired (Continued)*

Group

As at 31 December 2012

Neither past due nor impaired

	Internal Rating System				
	Grade 1–8	Grade 9–12	Grade 13–15	Unrated	Total
Mainland corporate loans and advances					
— Loans	1,753,867	123,639	2,377	—	1,879,883
— Discounted bills	24,349	4,305	11	35,212	63,877
— Trade finance	108,908	3,311	—	—	112,219
Mainland individual loans and advances	510,007	32,466	407	24,750	567,630
Total	2,397,131	163,721	2,795	59,962	2,623,609
Overseas branches, offshore center and subsidiaries					283,009

Bank

As at 31 December 2012

Neither past due nor impaired

	Internal Rating System				
	Grade 1–8	Grade 9–12	Grade 13–15	Unrated	Total
Mainland corporate loans and advances					
— Loans	1,753,867	123,639	2,377	—	1,879,883
— Discounted bills	24,349	4,305	11	35,212	63,877
— Trade finance	108,908	3,311	—	—	112,219
Mainland individual loans and advances	510,007	32,466	407	24,750	567,630
Total	2,397,131	163,721	2,795	59,962	2,623,609
Overseas branches and offshore center					280,272

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 *Loans and advances to customers* *(Continued)*

(b) *Loans and advances past due but not impaired*

Gross amount of loans and advances by types of customers that are past due but not impaired are as follows:

Group

As at 31 December 2013

	Past due up to 30 days	Past due 31–60 days	Past due 61–90 days	Past due over 90 days	Total	Fair value of collateral
Corporate entities						
— Commercial loans	1,910	1,628	2,932	—	6,470	6,085
Individual						
— Mortgages	1,748	554	246	—	2,548	2,928
— Credit Cards	2,974	545	312	—	3,831	—
— Other	540	228	694	—	1,462	1,588
Total	7,172	2,955	4,184	—	14,311	10,601
Due from banks and other financial institutions	—	—	—	12	12	16

Bank

As at 31 December 2013

	Past due up to 30 days	Past due 31–60 days	Past due 61–90 days	Past due over 90 days	Total	Fair value of collateral
Corporate entities						
— Commercial loans	1,910	1,620	2,932	—	6,462	6,085
Individual						
— Mortgages	1,748	554	246	—	2,548	2,928
— Credit Cards	2,973	545	312	—	3,830	—
— Other	538	228	694	—	1,460	1,586
Total	7,169	2,947	4,184	—	14,300	10,599
Due from banks and other financial institutions	—	—	—	12	12	16

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 ***Loans and advances to customers*** *(Continued)*

(b) *Loans and advances past due but not impaired (Continued)*

Group

As at 31 December 2012

	Past due up to 30 days	Past due 31–60 days	Past due 61–90 days	Past due over 90 days	Total	Fair value of collateral
Corporate entities						
— Commercial loans	2,586	1,930	1,006	—	5,522	5,323
Individual						
— Mortgages	1,804	590	245	—	2,639	1,708
— Credit Cards	2,378	503	329	—	3,210	—
— Other	460	633	1,222	—	2,315	1,485
Total	7,228	3,656	2,802	—	13,686	8,516
Due from banks and other financial institutions	—	—	—	12	12	16

Bank

As at 31 December 2012

	Past due up to 30 days	Past due 31–60 days	Past due 61–90 days	Past due over 90 days	Total	Fair value of collateral
Corporate entities						
— Commercial loans	2,579	1,930	1,006	—	5,515	5,315
Individual						
— Mortgages	1,804	590	245	—	2,639	1,708
— Credit Cards	2,378	503	329	—	3,210	—
— Other	460	633	1,218	—	2,311	1,485
Total	7,221	3,656	2,798	—	13,675	8,508
Due from banks and other financial institutions	—	—	—	12	12	16

The fair value of collaterals was estimated by management based on the latest available external valuations, adjusted for the current market situation and management's experience in realisation of collaterals.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances to customers *(Continued)*

(c) *Loans and advances individually impaired*

As at 31 December 2013, individually impaired loans and advances to customers before taking into consideration the collaterals held is RMB34,310 million (2012: RMB26,995 million).

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collaterals held by the Group as security, are as follows:

Group

	As at 31 December 2013	As at 31 December 2012
Corporate entities	25,229	21,896
Individual	9,081	5,099
Individually impaired loans	34,310	26,995
Fair value of collaterals		
Corporate entities	7,115	6,465
Individual	4,180	2,743
Individually impaired loans	11,295	9,208

Bank

	As at 31 December 2013	As at 31 December 2012
Corporate entities	25,217	21,896
Individual	8,984	4,897
Individually impaired loans	34,201	26,793
Fair value of collaterals		
Corporate entities	7,111	6,465
Individual	4,178	2,743
Individually impaired loans	11,289	9,208

No individually impaired due from banks and other financial institutions are held by the Group as at 31 December 2013 and 31 December 2012.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 ***Loans and advances to customers*** *(Continued)*

(d) Geographical risk concentration for loans and advances to customers (gross)

Group

	As at 31 December 2013	%	As at 31 December 2012	%
PRC domestic regions				
— Shanghai	415,680	12.73	355,443	12.06
— Jiangsu	373,039	11.42	347,651	11.80
— Beijing	293,880	9.00	292,119	9.91
— Guangdong	249,908	7.65	240,206	8.15
— Zhejiang	236,289	7.23	222,832	7.56
— Shandong	146,947	4.50	134,593	4.57
— Hubei	107,136	3.28	97,732	3.32
— Henan	106,899	3.27	96,411	3.27
— Others	1,057,348	32.37	944,639	32.04
PRC domestic regions total	2,987,126	91.45	2,731,626	92.68
Hong Kong, Macau, Taipei and overseas regions	279,242	8.55	215,673	7.32
Gross amount of loans and advances to customers before allowance for impairment	3,266,368	100.00	2,947,299	100.00

Bank

	As at 31 December 2013	%	As at 31 December 2012	%
PRC domestic regions				
— Shanghai	415,505	12.74	355,416	12.07
— Jiangsu	373,039	11.44	347,651	11.81
— Beijing	293,880	9.01	292,119	9.92
— Guangdong	249,908	7.66	240,206	8.16
— Zhejiang	234,815	7.20	221,564	7.53
— Shandong	146,434	4.49	134,371	4.56
— Hubei	106,132	3.25	97,232	3.30
— Henan	106,899	3.28	96,411	3.27
— Others	1,055,339	32.37	943,383	32.04
PRC domestic regions total	2,981,951	91.44	2,728,353	92.66
Hong Kong, Macau, Taipei and overseas regions	279,049	8.56	215,996	7.34
Gross amount of loans and advances to customers before allowance for impairment	3,261,000	100.00	2,944,349	100.00

A geographical PRC domestic region is reported where it contributes 3% and more of the relevant disclosure item.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances to customers (Continued)

(e) Industry analysis

The economic sector risk concentration for loans and advances to customers (gross)

Group

	As at 31 December 2013	%	As at 31 December 2012	%
Corporate loans				
Mining	92,180	2.82	72,000	2.44
Manufacturing				
— Petroleum and chemical	118,958	3.64	113,677	3.86
— Electronics	62,278	1.91	53,813	1.83
— Steel	41,342	1.27	45,739	1.55
— Machinery	115,893	3.55	106,908	3.63
— Textile and clothing	40,757	1.25	38,758	1.32
— Other manufacturing	251,127	7.69	225,276	7.64
Electricity, gas and water production and supply	132,942	4.07	132,394	4.49
Construction	106,004	3.25	93,246	3.16
Transportation, storage and postal service	386,822	11.84	363,797	12.34
Telecommunication, IT service and software	10,445	0.32	10,080	0.34
Wholesale and retail	391,772	11.99	389,695	13.22
Accommodation and catering	26,708	0.82	23,358	0.79
Financial institutions	32,593	1.00	23,471	0.80
Real estate	201,300	6.16	179,862	6.10
Services	206,910	6.33	184,211	6.25
Water conservancy, environmental and other public services	130,777	4.00	137,343	4.66
Education	49,174	1.51	37,596	1.28
Others	56,633	1.73	49,784	1.69
Discounted bills	60,443	1.85	64,769	2.20
Total corporate loans	2,515,058	77.00	2,345,777	79.59
Individual loans				
Mortgage loans	458,356	14.03	358,258	12.16
Credit card advances	163,969	5.02	119,212	4.04
Medium-term and long-term working capital loans	58,548	1.79	55,172	1.87
Short-term working capital loans	24,539	0.75	31,672	1.07
Car loans	1,976	0.06	3,514	0.12
Others	43,922	1.35	33,694	1.15
Total individual loans	751,310	23.00	601,522	20.41
Gross amount of loans and advances before allowance for impairment	3,266,368	100.00	2,947,299	100.00

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances to customers *(Continued)*

(e) Industry analysis (Continued)

The economic sector risk concentration for loans and advances to customers (gross) *(Continued)*

Bank

	As at 31 December 2013	%	As at 31 December 2012	%
Corporate loans				
Mining	92,180	2.83	72,000	2.45
Manufacturing				
— Petroleum and chemical	118,956	3.65	113,659	3.86
— Electronics	62,273	1.91	53,808	1.83
— Steel	41,342	1.27	45,739	1.55
— Machinery	115,848	3.55	106,863	3.63
— Textile and clothing	40,729	1.25	38,724	1.32
— Other manufacturing	250,122	7.67	224,297	7.62
Electricity, gas and water production and supply	132,914	4.08	132,374	4.50
Construction	105,800	3.24	93,087	3.16
Transportation, storage and postal service	386,767	11.86	363,660	12.35
Telecommunication, IT service and software	10,445	0.32	10,080	0.34
Wholesale and retail	389,644	11.95	387,913	13.17
Accommodation and catering	26,685	0.82	23,336	0.79
Financial institutions	35,352	1.08	27,527	0.93
Real estate	200,781	6.16	179,982	6.11
Services	206,888	6.34	184,211	6.26
Water conservancy, environmental and other public services	130,747	4.01	137,343	4.66
Education	49,149	1.51	37,583	1.28
Others	57,293	1.75	49,150	1.67
Discounted bills	60,443	1.85	64,769	2.20
Total corporate loans	2,514,358	77.10	2,346,105	79.68
Individual loans				
Mortgage loans	458,258	14.05	358,217	12.17
Credit card advances	163,969	5.03	119,212	4.05
Medium-term and long-term working capital loans	58,539	1.80	55,078	1.87
Short-term working capital loans	22,805	0.70	30,709	1.04
Car loans	1,974	0.06	3,514	0.12
Others	41,097	1.26	31,514	1.07
Total individual loans	746,642	22.90	598,244	20.32
Gross amount of loans and advances before allowance for impairment	3,261,000	100.00	2,944,349	100.00

The economic sector risk concentration analysis for loans and advances to customers is based on the type of industry of the borrowers.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances to customers *(Continued)*

(f) *Loans and advances to customers analysed by contractual maturity and security type (gross)*

Group

	As at 31 December 2013			
	Within 1 year (inclusive)	1 year to 5 years (inclusive)	Over 5 years	Total
Unsecured loans	450,737	168,843	210,091	829,671
Guaranteed loans	537,253	184,369	157,522	879,144
Collateralised and other secured loans	413,456	371,732	772,365	1,557,553
— loans secured by property and other immovable assets	239,652	313,789	630,225	1,183,666
— other pledged loans	173,804	57,943	142,140	373,887
Gross amount of loans and advances before allowance for impairment	1,401,446	724,944	1,139,978	3,266,368

Group

	As at 31 December 2012			
	Within 1 year (inclusive)	1 year to 5 years (inclusive)	Over 5 years	Total
Unsecured loans	414,230	180,651	216,631	811,512
Guaranteed loans	479,423	177,979	137,269	794,671
Collateralised and other secured loans	406,324	317,023	617,769	1,341,116
— loans secured by property and other immovable assets	228,654	264,663	502,150	995,467
— other pledged loans	177,670	52,360	115,619	345,649
Gross amount of loans and advances before allowance for impairment	1,299,977	675,653	971,669	2,947,299

Bank

	As at 31 December 2013			
	Within 1 year (inclusive)	1 year to 5 years (inclusive)	Over 5 years	Total
Unsecured loans	450,363	168,426	212,511	831,300
Guaranteed loans	533,460	183,903	157,513	874,876
Collateralised and other secured loans	408,976	371,116	774,732	1,554,824
— loans secured by property and other immovable assets	238,859	313,175	631,041	1,183,075
— other pledged loans	170,117	57,941	143,691	371,749
Gross amount of loans and advances before allowance for impairment	1,392,799	723,445	1,144,756	3,261,000

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances to customers *(Continued)*

(f) *Loans and advances to customers analysed by contractual maturity and security type (gross) (Continued)*

Bank

	As at 31 December 2012			
	Within 1 year (inclusive)	1 year to 5 years (inclusive)	Over 5 years	Total
Unsecured loans	414,283	181,357	217,280	812,920
Guaranteed loans	476,286	177,521	137,269	791,076
Collateralised and other secured loans	403,436	316,761	620,156	1,340,353
— loans secured by property and other immovable assets	228,340	264,401	502,810	995,551
— other pledged loans	175,096	52,360	117,346	344,802
Gross amount of loans and advances before allowance for impairment	1,294,005	675,639	974,705	2,944,349

3.1.6 Investment securities

The table below presents an analysis of investment securities, excluding derivatives, by independent rating agencies designation as at 31 December 2013 and 2012:

Group

	As at 31 December 2013				
	Investment securities — loans and receivables	Investment securities — available-for-sale (debt securities)	Investment securities — held-to-maturity	Financial assets at fair value through profit or loss (debt securities)	Total
RMB securities					
AAA	801	17,428	130,414	6,047	154,690
AA– to AA+	450	3,083	8,138	764	12,435
A– to A+	–	693	–	–	693
BBB– to BBB+	–	–	–	–	–
Unrated[(a)]	118,475	150,114	531,009	44,350	843,948
Sub-total	119,726	171,318	669,561	51,161	1,011,766
Foreign currency securities					
AAA	–	2,276	124	1,703	4,103
AA– to AA+	–	9,934	263	2,874	13,071
A– to A+	–	13,073	94	1,023	14,190
BBB– to BBB+	–	1,229	–	61	1,290
Unrated[(a)]	–	21,274	573	2,154	24,001
Sub-total	–	47,786	1,054	7,815	56,655
Total	119,726	219,104	670,615	58,976	1,068,421

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.6 *Investment securities* *(Continued)*

Bank

	As at 31 December 2013				
	Investment securities — loans and receivables	Investment securities — available-for-sale (debt securities)	Investment securities — held-to-maturity	Financial assets at fair value through profit or loss (debt securities)	Total
RMB securities					
AAA	25	16,964	129,693	6,047	152,729
AA– to AA+	400	2,904	7,986	764	12,054
A– to A+	—	693	—	—	693
BBB– to BBB+	—	—	—	—	—
Unrated[(a)]	116,634	150,552	530,829	44,350	842,365
Sub-total	117,059	171,113	668,508	51,161	1,007,841
Foreign currency securities					
AAA	—	2,276	124	1,703	4,103
AA– to AA+	—	9,934	263	2,874	13,071
A– to A+	—	13,073	36	1,023	14,132
BBB– to BBB+	—	1,229	—	61	1,290
Unrated[(a)]	—	20,385	158	2,151	22,694
Sub-total	—	46,897	581	7,812	55,290
Total	117,059	218,010	669,089	58,973	1,063,131

Group

	As at 31 December 2012				
	Investment securities — loans and receivables	Investment securities — available-for-sale (debt securities)	Investment securities — held-to-maturity	Financial assets at fair value through profit or loss (debt securities)	Total
RMB securities					
AAA	34	15,112	119,732	7,051	141,929
AA– to AA+	400	4,862	10,977	1,445	17,684
A– to A+	—	692	—	—	692
BBB– to BBB+	—	—	—	—	—
Unrated[(a)]	29,961	142,165	466,755	28,952	667,833
Sub-total	30,395	162,831	597,464	37,448	828,138
Foreign currency securities					
AAA	—	2,196	325	1,844	4,365
AA– to AA+	—	10,124	501	2,896	13,521
A– to A+	—	9,881	56	904	10,841
BBB– to BBB+	—	388	—	73	461
Unrated[(a)]	—	16,626	269	1,790	18,685
Sub-total	—	39,215	1,151	7,507	47,873
Total	30,395	202,046	598,615	44,955	876,011

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.6 Investment securities (Continued)

Bank

	As at 31 December 2012				
	Investment securities — loans and receivables	Investment securities — available-for-sale (debt securities)	Investment securities — held-to-maturity	Financial assets at fair value through profit or loss (debt securities)	Total
RMB securities					
AAA	25	14,741	119,111	7,051	140,928
AA– to AA+	400	4,567	10,825	1,445	17,237
A– to A+	—	692	—	—	692
BBB– to BBB+	—	—	—	—	—
Unrated[(a)]	29,595	142,165	466,756	28,952	667,468
Sub-total	30,020	162,165	596,692	37,448	826,325
Foreign currency securities					
AAA	—	2,196	325	1,844	4,365
AA– to AA+	—	9,890	235	2,896	13,021
A– to A+	—	9,881	38	904	10,823
BBB– to BBB+	—	388	—	73	461
Unrated[(a)]	—	16,299	268	1,790	18,357
Sub-total	—	38,654	866	7,507	47,027
Total	30,020	200,819	597,558	44,955	873,352

(a) These mainly represent investments and trading securities issued by Ministry of Finance of the PRC ("MOF"), the PBOC, policy banks and corporate entities which are creditworthy issuers in the market, but are not rated by independent rating agencies.

The total gross amount of individually impaired debt securities as at 31 December 2013 is RMB1,090 million (31 December 2012: RMB1,179 million). No collaterals are held by the Group in respect of these impaired securities, and the impairment provision is RMB1,090 million as at 31 December 2013 (31 December 2012: RMB1,179 million).

3.1.7 Derivative instruments

The Group undertakes its transactions in foreign exchange and interest rate derivative contracts and others with other financial institutions and customers. Management has established limits for these contracts based on counterparties, industry sectors and countries. Actual credit exposures and limits are regularly monitored and controlled by management.

Credit risk weighted amounts

Group

	As at 31 December 2013	As at 31 December 2012
Derivatives		
— Exchange rate contracts	6,157	3,012
— Interest rate contracts and others	399	464
	6,556	3,476

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.7 ***Derivative instruments*** *(Continued)*

Bank

	As at 31 December 2013	As at 31 December 2012
Derivatives		
— Exchange rate contracts	6,155	3,012
— Interest rate contracts and others	398	464
	6,553	3,476

The credit risk weighted amounts are the amounts calculated with reference to the guidelines issued by the CBRC and are dependent on, amongst other factors, the creditworthiness of the counterparty and the maturity characteristics of each type of contract.

The credit risk weighted amounts stated above have not taken the effects of netting arrangements into account.

3.1.8 ***Foreclosed assets***

Group and Bank

	As at 31 December 2013	As at 31 December 2012
Residential properties	—	21
Business properties	55	62
Others	137	343
Total	192	426

Foreclosed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. The Group does not generally occupy foreclosed assets for its own business use. Foreclosed assets are classified as other assets in the statement of financial position.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.9 Concentration risk analysis for financial assets with credit risk exposure

Geographical sectors

Group

	PRC	Hong Kong	Others	Total
As at 31 December 2013				
Financial Assets				
Balances with central banks	851,098	9,374	16,791	877,263
Due from banks and other financial institutions	512,050	44,225	10,154	566,429
Financial assets at fair value through profit or loss (debt securities and derivatives)	59,971	1,692	11,540	73,203
Loans and advances to customers	3,011,540	152,136	29,387	3,193,063
Investment securities — loans and receivables	119,726	—	—	119,726
Investment securities — available-for-sale (debt securities)	166,981	757	51,366	219,104
Investment securities — held-to-maturity	669,597	82	936	670,615
Other financial assets	118,398	18,860	410	137,668
	5,509,361	227,126	120,584	5,857,071
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	1,043,262	9,561	6,609	1,059,432
Other credit related commitments	460,177	9,454	21,656	491,287
	1,503,439	19,015	28,265	1,550,719

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.9 ***Concentration risk analysis for financial assets with credit risk exposure*** *(Continued)*

Geographical sectors *(Continued)*

Bank

	PRC	Hong Kong	Others	Total
As at 31 December 2013				
Financial Assets				
Balances with central banks	850,447	9,374	16,791	876,612
Due from banks and other financial institutions	517,372	43,997	12,717	574,086
Financial assets at fair value through profit or loss (debt securities and derivatives)	59,971	1,690	11,537	73,198
Loans and advances to customers	3,006,627	151,817	29,430	3,187,874
Investment securities — loans and receivables	117,059	—	—	117,059
Investment securities — available-for-sale (debt securities)	166,298	530	51,182	218,010
Investment securities — held-to-maturity	668,544	24	521	669,089
Other financial assets	30,290	18,167	385	48,842
	5,416,608	225,599	122,563	5,764,770
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	1,043,046	9,561	6,582	1,059,189
Other credit related commitments	460,178	9,454	21,600	491,232
	1,503,224	19,015	28,182	1,550,421

Group

	PRC	Hong Kong	Others	Total
As at 31 December 2012				
Financial Assets				
Balances with central banks	785,894	587	11,546	798,027
Due from banks and other financial institutions	472,940	38,563	9,460	520,963
Financial assets at fair value through profit or loss (debt securities and derivatives)	43,781	3,049	4,603	51,433
Loans and advances to customers	2,704,358	142,419	32,851	2,879,628
Investment securities — loans and receivables	30,395	—	—	30,395
Investment securities — available-for-sale (debt securities)	164,919	13,934	23,193	202,046
Investment securities — held-to-maturity	597,609	25	981	598,615
Other financial assets	88,690	17,619	132	106,441
	4,888,586	216,196	82,766	5,187,548
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	912,640	6,110	8,361	927,111
Other credit related commitments	402,582	18,339	15,644	436,565
	1,315,222	24,449	24,005	1,363,676

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.9 *Concentration risk analysis for financial assets with credit risk exposure (Continued)*

Geographical sectors (Continued)

Bank

	PRC	Hong Kong	Others	Total
As at 31 December 2012				
Financial Assets				
Balances with central banks	785,411	587	11,546	797,544
Due from banks and other financial institutions	473,261	38,029	10,484	521,774
Financial assets at fair value through profit or loss (debt securities and derivatives)	43,781	3,049	4,603	51,433
Loans and advances to customers	2,699,394	142,349	35,031	2,876,774
Investment securities — loans and receivables	30,020	—	—	30,020
Investment securities — available-for-sale (debt securities)	163,925	13,934	22,960	200,819
Investment securities — held-to-maturity	596,819	25	714	597,558
Other financial assets	21,661	14,254	750	36,665
	4,814,272	212,227	86,088	5,112,587
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	912,087	6,110	8,333	926,530
Other credit related commitments	402,582	18,339	15,621	436,542
	1,314,669	24,449	23,954	1,363,072

The above analysis is based on the country/region in which the counterparties are located.

3.2 Market risk

3.2.1 *Overview*

The Group takes on exposure to market risks, which is initiated by the fluctuation of the fair value of or future cash flow of financial instruments as a result of the changes of the market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market fluctuations and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group separates exposures to market risk into either trading or banking portfolios.

In accordance with the requirements of the CBRC, the Group categorises its business into either the trading book or the banking book. The trading book consists of positions in financial instruments held either for trading intent or economic hedging in other elements of the trading book or the banking book. The banking book consists of the investment purchased by the Group with excess funds and other financial instruments that are not captured in trading book.

The Group established a management model of “large and small middle offices” for its market risk management, which is a centralised control framework lead by Board of Directors, Supervisors and senior management. The asset liability management department takes the lead in the Bank’s market risk management, while business units such as financial markets department and domestic and overseas branches are the execution units of the Bank’s market risk management policies. The risk management department and the internal audit department are responsible for the independent verification of the market risk assessment models and management system, as well as the internal audit of the Bank.

The Group monitors market risk separately in respect of trading portfolios and non-trading portfolios. With regard to the interest rate and exchange rate risks of trading book, the Group established an effective limit management system by implementing Value at Risk (VaR). And net interest income sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major tools used by the Group to monitor the market risk of its overall businesses. In addition, through adequate pricing management and asset allocation, the Group strived to maximise its rate of return while keeping its risks under control.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.1 Overview *(Continued)*

The Group continuously improved the policy system of market risk in 2013. The Board of Directors continues its implementation of the "Stress Testing Plan of Market Risk Trading Accounts for 2012". The Group conducted the stress tests on historical scenarios and assuming scenarios in the interests of the Group's major business risk factors. The Group implemented the daily automatic collection system of trading data of overseas branches. The Group conducted the management of risk capital and VaR quota, and formulated the quota allocation plans.

As part of market risk management, the Group enters into interest rate swaps to match the interest rate risk associated with the structured deposits and fixed-rate long-term debt securities.

The major measurement techniques used to measure and control market risk are outlined below:

3.2.2 VaR

VaR refers to the maximum loss that an investment portfolio may occur at a given confidence level and holding period caused by the changes of the market prices with regard to the interest rate and exchange rate risk. The Group adopted the historical simulation method to calculate daily VaR (99% confidence interval, the holding period of one day).

A summary of VaR by risk type of the Group's trading portfolios is as follows:

	Year ended 31 December 2013			
Items	31 December 2013	Average	Maximum	Minimum
VaR of trading portfolios	419	176	433	69
Interest Rate Risk	97	33	102	12
Foreign exchange risk	369	165	414	65

	Year ended 31 December 2012			
Items	31 December 2012	Average	Maximum	Minimum
VaR of trading portfolios	81	66	108	21
Interest Rate Risk	22	15	35	6
Foreign exchange risk	85	69	114	12

3.2.3 Sensitivity tests

Interest rate sensitivity test

The Group performs interest rate sensitivity analysis on net interest income and other comprehensive income for the Group by measuring the impact of a change in net interest income of financial assets and liabilities, not taking customer behavior and prepayment option into consideration. On an assumption of a parallel shift of 100 basis points in interest rate, the Group calculates the change in net interest income for the year and other comprehensive income on a monthly basis.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 Sensitivity tests *(Continued)*

Interest rate sensitivity test (Continued)

The table below illustrates the impact of coming year net interest income of the Group at 31 December 2013 and 2012 by the parallel shift of 100 basis point of interest rate structure of interest bearing assets and liabilities.

Group

	Expected change in net interest income	
	Year ended 31 December 2013	Year ended 31 December 2012
+100 basis points parallel shift in all yield curves	12,600	12,730
–100 basis points parallel shift in all yield curves	(12,600)	(12,730)

The table below illustrates the impact of other comprehensive income of the Group by the parallel shift of 100 basis point of interest rate structure

Group

	Change of other comprehensive income	
	As at 31 December 2013	As at 31 December2012
+100 basis points parallel shift in all yield curves	(2,574)	(2,507)
–100 basis points parallel shift in all yield curves	2,729	2,666

The results of the interest rate sensitivity tests set out in the table above is an illustrative only and is based on simplified scenarios. The figures represent the impact of the projected net interest income and other comprehensive income by the projected movement of current interest risk structure yield curves. This effect, however, does not incorporate actions that would be taken by the Group to mitigate the impact of this interest rate changes. The projections above also assume that interest rates of all maturities excluding demand deposits move by the same amount and, therefore, do not reflect the potential impact on net interest income due to changes in certain rates while others remain unchanged. The projections make other simplifying assumptions as well, including that all positions run to maturity. There will be changes to the projection if not letting positions run to maturity but it is not expected that the changes would be material.

Foreign exchange sensitivity test

The Group performs exchange rate sensitivity analysis on net profit and other comprehensive income for the Group by measuring the impact of a change in exchange rate on financial assets and liabilities by different currency. On an assumption of an appreciation or depreciation of RMB against other currencies by 5%, the Group calculates the change in net profit for the year and other comprehensive income on a monthly basis.

The table below illustrates the impact of an appreciation or depreciation of RMB against other currencies by 5% on the Group's net profit:

Group

	Expected change in net profit/(loss)	
	Year ended 31 December 2013	Year ended 31 December 2012
5% appreciation of RMB	(1,300)	(1,730)
5% depreciation of RMB	1,300	1,730

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 ***Sensitivity tests*** *(Continued)*

Interest rate sensitivity test (Continued)

The table below illustrates the impact of an appreciation of RMB against other currencies by 5% on the Group's other comprehensive income:

Group

	Change of other comprehensive income	
	As at 31 December 2013	As at 31 December 2012
5% appreciation of RMB	(872)	(574)
5% depreciation of RMB	872	574

3.2.4 ***Interest rate risk***

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the market value of a financial instrument will fluctuate because of changes in market interest rates.

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce interest margin or create losses in the event that unexpected fluctuation arise.

The Group operates its business predominantly in PRC under the interest rate scheme regulated by the PBOC. According to the PBOC regulations, there is no ceiling for loan interest rates, whilst the floor for loan interest rates is 10% below the stipulated rates. The normal practice for the interest rates of both interest-bearing assets and liabilities is to move in the same direction. The Group conducts most of its domestic businesses including loans and deposits as well as the majority of financial guarantees and credit commitments based upon the PBOC basic interest rates. Consequently, the Group is less vulnerable to interest rate risk. However, there is no guarantee that the PBOC will continue this practice in the future.

The interest rate repricing risk for foreign currency denominated debt securities and the remaining part of financial guarantees and credit commitments businesses which are not based upon these basic interest rates is not expected to be significant.

The interest rate for discounted bills is determined by reference to the PBOC/market re-discount interest rate. However, it is generally lower than the interest rate for a loan with same term.

The tables below summarise the Group's exposures to interest rate risks. The tables show the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 Interest rate risk *(Continued)*

Group

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2013							
Assets							
Cash and balances with central banks	869,635	–	–	–	–	26,921	896,556
Due from banks and other financial institutions	362,669	74,321	123,348	6,079	–	12	566,429
Financial assets at fair value through profit or loss	4,741	9,546	19,590	18,029	7,070	14,334	73,310
Loans and advances to customers	1,323,106	518,140	1,279,260	54,175	18,382	–	3,193,063
Investment securities – loans and receivables	33,520	2,905	33,461	24,805	25,035	–	119,726
Investment securities – available-for-sale	31,625	48,577	65,567	49,455	23,880	2,149	221,253
Investment securities – held-to-maturity	21,166	38,897	95,828	320,660	194,064	–	670,615
Other assets	28,134	28,669	27,393	2,652	–	133,137	219,985
Total assets	2,674,596	721,055	1,644,447	475,855	268,431	176,553	5,960,937
Liabilities							
Due to banks and other financial institutions	(646,737)	(254,712)	(87,128)	(135,559)	(2,427)	–	(1,126,563)
Financial liabilities at fair value through profit or loss	(945)	(4,284)	(3,559)	(3,177)	–	(16,675)	(28,640)
Due to customers	(2,368,930)	(551,556)	(782,626)	(448,400)	–	(6,321)	(4,157,833)
Other liabilities	(396)	(6,531)	(19,768)	(34,567)	(48,677)	(116,478)	(226,417)
Total liabilities	(3,017,008)	(817,083)	(893,081)	(621,703)	(51,104)	(139,474)	(5,539,453)
Total interest sensitivity gap	(342,412)	(96,028)	751,366	(145,848)	217,327	37,079	421,484

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 Interest rate risk *(Continued)*

Bank

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2013							
Assets							
Cash and balances with central banks	868,985	—	—	—	—	26,899	895,884
Due from banks and other financial institutions	364,948	74,799	129,208	5,119	—	12	574,086
Financial assets at fair value through profit or loss	4,741	9,546	19,590	18,026	7,070	14,225	73,198
Loans and advances to customers	1,319,829	518,178	1,278,003	53,497	18,367	—	3,187,874
Investment securities — loans and receivables	33,000	2,905	32,885	24,099	24,170	—	117,059
Investment securities — available-for-sale	31,625	48,577	65,437	48,706	23,665	1,046	219,056
Investment securities — held-to-maturity	21,166	38,897	95,592	320,249	193,185	—	669,089
Investments in subsidiaries	—	—	—	—	—	13,735	13,735
Other assets	—	—	—	—	—	121,052	121,052
Total assets	2,644,294	692,902	1,620,715	469,696	266,457	176,969	5,871,033
Liabilities							
Due to banks and other financial institutions	(645,580)	(239,612)	(49,853)	(129,723)	—	—	(1,064,768)
Financial liabilities at fair value through profit or loss	(945)	(4,284)	(3,559)	(3,177)	—	(16,657)	(28,622)
Due to customers	(2,367,708)	(551,556)	(781,516)	(447,079)	—	(6,321)	(4,154,180)
Other liabilities	(120)	(6,515)	(19,519)	(34,228)	(45,621)	(102,826)	(208,829)
Total liabilities	(3,014,353)	(801,967)	(854,447)	(614,207)	(45,621)	(125,804)	(5,456,399)
Total interest sensitivity gap	(370,059)	(109,065)	766,268	(144,511)	220,836	51,165	414,634

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 *Interest rate risk (Continued)*

Group

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2012							
Assets							
Cash and balances with central banks	792,595	—	—	—	—	24,251	816,846
Due from banks and other financial institutions	304,931	76,834	135,076	4,080	30	12	520,963
Financial assets at fair value through profit or loss	2,781	4,110	19,262	14,609	4,193	7,206	52,161
Loans and advances to customers	1,268,138	489,672	1,059,773	46,540	15,505	—	2,879,628
Investment securities — loans and receivables	—	1,095	5,406	1,511	22,383	—	30,395
Investment securities — available-for-sale	22,220	49,510	61,614	46,021	22,681	2,562	204,608
Investment securities — held-to-maturity	13,160	29,873	79,207	310,633	165,742	—	598,615
Other assets	14,471	19,966	31,231	2,502	—	101,993	170,163
Total assets	2,418,296	671,060	1,391,569	425,896	230,534	136,024	5,273,379
Liabilities							
Due to banks and other financial institutions	(508,569)	(99,103)	(133,332)	(201,985)	—	—	(942,989)
Financial liabilities at fair value through profit or loss	(4,267)	(4,674)	(1,944)	(4,525)	—	(7,650)	(23,060)
Due to customers	(2,176,076)	(406,780)	(749,468)	(389,463)	—	(6,625)	(3,728,412)
Other liabilities	(2,599)	(3,301)	(4,881)	(30,672)	(41,351)	(114,667)	(197,471)
Total liabilities	(2,691,511)	(513,858)	(889,625)	(626,645)	(41,351)	(128,942)	(4,891,932)
Total interest sensitivity gap	(273,215)	157,202	501,944	(200,749)	189,183	7,082	381,447

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 Interest rate risk *(Continued)*

Bank

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2012							
Assets							
Cash and balances with central banks	792,112	—	—	—	—	24,233	816,345
Due from banks and other financial institutions	306,797	76,834	134,981	3,150	—	12	521,774
Financial assets at fair value through profit or loss	2,781	4,110	19,262	14,609	4,193	6,478	51,433
Loans and advances to customers	1,267,563	491,072	1,056,388	46,256	15,495	—	2,876,774
Investment securities — loans and receivables	—	1,095	5,294	1,248	22,383	—	30,020
Investment securities — available-for-sale	22,189	49,510	61,484	45,260	22,376	1,253	202,072
Investment securities — held-to-maturity	13,160	29,873	79,207	310,306	165,012	—	597,558
Investments in subsidiaries	—	—	—	—	—	10,238	10,238
Other assets	—	—	—	—	—	95,729	95,729
Total assets	2,404,602	652,494	1,356,616	420,829	229,459	137,943	5,201,943
Liabilities							
Due to banks and other financial institutions	(507,191)	(79,567)	(102,575)	(201,985)	—	—	(891,318)
Financial liabilities at fair value through profit or loss	(4,267)	(4,674)	(1,944)	(4,525)	—	(7,650)	(23,060)
Due to customers	(2,174,783)	(406,677)	(748,915)	(389,167)	—	(6,625)	(3,726,167)
Other liabilities	(2,306)	(3,103)	(2,488)	(30,602)	(41,351)	(104,549)	(184,399)
Total liabilities	(2,688,547)	(494,021)	(855,922)	(626,279)	(41,351)	(118,824)	(4,824,944)
Total interest sensitivity gap	(283,945)	158,473	500,694	(205,450)	188,108	19,119	376,999

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.5 Foreign exchange risk

The Group conducts the majority of its businesses in RMB, with certain foreign transactions in US dollar, HK dollar and other currencies. The Group takes on exposure to the effects of fluctuations in the prevailing foreign exchange rates on its financial position and cash flows. The senior management sets limits on the level of exposure in exchange rate risk and monitoring regularly. The tables below summarise the Group's exposure to foreign exchange risk at the end of each year. The tables show the Group's total assets and liabilities in carrying amounts in RMB, and which categorised by the original currency.

Group

	RMB	US dollar	HK dollar	Others	Total
As at 31 December 2013					
Assets					
Cash and balances with central banks	862,639	18,516	10,036	5,365	896,556
Due from banks and other financial institutions	485,983	74,415	2,041	3,990	566,429
Financial assets at fair value through profit or loss	63,776	6,207	1,783	1,544	73,310
Loans and advances to customers	2,830,533	267,601	81,920	13,009	3,193,063
Investment securities — loans and receivables	119,726	—	—	—	119,726
Investment securities — available-for-sale	173,521	23,471	14,145	10,116	221,253
Investment securities — held-to-maturity	669,561	814	—	240	670,615
Other assets	200,755	7,710	10,418	1,102	219,985
Total assets	5,406,494	398,734	120,343	35,366	5,960,937
Liabilities					
Due to banks and other financial institutions	(986,866)	(114,274)	(19,652)	(5,771)	(1,126,563)
Financial liabilities at fair value through profit or loss	(2,667)	(18,381)	(6,066)	(1,526)	(28,640)
Due to customers	(3,827,025)	(173,792)	(125,967)	(31,049)	(4,157,833)
Other liabilities	(204,558)	(12,015)	(2,534)	(7,310)	(226,417)
Total liabilities	(5,021,116)	(318,462)	(154,219)	(45,656)	(5,539,453)
Net position	385,378	80,272	(33,876)	(10,290)	421,484
Financial guarantees and credit related commitments	1,282,925	223,701	17,900	26,193	1,550,719

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.5 *Foreign exchange risk* *(Continued)*

Bank

	RMB	US dollar	HK dollar	Others	Total
As at 31 December 2013					
Assets					
Cash and balances with central banks	861,967	18,516	10,036	5,365	895,884
Due from banks and other financial institutions	491,387	76,835	1,874	3,990	574,086
Financial assets at fair value through profit or loss	63,776	6,207	1,673	1,542	73,198
Loans and advances to customers	2,825,472	268,778	80,140	13,484	3,187,874
Investment securities — loans and receivables	117,059	—	—	—	117,059
Investment securities — available-for-sale	172,159	23,253	13,528	10,116	219,056
Investment securities — held-to-maturity	668,508	341	—	240	669,089
Investments in subsidiaries	10,822	645	2,268	—	13,735
Other assets	110,598	7,686	1,883	885	121,052
Total assets	5,321,748	402,261	111,402	35,622	5,871,033
Liabilities					
Due to banks and other financial institutions	(926,021)	(114,387)	(18,589)	(5,771)	(1,064,768)
Financial liabilities at fair value through profit or loss	(2,665)	(18,381)	(6,066)	(1,510)	(28,622)
Due to customers	(3,822,533)	(173,971)	(126,627)	(31,049)	(4,154,180)
Other liabilities	(191,173)	(8,931)	(1,939)	(6,786)	(208,829)
Total liabilities	(4,942,392)	(315,670)	(153,221)	(45,116)	(5,456,399)
Net position	379,356	86,591	(41,819)	(9,494)	414,634
Financial guarantees and credit related commitments	1,282,813	223,654	17,825	26,129	1,550,421

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.5 Foreign exchange risk *(Continued)*

Group

	RMB	US dollar	HK dollar	Others	Total
As at 31 December 2012					
Assets					
Cash and balances with central banks	795,978	14,683	1,208	4,977	816,846
Due from banks and other financial institutions	410,374	94,935	9,617	6,037	520,963
Financial assets at fair value through profit or loss	42,336	5,589	2,147	2,089	52,161
Loans and advances to customers	2,540,186	251,843	71,712	15,887	2,879,628
Investment securities — loans and receivables	30,395	—	—	—	30,395
Investment securities — available-for-sale	165,052	20,384	12,249	6,923	204,608
Investment securities — held-to-maturity	597,464	922	41	188	598,615
Other assets	159,615	3,994	5,771	783	170,163
Total assets	4,741,400	392,350	102,745	36,884	5,273,379
Liabilities					
Due to banks and other financial institutions	(805,376)	(121,427)	(5,649)	(10,537)	(942,989)
Financial liabilities at fair value through profit or loss	(4,469)	(11,153)	(6,758)	(680)	(23,060)
Due to customers	(3,410,633)	(180,120)	(114,395)	(23,264)	(3,728,412)
Other liabilities	(183,034)	(8,672)	(3,384)	(2,381)	(197,471)
Total liabilities	(4,403,512)	(321,372)	(130,186)	(36,862)	(4,891,932)
Net position	337,888	70,978	(27,441)	22	381,447
Financial guarantees and credit related commitments	1,108,398	209,460	26,673	19,145	1,363,676

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.5 *Foreign exchange risk (Continued)*

Bank

	RMB	US dollar	HK dollar	Others	Total
As at 31 December 2012					
Assets					
Cash and balances with central banks	795,477	14,683	1,208	4,977	816,345
Due from banks and other financial institutions	410,024	96,588	9,126	6,036	521,774
Financial assets at fair value through profit or loss	41,930	5,589	1,825	2,089	51,433
Loans and advances to customers	2,536,867	251,439	71,527	16,941	2,876,774
Investment securities — loans and receivables	30,020	—	—	—	30,020
Investment securities — available-for-sale	163,369	20,151	11,629	6,923	202,072
Investment securities — held-to-maturity	596,692	637	41	188	597,558
Investments in subsidiaries	7,321	645	2,272	—	10,238
Other assets	89,258	3,982	1,763	726	95,729
Total assets	4,670,958	393,714	99,391	37,880	5,201,943
Liabilities					
Due to banks and other financial institutions	(754,064)	(121,311)	(5,406)	(10,537)	(891,318)
Financial liabilities at fair value through profit or loss	(4,469)	(11,153)	(6,758)	(680)	(23,060)
Due to customers	(3,407,528)	(180,299)	(115,076)	(23,264)	(3,726,167)
Other liabilities	(170,515)	(8,658)	(2,846)	(2,380)	(184,399)
Total liabilities	(4,336,576)	(321,421)	(130,086)	(36,861)	(4,824,944)
Net position	334,382	72,293	(30,695)	1,019	376,999
Financial guarantees and credit related commitments	1,108,147	209,336	26,474	19,115	1,363,072

3.2.6 *Other price risk*

The Group is exposed to other price risk arising from financial assets such as equity investments and derivatives linked to commodity price. Most of the equity investments are from the possession of foreclosed assets due to historical reasons and arise from the proprietary trading of the Group's subsidiaries which holds the qualification of securities dealing and brokerage as well. As for the proprietary trading exposure, the Group enforces strict management of the risk exposure limit and the balance is insignificant in the Group's financial assets. The Group considers that the other price risk confronted is immaterial.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk

3.3.1 Overview

Liquidity risk is the risk that the Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend. The Group's objective in liquidity management is to ensure the availability of adequate funding to meet the demands of fund deposit withdrawals and other liabilities as they fall due and to ensure that it is able to meet its obligations to fund loan originations and commitments and to take advantage of new investment opportunities.

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, matured deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. The Board of Directors set limits on the minimum proportion of funds to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover different levels of unexpected withdrawals. In addition, the Bank limits its loan to deposit ratio at below 75% as required by the PBOC. As at 31 December 2013, 20% (31 December 2012: 20%) of the Bank's total RMB denominated customer deposits and 5% (31 December 2012: 5%) of the total foreign currency denominated customer deposits must be deposited with the PBOC.

3.3.2 Liquidity risk management process

The Group's liquidity risk management process, as monitored by the Assets and Liabilities Management Department for RMB business and foreign exchange business, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met including replenishment of funds matured or to fulfill the commitment of lending;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities centrally at Head Office and centrally managing the utilisation of the Bank's liquid assets;
- Setting up contingency plan, regular monitoring and precaution mechanism and establishing crisis management scheme;
- Enhancing the liquidity management of overseas branches.

The Group monitors and reports cash flow measurement and projections made for the next day, week and month separately, as these are key time periods for liquidity risk management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities (Notes 3.3.3–3.3.4).

Sources of liquidity are regularly reviewed by the Assets and Liabilities Management Department respectively to maintain a wide diversification by currency, geography, customer, product and term regularly.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 Non-derivative financial instruments cash flows

The table below presents the cash flows of the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the end of the reporting date. The amounts disclosed in the tables are undiscounted contractual cash flows. The Group and the Bank's expected cash flows on these financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

Group

	On Demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2013									
Liabilities									
Due to banks and other financial institution	(140,085)	(224,007)	(260,839)	(108,795)	(455,867)	(19,271)	–	–	(1,208,864)
Non-derivative financial liabilities at fair value through profit or loss	–	(236)	(2,120)	(4,388)	(5,520)	–	–	–	(12,264)
Due to customers	(1,878,048)	(568,646)	(559,381)	(810,418)	(562,796)	(10,015)	–	–	(4,389,304)
Certificates of deposit issued	–	(5,873)	(7,938)	(6,700)	(4,520)	–	–	–	(25,031)
Debts securities issued	–	–	(1,448)	(14,448)	(39,949)	(55,550)	–	–	(111,395)
Other financial liabilities	(29,016)	(39)	(73)	(2,411)	(4,979)	(3,798)	–	(939)	(41,255)
Total liabilities (contractual maturity dates)	(2,047,149)	(798,801)	(831,799)	(947,160)	(1,073,631)	(88,634)	–	(939)	(5,788,113)
Cash and balances with central banks	161,445	–	–	–	–	–	–	735,316	896,761
Due from banks and other financial institutions	80,245	282,858	75,097	128,289	6,911	–	12	–	573,412
Non-derivative financial assets at fair value through profit or loss	–	1,957	7,679	20,014	29,114	9,980	–	107	68,851
Loans and advances to customers	–	335,840	362,960	1,074,503	1,045,129	1,300,701	45,447	–	4,164,580
Investment securities – loans and receivables	–	33,570	2,954	41,350	27,606	29,349	35	–	134,864
Investment securities – available-for-sale	–	7,466	18,318	48,119	130,975	49,853	1,238	2,149	258,118
Investment securities – held-to-maturity	–	9,973	23,882	99,038	422,293	238,039	–	–	793,225
Other financial assets	21,903	4,074	4,516	17,794	64,780	11,134	1,124	–	125,325
Assets held for managing liquidity risk (contractual maturity dates)	263,593	675,738	495,406	1,429,107	1,726,808	1,639,056	47,856	737,572	7,015,136

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 Non-derivative financial instruments cash flows *(Continued)*

Bank

	On Demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2013									
Liabilities									
Due to banks and other financial institution	(143,654)	(218,680)	(245,495)	(70,480)	(448,699)	(16,535)	–	–	(1,143,543)
Non-derivative financial liabilities at fair value through profit or loss	–	(236)	(2,120)	(4,388)	(5,520)	–	–	–	(12,264)
Due to customers	(1,876,826)	(568,646)	(559,381)	(809,307)	(561,475)	(10,015)	–	–	(4,385,650)
Certificates of deposit issued	–	(5,873)	(7,938)	(6,700)	(4,520)	–	–	–	(25,031)
Debts securities issued	–	–	(1,391)	(14,391)	(39,493)	(52,000)	–	–	(107,275)
Other financial liabilities	(25,743)	(2)	(9)	(2,128)	(467)	(2,407)	–	–	(30,756)
Total liabilities (contractual maturity dates)	(2,046,223)	(793,437)	(816,334)	(907,394)	(1,060,174)	(80,957)	–	–	(5,704,519)
Cash and balances with central banks	161,416	–	–	–	–	–	–	734,673	896,089
Due from banks and other financial institutions	78,748	286,632	75,564	134,138	5,691	–	12	–	580,785
Non-derivative financial assets at fair value through profit or loss	–	1,957	7,679	20,014	29,112	9,980	–	–	68,742
Loans and advances to customers	–	332,225	361,136	1,071,558	1,045,449	1,303,516	45,328	–	4,159,212
Investment securities – loans and receivables	–	33,050	2,954	40,775	26,900	29,484	35	–	133,198
Investment securities – available-for-sale	–	7,466	18,318	47,989	130,227	49,638	1,143	1,046	255,827
Investment securities – held-to-maturity	–	9,973	23,882	98,803	421,882	237,160	–	–	791,700
Other financial assets	18,783	–	–	–	–	–	982	–	19,765
Assets held for managing liquidity risk (contractual maturity dates)	258,947	671,303	489,533	1,413,277	1,659,261	1,629,778	47,500	735,719	6,905,318

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 Non-derivative financial instruments cash flows (Continued)

Group

	On Demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2012									
Liabilities									
Due to banks and other financial institution	(144,956)	(169,281)	(100,907)	(156,455)	(461,734)	(291)	–	–	(1,033,624)
Non-derivative financial liabilities at fair value through profit or loss	(2,433)	(1,483)	(1,368)	(4,449)	(5,973)	–	–	–	(15,706)
Due to customers	(1,722,159)	(509,277)	(413,990)	(775,736)	(407,268)	–	–	–	(3,828,430)
Certificates of deposit issued	–	(2,197)	(2,421)	(4,456)	(2,830)	–	–	–	(11,904)
Debts securities issued	–	–	–	(3,103)	(39,700)	(54,035)	–	–	(96,838)
Other financial liabilities	(37,046)	(1,228)	(184)	(1,211)	(3,596)	(3,997)	–	–	(47,262)
Total liabilities (contractual maturity dates)	(1,906,594)	(683,466)	(518,870)	(945,410)	(921,101)	(58,323)	–	–	(5,033,764)
Cash and balances with central banks	133,245	–	–	–	–	–	–	683,807	817,052
Due from banks and other financial institutions	54,762	250,504	77,565	138,518	4,634	38	12	–	526,033
Non-derivative financial assets at fair value through profit or loss	–	1,215	3,298	15,346	22,842	6,498	–	728	49,927
Loans and advances to customers	–	217,929	365,699	1,050,525	921,209	1,058,139	32,046	–	3,645,547
Investment securities – loans and receivables	–	16	103	6,513	6,704	27,513	–	–	40,849
Investment securities – available-for-sale	–	7,452	16,143	43,139	116,202	46,478	787	2,562	232,763
Investment securities – held-to-maturity	–	8,606	16,773	76,519	401,515	204,860	–	–	708,273
Other financial assets	13,376	2,240	4,665	15,181	45,674	12,478	923	–	94,537
Assets held for managing liquidity risk (contractual maturity dates)	201,383	487,962	484,246	1,345,741	1,518,780	1,356,004	33,768	687,097	6,114,981

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 Non-derivative financial instruments cash flows (Continued)

Bank

	On Demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2012									
Liabilities									
Due to banks and other financial institution	(147,630)	(165,066)	(82,870)	(127,371)	(454,480)	–	–	–	(977,417)
Non-derivative financial liabilities at fair value through profit or loss	(2,433)	(1,483)	(1,368)	(4,449)	(5,973)	–	–	–	(15,706)
Due to customers	(1,721,793)	(508,350)	(413,887)	(775,502)	(406,653)	–	–	–	(3,826,185)
Certificates of deposit issued	–	(2,197)	(2,421)	(4,456)	(2,830)	–	–	–	(11,904)
Debts securities issued	–	–	–	(1,040)	(39,700)	(54,035)	–	–	(94,775)
Other financial liabilities	(34,967)	–	(16)	(1,035)	(478)	(2,575)	–	–	(39,071)
Total liabilities (contractual maturity dates)	(1,906,823)	(677,096)	(500,562)	(913,853)	(910,114)	(56,610)	–	–	(4,965,058)
Cash and balances with central banks	133,215	–	–	–	–	–	–	683,336	816,551
Due from banks and other financial institutions	53,432	253,698	77,565	138,421	3,546	–	12	–	526,674
Non-derivative financial assets at fair value through profit or loss	–	1,215	3,298	15,346	22,842	6,498	–	–	49,199
Loans and advances to customers	–	215,690	364,761	1,048,441	921,058	1,061,061	31,832	–	3,642,843
Investment securities – loans and receivables	–	16	103	6,401	6,440	27,513	–	–	40,473
Investment securities – available-for-sale	–	7,420	16,143	43,011	115,441	46,172	787	1,253	230,227
Investment securities – held-to-maturity	–	8,606	16,773	76,519	401,187	204,131	–	–	707,216
Other financial assets	12,076	–	–	–	–	–	923	–	12,999
Assets held for managing liquidity risk (contractual maturity dates)	198,723	486,645	478,643	1,328,139	1,470,514	1,345,375	33,554	684,589	6,026,182

Assets available to meet all of the liabilities include cash, balances with central banks, balances in the course of collection and treasury, due from banks and other financial institutions and loans and advances to customers. In the normal course of business, a proportion of loans and advances to customers contractually repayable within one year will be extended. In addition, certain debt securities have been pledged for liabilities. The Group would also be able to meet unexpected cash outflows by selling investment securities, using credit commitment from other financial institutions, early termination of borrowings from other financial institutions and reserve repurchase agreement and using the mandatory reserve deposits upon the PBOC's approval.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.4 Derivative financial instruments cash flows

The Group's derivative financial instruments are either settled on a net basis or a gross basis.

(a) *Derivative settled on a net basis*

The Group's derivative financial instruments that will be settled on a net basis include:

- Foreign exchange derivative financial instruments: non-deliverable forward
- Interest rate derivative financial instruments and others: interest rate swaps, forward rate agreements, over the counter interest rate options and others

The table below analyses the Group's derivative financial instruments which will be settled on a net basis under relevant maturity groupings based on the remaining contractual period as at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2013						
Assets						
Derivative financial instruments held for trading						
— Foreign exchange contracts	27	4	318	9	—	358
— Interest rate contracts and others	110	111	445	338	24	1,028
Total	137	115	763	347	24	1,386
Liabilities						
Derivative financial instruments held for trading						
— Foreign exchange contracts	(8)	(1)	(237)	—	—	(246)
— Interest rate contracts and others	(129)	(120)	(445)	(739)	(52)	(1,485)
Total	(137)	(121)	(682)	(739)	(52)	(1,731)

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.4 *Derivative financial instruments cash flows* *(Continued)*

(a) Derivative settled on a net basis (Continued)

Group

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2012						
Assets						
Derivative financial instruments held for trading						
— Foreign exchange contracts	11	55	77	1	—	144
— Interest rate contracts and others	63	159	637	812	170	1,841
Total	74	214	714	813	170	1,985
Liabilities						
Derivative financial instruments held for trading						
— Foreign exchange contracts	(6)	(34)	(74)	(3)	—	(117)
— Interest rate contracts and others	(85)	(305)	(1,034)	(1,149)	(213)	(2,786)
Total	(91)	(339)	(1,108)	(1,152)	(213)	(2,903)

Bank

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2013						
Assets						
Derivative financial instruments held for trading						
— Foreign exchange contracts	27	4	318	9	—	358
— Interest rate contracts and others	110	111	443	333	24	1,021
Total	137	115	761	342	24	1,379
Liabilities						
Derivative financial instruments held for trading						
— Foreign exchange contracts	(8)	(1)	(237)	—	—	(246)
— Interest rate contracts and others	(129)	(118)	(443)	(730)	(52)	(1,472)
Total	(137)	(119)	(680)	(730)	(52)	(1,718)

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.4 *Derivative financial instruments cash flows* *(Continued)*

(a) *Derivative settled on a net basis (Continued)*

Bank

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2012						
Assets						
Derivative financial instruments held for trading						
— Foreign exchange contracts	11	55	77	1	—	144
— Interest rate contracts and others	63	159	637	812	170	1,841
Total	74	214	714	813	170	1,985
Liabilities						
Derivative financial instruments held for trading						
— Foreign exchange contracts	(6)	(34)	(74)	(3)	—	(117)
— Interest rate contracts and others	(85)	(305)	(1,034)	(1,149)	(213)	(2,786)
Total	(91)	(339)	(1,108)	(1,152)	(213)	(2,903)

(b) *Derivative settled on a gross basis*

The Group's derivative financial instruments that will be settled on a gross basis include:

- Foreign exchange derivative instruments: currency forward, currency swaps, cross currency interest rate swaps

The table below analyses the Group's derivative financial instruments which will be settled on a gross basis under relevant maturity groupings based on the remaining contractual period as at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows:

Group

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2013						
Derivative financial instruments held for trading						
— Foreign exchange derivative contracts						
— Outflow	(342,820)	(360,705)	(618,924)	(62,151)	—	(1,384,600)
— Inflow	342,074	360,242	618,594	62,156	—	1,383,066

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.4 *Derivative financial instruments cash flows* *(Continued)*

(b) *Derivative settled on a gross basis (Continued)*

Group

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2012						
Derivative financial instruments held for Trading						
— Foreign exchange contracts						
— Outflow	(149,294)	(154,624)	(402,475)	(23,710)	(1,275)	(731,378)
— Inflow	149,308	154,536	402,175	23,715	1,269	731,003

Bank

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2013						
Derivative financial instruments held for trading						
— Foreign exchange derivative contracts						
— Outflow	(342,559)	(360,440)	(618,863)	(62,015)	–	(1,383,877)
— Inflow	341,818	359,985	618,534	62,022	–	1,382,359

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2012						
Derivative financial instruments held for Trading						
— Foreign exchange contracts						
— Outflow	(149,294)	(154,624)	(402,475)	(23,710)	(1,275)	(731,378)
— Inflow	149,308	154,536	402,175	23,715	1,269	731,003

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.5 Maturity analysis

The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the end of reporting date to the contractual maturity date.

Group

	On Demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2013									
Assets									
Cash and balances with central banks	161,240	–	–	–	–	–	–	735,316	896,556
Due from banks and other financial institutions	80,170	282,499	74,321	123,348	6,079	–	12	–	566,429
Financial assets at fair value through profit or loss	–	4,933	10,853	23,878	25,377	8,162	–	107	73,310
Loans and advances to customers	–	318,032	331,461	970,541	756,316	790,958	25,755	–	3,193,063
Investment securities – loans and receivables	–	33,520	2,905	33,461	24,805	25,035	–	–	119,726
Investment securities – available-for-sale	–	6,814	16,914	42,275	112,273	40,828	–	2,149	221,253
Investment securities – held-to-maturity	–	8,233	18,101	80,637	355,437	208,207	–	–	670,615
Other assets	41,136	8,407	10,649	19,078	65,167	15,209	470	59,869	219,985
Total assets	282,546	662,438	465,204	1,293,218	1,345,454	1,088,399	26,237	797,441	5,960,937
Liabilities									
Due to banks and other financial institution	(140,011)	(220,872)	(254,577)	(99,768)	(396,326)	(15,009)	–	–	(1,126,563)
Financial liabilities at fair value through profit or loss	–	(3,950)	(5,826)	(11,006)	(7,503)	(355)	–	–	(28,640)
Due to customers	(1,877,544)	(560,725)	(550,802)	(775,771)	(382,991)	(10,000)	–	–	(4,157,833)
Other liabilities	(35,457)	(18,183)	(26,645)	(46,789)	(52,829)	(46,514)	–	–	(226,417)
Total liabilities	(2,053,012)	(803,730)	(837,850)	(933,334)	(839,649)	(71,878)	–	–	(5,539,453)
Net amount on liquidity gap	(1,770,466)	(141,292)	(372,646)	359,884	505,805	1,016,521	26,237	797,441	421,484

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.5 Maturity analysis *(Continued)*

Group

	On Demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2012									
Assets									
Cash and balances with central banks	133,039	–	–	–	–	–	–	683,807	816,846
Due from banks and other financial institutions	54,757	250,174	76,834	135,076	4,080	30	12	–	520,963
Financial assets at fair value through profit or loss	–	1,849	4,285	17,221	21,859	6,219	–	728	52,161
Loans and advances to customers	–	207,827	327,184	951,250	651,171	718,710	23,486	–	2,879,628
Investment securities – loans and receivables	–	–	95	5,306	2,011	22,983	–	–	30,395
Investment securities – available-for-sale	–	7,034	14,800	38,366	101,883	39,963	–	2,562	204,608
Investment securities – held-to-maturity	–	7,770	11,744	60,048	342,302	176,751	–	–	598,615
Other assets	28,219	6,402	14,741	21,787	39,308	11,622	337	47,747	170,163
Total assets	216,015	481,056	449,683	1,229,054	1,162,614	976,278	23,835	734,844	5,273,379
Liabilities									
Due to banks and other financial institution	(144,871)	(166,879)	(97,077)	(144,500)	(389,446)	(216)	–	–	(942,989)
Financial liabilities at fair value through profit or loss	(2,433)	(2,138)	(2,592)	(7,676)	(7,270)	(951)	–	–	(23,060)
Due to customers	(1,721,728)	(504,583)	(406,869)	(749,675)	(345,557)	–	–	–	(3,728,412)
Other liabilities	(44,490)	(9,293)	(16,116)	(33,336)	(50,844)	(43,392)	–	–	(197,471)
Total liabilities	(1,913,522)	(682,893)	(522,654)	(935,187)	(793,117)	(44,559)	–	–	(4,891,932)
Net amount on liquidity gap	(1,697,507)	(201,837)	(72,971)	293,867	369,497	931,719	23,835	734,844	381,447

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.6 Off-balance sheet items

The table below lists the off-balance sheet items of the Group and the Bank according to their remaining period to the contractual maturity date. Financial guarantees are included at notional amounts and based on the earliest contractual maturity date. The future minimum lease payments under non-cancellable operating leases where the Group and the Bank are the lessee are also included.

Group

	Less than 1 year	1–5 years	Over 5 years	Total
As at 31 December 2013				
Loan commitments and credit related commitments	320,261	81,174	89,852	491,287
Guarantees, acceptances and letters of credit	919,317	103,054	37,061	1,059,432
Operating lease commitments	1,907	4,600	1,231	7,738
Capital expenditure commitments	2,314	717	3	3,034
Total	1,243,799	189,545	128,147	1,561,491
As at 31 December 2012				
Loan commitments and credit related commitments	259,727	86,920	89,918	436,565
Guarantees, acceptances and letters of credit	810,401	101,220	15,490	927,111
Operating lease commitments	1,907	4,718	1,435	8,060
Capital expenditure commitments	2,946	1,385	2	4,333
Total	1,074,981	194,243	106,845	1,376,069

Bank

	Less than 1 year	1–5 years	Over 5 years	Total
As at 31 December 2013				
Loan commitments and credit related commitments	320,252	81,128	89,852	491,232
Guarantees, acceptances and letters of credit	919,101	103,027	37,061	1,059,189
Operating lease commitments	1,859	4,512	1,226	7,597
Capital expenditure commitments	2,314	715	3	3,032
Total	1,243,526	189,382	128,142	1,561,050
As at 31 December 2012				
Loan commitments and credit related commitments	259,727	86,897	89,918	436,542
Guarantees, acceptances and letters of credit	809,848	101,192	15,490	926,530
Operating lease commitments	1,869	4,667	1,433	7,969
Capital expenditure commitments	2,942	1,383	2	4,327
Total	1,074,386	194,139	106,843	1,375,368

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities

(a) Determination of fair value and valuation techniques

Some of the Group's financial assets and liabilities are measured at fair value or with fair value disclosed for financial reporting purposes. The Board of Directors of the Bank has set up certain process to determine the appropriate valuation techniques and inputs for fair value measurements. The appropriateness of the process and the determination of fair value are reviewed by the board of directors periodically.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages internal or external qualified valuers to perform the valuation. The management works closely with the qualified valuers to establish the appropriate valuation techniques and inputs to the model. The management reports the findings to the board of directors of the Bank on a timely basis to explain the cause of fluctuations in the fair value of the financial assets and liabilities.

The fair value of financial instruments with quoted prices for identical instruments in active markets is determined by the open market quotations. And those instruments are classified as level 1, which include listed equity securities and debt instruments on exchanges (for example, Hong Kong Stock Exchange).

The Group uses valuation techniques to determine the fair value of financial instruments when unable to obtain the open market quotation in active markets.

The valuation techniques used by the Group include the discounted cash flow model for loans and advances to customers, due to customers, debt securities which are not quoted in active markets and certain derivatives (i.e. interest rate swap, forward contract etc.) and Black Scholes model for option based derivatives. The main parameters used in discounted cash flow model include recent transaction prices, relevant interest yield curves, foreign exchange rates, prepayment rates, counterparty credit spreads and those used in Black Scholes model include relevant interest yield curves, foreign exchange rates, volatilities, counterparty credit spreads and others.

If those parameters used in valuation techniques for financial instruments held by the Group, which are substantially observable and obtainable from active open market, the instruments are classified as level 2. This level includes the over-the-counter derivative instruments, due to customers, unquoted certificates of deposit issued, debt securities issued, and debt instruments traded in inter-bank market.

For loans and advances to customers and certain debt securities classified as investment securities — loans and receivables, the fair value are determined based on discounted cash flow model by using the unobservable discount rates that reflect the credit risk and discount for lack of liquidities. Thus, loans and advances to customers and those debt securities are classified as level 3.

For unlisted equities (private equity) held by the Group, the fair value of these financial instruments may be based on unobservable inputs, and those instruments have been classified by the Group as level 3. Management determines the fair value of those financial instruments using a variety of techniques, including using valuation models that incorporate unobservable inputs such as discounts for lack of marketability. The fair value measurement of these instruments will change accordingly if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

(b) Financial instruments not measured at fair value

The table below summarises the carrying amounts and fair values with obvious variances of those financial assets and liabilities not presented on the statement of financial position at their fair values.

Group

	As at 31 December 2013		As at 31 December 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and advances to customers	3,193,063	3,193,270	2,879,628	2,879,865
Investment securities				
— loans and receivables	119,726	119,134	30,395	30,839
— held-to-maturity	670,615	642,109	598,615	597,109
Financial liabilities				
Due to customers	(4,157,833)	(4,161,703)	(3,728,412)	(3,732,297)
Certificates of deposit issued	(24,619)	(24,639)	(9,572)	(9,604)
Debt securities issued	(82,238)	(79,051)	(70,000)	(70,496)

Bank

	As at 31 December 2013		As at 31 December 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and advances to customers	3,187,874	3,188,081	2,876,774	2,877,011
Investment securities				
— loans and receivables	117,059	116,432	30,020	30,460
— held-to-maturity	669,089	640,621	597,558	596,052
Financial liabilities				
Due to customers	(4,154,180)	(4,158,049)	(3,726,167)	(3,730,052)
Certificates of deposit issued	(24,619)	(24,639)	(9,572)	(9,604)
Debt securities issued	(79,200)	(76,013)	(68,000)	(68,488)

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

(b) ***Financial instruments not measured at fair value*** *(Continued)*

Fair value hierarchy of financial instruments not measured at fair value

Group

As at 31 December 2012

	Level 1	Level 2	Level 3	Total
Financial Assets				
Loans and advances to customers	—	—	3,193,270	3,193,270
Investment securities				
— loans and receivables	—	25,267	93,867	119,134
— held-to-maturity	1,246	640,863	—	642,109
Financial Liabilities				
Due to customers	—	(4,161,703)	—	(4,161,703)
Certificates of deposit issued	(10,893)	(13,746)	—	(24,639)
Debt securities issued	—	(79,051)	—	(79,051)

Bank

As at 31 December 2012

	Level 1	Level 2	Level 3	Total
Financial Assets				
Loans and advances to customers	—	—	3,188,081	3,188,081
Investment securities				
— loans and receivables	—	25,267	91,165	116,432
— held-to-maturity	859	639,762	—	640,621
Financial Liabilities				
Due to customers	—	(4,158,049)	—	(4,158,049)
Certificates of deposit issued	(10,893)	(13,746)	—	(24,639)
Debt securities issued	—	(76,013)	—	(76,013)

The carrying amounts and fair values of those financial assets and liabilities such as due from/to banks and other financial institutions are approximately the same as the interest rates of most of these assets and liabilities are instantaneously adjusted to changes in interest rates set by the PBOC and other regulatory bodies.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

(c) *Financial assets and liabilities measured at fair value on a recurring basis*

The table below summarises the information about the fair value hierarchy of these financial assets and financial liabilities measured at fair value on a recurring basis. The determination (in particular, the valuation techniques and inputs used) of the fair value of these financial assets and financial liabilities are disclosed in 3.4(a).

Group

As at 31 December 2013

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Debt securities				
— Governments and central banks	1,832	5,135	—	6,967
— Public sector entities	—	2,250	—	2,250
— Banks and other financial institutions	3,307	11,127	—	14,434
— Corporate entities	132	35,193	—	35,325
Equity securities and fund investments[1]	107	—	—	107
Derivatives				
— Foreign exchange contracts	—	12,723	—	12,723
— Interest rate contracts and others	—	1,504	—	1,504
	5,378	67,932	—	73,310
Investment securities — available-for-sale				
Debt securities				
— Governments and central banks	2,352	27,455	—	29,807
— Public sector entities	375	1,275	—	1,650
— Banks and other financial institutions	20,016	110,780	—	130,796
— Corporate entities	1,380	55,471	—	56,851
Equity securities and fund investments[1]	1,080	—	1,069	2,149
	25,203	194,981	1,069	221,253
Total Assets	30,581	262,913	1,069	294,563
Financial liabilities at fair value through profit or loss				
Short position of securities held for trading	(1,164)	—	—	(1,164)
Certificates of deposit issued	—	(10,801)	—	(10,801)
Derivatives				
— Foreign exchange contracts	—	(14,261)	—	(14,261)
— Interest rate contracts and others	—	(2,414)	—	(2,414)
Total Liabilities	(1,164)	(27,476)	—	(28,640)

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

(c) Financial assets and liabilities measured at fair value on a recurring basis *(Continued)*

Bank

As at 31 December 2013

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Debt securities				
— Governments and central banks	1,832	5,135	—	6,967
— Public sector entities	—	2,250	—	2,250
— Banks and other financial institutions	3,305	11,129	—	14,434
— Corporate entities	132	35,190	—	35,322
Derivatives				
— Foreign exchange contracts	—	12,723	—	12,723
— Interest rate contracts and others	—	1,502	—	1,502
	5,269	67,929	—	73,198
Investment securities — available-for-sale				
Debt securities				
— Central governments and central banks	2,326	27,348	—	29,674
— Public sector entities	375	1,275	—	1,650
— Banks and other financial institutions	19,974	110,618	—	130,592
— Corporate entities	1,215	54,879	—	56,094
Equity securities and fund investments(1)	300	—	746	1,046
	24,190	194,120	746	219,056
Total Assets	29,459	262,049	746	292,254
Financial liabilities at fair value through profit or loss				
Short position of securities held for trading	(1,164)	—	—	(1,164)
Certificates of deposit issued	—	(10,801)	—	(10,801)
Derivatives				
— Foreign exchange contracts	—	(14,246)	—	(14,246)
— Interest rate contracts and others	—	(2,411)	—	(2,411)
Total Liabilities	(1,164)	(27,458)	—	(28,622)

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

(c) Financial assets and liabilities measured at fair value on a recurring basis *(Continued)*

Group

As at 31 December 2012

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Debt securities				
— Central governments and central banks	1,620	2,161	—	3,781
— Public sector entities	—	2,350	—	2,350
— Banks and other financial institutions	578	12,719	—	13,297
— Corporate entities	135	25,392	—	25,527
Equity securities and fund investments(1)	728	—	—	728
Derivatives				
— Foreign exchange contracts	—	4,782	—	4,782
— Interest rate contracts and others	—	1,696	—	1,696
	3,061	49,100	—	52,161
Investment securities — available-for-sale				
Debt securities				
— Central governments and central banks	3,350	40,368	—	43,718
— Public sector entities	392	970	—	1,362
— Banks and other financial institutions	13,063	100,240	—	113,303
— Corporate entities	1,311	42,341	11	43,663
Equity securities and fund investments(1)	1,417	—	1,145	2,562
	19,533	183,919	1,156	204,608
Total Assets	22,594	233,019	1,156	256,769
Financial liabilities at fair value through profit or loss				
Short position of securities held for trading	(2,433)	—	—	(2,433)
Certificates of deposit issued	—	(12,977)	—	(12,977)
Derivatives				
— Foreign exchange contracts	—	(5,090)	—	(5,090)
— Interest rate contracts and others	—	(2,560)	—	(2,560)
Total Liabilities	(2,433)	(20,627)	—	(23,060)

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

(c) *Financial assets and liabilities measured at fair value on a recurring basis* *(Continued)*

Bank

As at 31 December 2012

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Debt securities				
— Central governments and central banks	1,620	2,161	—	3,781
— Public sector entities	—	2,350	—	2,350
— Banks and other financial institutions	577	12,720	—	13,297
— Corporate entities	136	25,391	—	25,527
Derivatives				
— Foreign exchange contracts	—	4,782	—	4,782
— Interest rate contracts and others	—	1,696	—	1,696
	2,333	49,100	—	51,433
Investment securities — available-for-sale				
Debt securities				
— Central governments and central banks	3,291	40,161	—	43,452
— Public sector entities	391	971	—	1,362
— Banks and other financial institutions	13,024	100,081	—	113,105
— Corporate entities	1,145	41,744	11	42,900
Equity securities and fund investments[(1)]	522	—	731	1,253
	18,373	182,957	742	202,072
Total Assets	20,706	232,057	742	253,505
Financial liabilities at fair value through profit or loss				
Short position of securities held for trading	(2,433)	—	—	(2,433)
Certificates of deposit issued	—	(12,977)	—	(12,977)
Derivatives				
— Foreign exchange contracts	—	(5,090)	—	(5,090)
— Interest rate contracts and others	—	(2,560)	—	(2,560)
Total Liabilities	(2,433)	(20,627)	—	(23,060)

(1) Based on the nature, characteristics and risk, the Group discloses this type of investment separately.

There were no transfers between Level 1 and 2 during the year.

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

(c) ***Financial assets and liabilities measured at fair value on a recurring basis*** *(Continued)*

Reconciliation of level 3 items

Group

	Debt securities — corporate entities	Equity investments — unlisted	Total
Balance at 1 January 2013	11	1,145	1,156
Total gains or losses			
— Losses	(11)	—	(11)
— Other comprehensive income	—	—	—
Additions	—	15	15
Disposals	—	(91)	(91)
Balance at 31 December 2013	—	1,069	1,069
Total losses for the year included in consolidated statement of profit or loss and other comprehensive income for assets/liabilities held at 31 December 2013	(11)	—	(11)

Bank

	Debt securities — corporate entities	Equity investments — unlisted	Total
Balance at 1 January 2013	11	731	742
Total gains or losses			
— Losses	(11)	—	(11)
— Other comprehensive income			
Additions	—	15	15
Disposals	—	—	—
Balance at 31 December 2013	—	746	746
Total losses for the year included in consolidated statement of profit or loss and other comprehensive income for assets/liabilities held at 31 December 2013	(11)	—	(11)

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

(c) ***Financial assets and liabilities measured at fair value on a recurring basis*** *(Continued)*

Group

	Debt securities — corporate entities	Equity investments — unlisted	Total
Balance at 1 January 2012	11	1,117	1,128
Total gains or losses			
— Losses	—	3	3
— Other comprehensive income	—	—	—
Additions	—	100	100
Disposals	—	(75)	(75)
Balance at 31 December 2012	11	1,145	1,156
Total losses for the year included in consolidated statement of profit or loss and other comprehensive income for assets/liabilities held at 31 December 2012	—	—	—

Bank

	Debt securities — corporate entities	Equity investments — unlisted	Total
Balance at 1 January 2012	11	731	742
Total gains or losses			
— Losses	—	3	—
— Other comprehensive income	—	—	—
Additions	—	—	—
Disposals	—	(3)	—
Balance at 31 December 2012	11	731	742
Total losses for the year included in consolidated statement of profit or loss and other comprehensive income for assets/liabilities held at 31 December 2012	—	—	—

(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

(d) Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

Group

	Fair value as at 31 December 2013	Valuation technique	Unobservable input	Range (weighted average)
Equity investments — unlisted	1,069	Market comparable companies	Price to book ratio[1]	0.72–1.08 (0.96)
			Discount for lack of marketability[2]	10%–60% (19%)

Bank

	Fair value as at 31 December 2013	Valuation technique	Unobservable input	Range (weighted average)
Equity investments — unlisted	746	Market comparable companies	Price to book ratio[1]	0.72–1.08 (0.96)
			Discount for lack of marketability[2]	10%–60% (19%)

(1) The Group has determined that market participants would use such multiples when pricing the investments.

(2) The Group has determined that market participants would take into account these discounts when pricing the investments.

The fair value of those unlisted equity investments will increase accordingly with the increase of market comparable companies' price to book ratios or the decrease of the discounts for lack of marketability by changing it to reasonably possible alternative assumptions.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.5 Capital management

The Group's objectives in managing capital, which is a broader concept than the "equity" on the statement of financial position, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operates;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored quarterly by the Group's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBRC, for supervisory purposes. The required information is filed with the CBRC on a quarterly basis.

The CBRC requires each bank or banking group to maintain a ratio of total regulatory capital to the risk-weighted asset at or above the agreed minimum of 8%, and a tier 1 core capital ratio of above 4%. The Group's capital as monitored by its Planning and Finance Department is divided into two tiers:

- Core capital: share capital, capital surplus, statutory reserve, statutory general reserve, discretionary reserve, retained earnings and non-controlling interests; and
- Supplementary capital: revaluation reserve for available-for-sale financial assets, general allowance of impaired loans, qualified portion of subordinated debts.

Goodwill, unconsolidated investments in financial associates, investments in non-financial related entities and subordinated debts issued by other banks are deducted from core and supplementary capital to arrive at the total capital.

The on-balance sheet risk-weighted assets are measured by means of a hierarchy of four risk weightings classified according to the nature of, and reflecting an estimate of, credit and other risks associated with each asset and counterparty, and taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure with adjustments made to reflect the contingent nature of any potential losses. Market risk capital adjustment is calculated using the standardised approach promulgated by the CBRC.

The table below summarises the composition of regulatory capital and the ratios of the Group at year end.

Item	As at 31 December 2013
Net Core Tier 1 Capital	416,961
Net Tier 1 Capital	416,965
Net Capital	516,482
Core Tier 1 Capital Ratio	9.76%
Tier 1 Capital Ratio	9.76%
Capital Ratio	12.08%

(All amounts expressed in millions of RMB unless otherwise stated)

4 NET INTEREST INCOME

Group

	Year ended 31 December	
	2013	2012
Interest income		
Balances with central banks	12,581	11,294
Due from banks and other financial institutions	15,358	12,671
Loans and advances to customers	194,847	185,821
Investment in debt securities	36,506	30,810
	259,292	240,596
Interest expense		
Due to banks and other financial institutions	(44,028)	(44,158)
Due to customers	(80,671)	(72,731)
Subordinated debts and other debts issued	(3,431)	(3,212)
Certificates of deposit issued	(504)	(369)
	(128,634)	(120,470)
Net interest income	130,658	120,126

Interest income of the Group includes RMB1,320 million (2012: RMB735 million) of interest income accrued on investment securities at fair value through profit or loss.

Interest expense of the Group includes RMB170 million (2012: RMB181 million) of interest expense accrued on certificates of deposit issued classified as financial liabilities designated at fair value through profit or loss.

Interest income of the Group includes RMB1,245 million (2012: RMB900 million) of interest income accrued on impaired loans and receivables.

	Year ended 31 December	
	2013	2012
Interest income on listed investments	10,215	8,845
Interest income on unlisted investments	26,291	21,965
	36,506	30,810

(All amounts expressed in millions of RMB unless otherwise stated)

5 FEE AND COMMISSION INCOME

Group

	Year ended 31 December	
	2013	2012
Settlement service	2,312	2,368
Bank card	8,916	7,958
Investment banking	7,700	5,884
Guarantee and commitment	3,460	2,731
Management service	5,146	3,321
Agent service	1,533	1,411
Others	338	453
	29,405	24,126

	Year ended 31 December	
	2013	2012
Fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss	571	438
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	1,367	1,032

6 FEE AND COMMISSION EXPENSE

Group

	Year ended 31 December	
	2013	2012
Settlement and agent service	286	245
Bank card	2,774	2,631
Others	377	368
	3,437	3,244

	Year ended 31 December	
	2013	2012
Fee expense, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss	69	74

(All amounts expressed in millions of RMB unless otherwise stated)

7 DIVIDEND INCOME

Group

	Year ended 31 December	
	2013	2012
Available-for-sale equity investments — unlisted	103	80

8 NET (LOSSES)/GAINS ARISING FROM TRADING ACTIVITIES

Group

	Year ended 31 December	
	2013	2012
Foreign exchange	(684)	789
Interest rate instruments and others	369	(112)
Trading securities	(419)	592
	(734)	1,269

Net (losses)/gains on foreign exchange includes gains or losses from spot and forward contracts, currency swaps, cross currency interest rate swaps, currency options and the translation of foreign currency monetary assets and liabilities into RMB.

Net (losses)/gains on interest rate instruments and others includes the gains or losses from securities held for trading, interest rate swaps, interest rate options and other derivatives.

Net (losses)/gains arising from trading activities for the year ended 31 December 2013 include a loss of RMB4 million (year ended 31 December 2012: a loss of RMB5 million) in relation to fair value change of financial liabilities designated at fair value through profit or loss.

9 OTHER OPERATING INCOME

Group

	Year ended 31 December	
	2013	2012
Profit on sale of property and equipment	72	131
Revaluation of investment property	18	20
Income from sales of franchised precious metal merchandise	5,755	3,321
Other miscellaneous income	1,672	1,285
	7,517	4,757

Other miscellaneous income includes income arising from miscellaneous banking services provided to the Group's customers and operating leases.

10 IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS

Group

	Year ended 31 December	
	2013	2012
Loans and advances to customers (Note 20(b))		
— Collectively assessed losses provision	7,101	10,075
— Individually assessed losses provision	11,309	4,462
	18,410	14,537

(All amounts expressed in millions of RMB unless otherwise stated)

11 OTHER OPERATING EXPENSE

Group

	Year ended 31 December 2013	2012 (Restated)
Staff costs (Note 12)	22,488	20,854
General and administrative expenses	13,463	12,124
Business tax and surcharges	11,949	10,916
Depreciation of property and equipment (Note 22)	4,364	3,616
Operating lease rental expenses	2,427	2,158
Supervision fee to regulators	277	249
Amortisation of intangible assets	247	223
Impairment of finance lease receivables	577	312
Impairment of investment securities ((1), Note 21)	86	332
Professional fees	30	29
Amortisation of land use rights	24	129
Reversal of litigation expenses	(11)	(172)
Impairment of other receivables	32	9
Others	9,625	7,031
	65,578	57,810

(1) Net impairment losses on investment securities

Group

	Year ended 31 December 2013	2012
Loans and receivables (Note 21)	31	4
Available-for-sale (Note 21)	55	328
	86	332

12 STAFF COSTS

Group

	Year ended 31 December 2013	2012 (Restated)
Salaries and bonuses	15,004	14,423
Pension costs (Note 30)	2,066	2,090
Housing benefits and subsidies	461	442
Other social security and benefit costs	4,957	3,899
	22,488	20,854

13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(a) Directors', supervisors' and senior management's taxable emoluments

(In thousands of RMB)	Year ended 31 December				
	2013				2012
Name	Emoluments	Remuneration	Other benefits	Total	Total
Executive directors					
Mr. Hu, Huaibang[(1)]	—	365	93	458	1,897
Mr. Niu, Ximing[(1)]	—	788	222	1,010	1,729
Mr. Peng Chun[(1)]	—	328	92	420	—
Mr. Qian, Wenhui[(1)]	—	744	186	930	1,610
Mr. Wang,Bin	—	—	—	—	534
Ms. Yu, Yali[(1)]	—	744	186	930	1,610
Non-executive directors					
Mr. Zhang, Jixiang[(1)]	—	350	84	434	1,506
Mr. Hu, Huating[(1)]	—	700	166	866	1,506
Mr. Wang Taiyin[(1)]	—	350	79	429	—
Mr. Peter, Wong Tung Shun	—	—	—	—	—
Mr. Lei, Jun	—	—	—	—	—
Mr. Gu Mingchao	—	—	—	—	—
Mr. Eric Li, Ka-cheung	—	—	—	—	250
Ms. Anita Fung Yuen Mei	—	—	—	—	—
Ms. Zhang Yuxia	—	—	—	—	—
Mr. Wang, Weiqiang	—	—	—	—	—
Mr. Peter Hugh Nolan	250	—	—	250	250
Mr. Chen, Zhiwu	250	—	—	250	250
Ms. Du, Yuemei[(1)]	—	700	123	823	1,470
Mr. Ma, Qiang	—	—	—	—	—
Mr. Choi, Yiu Kwan	250	—	—	250	250
Mr. Liu Tinghuan	—	—	—	—	—
Mr. Yu Yongshun	—	—	—	—	—
Supervisors					
Mr. Hua, Qingshan[(1)]	—	770	222	992	1,695
Mr. Jiang, Yunbao	—	—	—	—	—
Mr. Lu Jiahui	—	—	—	—	—
Mr. Teng Tieqi	—	—	—	—	—
Mr. Dong Wenhua	—	—	—	—	—
Mr. Gao Zhongyuan	—	—	—	—	—
Mr. Jiang, Zuqi	—	—	—	—	—
Mr. Yang, Fajia	—	—	—	—	—
Mr. Li, Jin	—	—	—	—	—
Mr. Yan, Hong	—	—	—	—	—
Ms. Liu, Sha[(1)]	—	453	131	584	1,427
Ms. Chen, Qing[(1)]	—	570	131	701	1,501
Mr. Shuai, Shi[(1)]	—	550	131	681	1,469
Mr. Guo, Yu	—	—	—	—	—
Mr. Gu, Huizhong	—	—	—	—	—
Mr. Chu, Hongjun	—	—	—	—	—
Mr. Du, Yarong[(1)]	—	546	131	677	1,501
Mr. Fan Jun[(1)]	—	577	131	708	—
Total	750	8,535	2,108	11,393	20,455

(1) The total compensation package for these directors and supervisors for the year ended 31 December 2013 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 to the Group's and the Bank's 2013 financial statements. The final compensation will be disclosed in a separate announcement when determined. The total final compensation for the year ended 31 December 2012 was disclosed in the Supplemental Announcement for the 2012 Annual Report issued on 14 May 2013.

Mr. Hu Huaibang resigned as Chairman and the Executive Director of the Bank in April 2013; Mr. Niu Ximing was appointed as Chairman of the Bank in May 2013. In June 2013, Mr. Wang Taiyin and Ms. Zhang Yuxia were appointed as Non-executive Directors of the Bank and Mr. Liu Tinghuan and Mr. Yu Yongshun were appointed as Independent Non-executive Directors of the Bank while Mr. Zhang Jixiang, Mr. Eric Li, Ka-cheung, Mr. Gu Mingchao resigned as Directors of the Bank. In October 2013, Mr. Peng Chun was appointed as a Executive Vice Chairman and Executive Director of the Bank. In June 2013, Mr. Lu Jiahui was appointed as External Supervisor of the Bank, Mr. Teng Tieqi, Mr. Dong Wenhua and Mr. Gao Zhongyuan were appointed as Supervisors of the Bank, and Mr. Fan Jun was appointed as an Employee Representative Supervisor while Mr. Jiang Zuqi, Mr. Guo Yu, Mr. Yang Fajia, Mr. Chu Hongjun and Ms. Liu Sha resigned as Supervisors of the Bank.

(All amounts expressed in millions of RMB unless otherwise stated)

13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(Continued)

(a) Directors', supervisors' and senior management's taxable emoluments (Continued)

Mr. Niu Ximing is also the President of the Bank from January to October in 2013 and Mr. Peng Chun serves as the Presient of the Bank since October in 2013, whose emoluments are disclosed above include those for services rendered by they as the President.

(b) Five highest paid individuals

The five highest paid individuals in the Bank for the related years are as follows:

	Year ended 31 December	
	2013	2012
Salary	8	8
Discretionary bonuses	8	7
Employer's contribution to pension scheme and other benefits	—	—
	16	15

Emoluments of the above five highest paid individuals in the Bank are within the following bands:

	Number of employees	
	2013	2012
HK$2,500,001–HK$3,000,000	—	1
HK$3,000,001–HK$3,500,000	2	1
HK$3,500,001–HK$4,000,000	—	1
HK$4,000,001–HK$4,500,000	1	—
HK$4,500,001–HK$5,000,000	2	2
	5	5

During 2013 and 2012, no emolument was paid by the Bank to any of the directors, supervisors and the five highest paid individuals as an inducement to join or upon joining the Bank or as compensation for loss of office.

(c) Share-based compensation

On 18 November 2005, the Board of Directors resolved to grant certain cash settled SARs to several senior executives of the Bank under a long-term incentive plan. According to the resolution, the initial grant of SARs was targeted at senior executives of the Bank as at 23 June 2005. The exercise price of each SAR is HK$2.50, which was the issue price of the H share at the time of its initial public offering. The amount of the initial grant of the SARs was 7.558 million shares. The SARs was valid for a period of ten years from 23 June 2005, with a two-year vesting period.

On 3 November 2006, the Board of Directors resolved to grant certain cash settled SARs to several senior executives of the Bank under its long-term incentive plan. According to the resolution, the grant of SARs was targeted at senior executives of the Bank as at 3 November 2006. The exercise price of each SAR is HK$6.13, which was the closing price of the Group's H share on the granting date. The amount of the grant of the SARs was 2.724 million shares. The SARs was valid for a period of ten years from 3 November 2006, with a two-year vesting period.

During 2013 and 2012, no SARs were exercised. Changes in fair value of these SARs (RMB6.22 million) were recognised in other operating expense but not included in the directors' emoluments disclosed above.

13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(Continued)

(c) Share-based compensation (Continued)

Movements in the number of SARs outstanding are as follows:

Group and Bank

	Year ended at 31 December 2013 Number of shares (In millions)	2012 Number of shares (In millions)
Outstanding at the beginning of the year	11	11
Granted in the year	—	—
Outstanding at the end of the year	11	11

The fair value of SARs using the Binomial Option Pricing model as at 31 December 2013 is RMB21.93 million (31 December 2012: RMB28.15 million) and is recorded in other liabilities.

14 INCOME TAX

Group

	Year ended 31 December 2013	2012 (Restated)
Current tax		
— PRC enterprise income tax	20,051	20,520
— Hong Kong profits tax	420	378
— Overseas taxation	375	322
	20,846	21,220
Deferred income tax (Note 29)	(3,398)	(4,481)
	17,448	16,739

The provision for enterprise income tax in PRC is calculated based on the statutory rate of 25% (2012: 25%) of the assessable income of the Bank and each of the subsidiaries established in PRC. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions.

The taxation on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Group at 25% (2012: 25%). The major reconciliation items are as follows:

	Year ended 31 December 2013	2012 (Restated)
Profit before tax	79,909	75,211
Tax calculated at a tax rate of 25%	19,977	18,803
Effect of different tax rates in other countries (or regions)	44	34
Tax effect arising from income not subject to tax(1)	(2,881)	(2,436)
Tax effect of expenses not deductible for tax purposes(2)	308	338
Income tax expense	17,448	16,739

(1) The income not subject to tax mainly represents interest income arising from treasury bonds, which is income tax free in accordance with the PRC tax regulations.

(2) The expenses that are not tax deductible mainly represent a portion of expenditure, such as entertainment expense etc., which exceed the tax deduction limits in accordance with PRC tax regulations.

15 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the year. There were no potentially ordinary shares outstanding during the year ended 31 December 2013 and 2012.

	Year ended 31 December	
	2013	2012 (Restated)
Net profit attributable to shareholders of the Bank	62,295	58,369
Number of ordinary shares in issue (2012: weighted average number of ordinary shares in issue) (expressed in millions)	74,263	66,011
Basic and diluted earnings per share (expressed in RMB per share)	0.84	0.88

16 CASH AND BALANCES WITH CENTRAL BANKS

Group

	As at 31 December 2013	As at 31 December 2012
Cash	19,293	18,819
Balances with central banks other than mandatory reserve deposits	141,947	114,220
Included in cash and cash equivalents (Note 38)	161,240	133,039
Mandatory reserve deposits	735,316	683,807
	896,556	816,846

Bank

	As at 31 December 2013	As at 31 December 2012
Cash	19,272	18,801
Balances with central banks other than mandatory reserve deposits	141,939	114,208
Included in cash and cash equivalents	161,211	133,009
Mandatory reserve deposits	734,673	683,336
	895,884	816,345

The Group is required to place mandatory reserve deposits with central banks. The mandatory reserve deposits are calculated based on the eligible deposits from customers. Mandatory reserve deposits with central banks are not available for use by the Group in its day-to-day operations.

	As at 31 December 2013	As at 31 December 2012
Mandatory reserve rate for deposits denominated in RMB	20.00%	20.00%
Mandatory reserve rate for deposits denominated in foreign currencies	5.00%	5.00%

(All amounts expressed in millions of RMB unless otherwise stated)

17 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Group

	As at 31 December 2013	As at 31 December 2012
Due from banks and other financial institutions	97,415	172,322
Included in cash and cash equivalents (Note 38)	82,154	138,559
Securities purchased under reverse repurchase agreements	182,614	107,667
Loans purchased under reverse repurchase agreements	89,343	87,187
Placement with and loans to banks	125,701	84,674
Placement with and loans to other financial institutions	71,356	69,113
	566,429	520,963

Bank

	As at 31 December 2013	As at 31 December 2012
Due from banks and other financial institutions	93,868	169,873
Included in cash and cash equivalents	80,108	137,164
Securities purchased under reverse repurchase agreements	182,608	107,667
Loans purchased under reverse repurchase agreements	89,343	87,187
Placement with and loans to banks	128,265	85,934
Placement with and loans to other financial institutions	80,002	71,113
	574,086	521,774

As at 31 December 2013, the Group and the Bank's placement with certain wealth management products sponsored by the Group amounted to RMB50,150 million while the Group and the Bank was not contractually obliged to such arrangements. The maximum exposure to loss of those arrangements approximated the carrying amount. As at the issue date of the consolidated financial statements, the placement has matured and the amounts have been fully repaid.

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Group

	As at 31 December 2013	As at 31 December 2012
Derivative financial instruments (Note 19)	14,227	6,478
Government bonds		
— Listed in Hong Kong	1,308	821
— Listed outside Hong Kong	1,548	1,449
— Unlisted	4,111	1,511
Other debt securities		
— Listed in Hong Kong	1,840	2,093
— Listed outside Hong Kong	2,486	2,373
— Unlisted — corporate entities	34,753	25,144
— Unlisted — public sector	1,265	862
— Unlisted — banking sector	11,665	10,702
Equity securities		
— Listed in Hong Kong	107	322
— Listed outside Hong Kong	—	406
	73,310	52,161

(All amounts expressed in millions of RMB unless otherwise stated)

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

Bank

	As at 31 December 2013	As at 31 December 2012
Derivative financial instruments (Note 19)	14,225	6,478
Government bonds		
— Listed in Hong Kong	1,308	821
— Listed outside Hong Kong	1,548	1,449
— Unlisted	4,111	1,511
Other debt securities		
— Listed in Hong Kong	1,837	2,093
— Listed outside Hong Kong	2,486	2,373
— Unlisted — corporate entities	34,753	25,144
— Unlisted — public sector	1,265	862
— Unlisted — banking sector	11,665	10,702
	73,198	51,433

Securities — financial assets at fair value through profit or loss are analysed by issuer as follows:

Group

	As at 31 December 2013	As at 31 December 2012
Securities — Financial assets at fair value through profit or loss		
— Governments and central banks	6,967	3,781
— Public sector entities	2,250	2,350
— Banks and other financial institutions	14,541	13,404
— Corporate entities	35,325	26,148
	59,083	45,683

Bank

	As at 31 December 2013	As at 31 December 2012
Securities — Financial assets at fair value through profit or loss		
— Governments and central banks	6,967	3,781
— Public sector entities	2,250	2,350
— Banks and other financial institutions	14,434	13,297
— Corporate entities	35,322	25,527
	58,973	44,955

The financial assets at fair value through profit or loss include financial assets held for trading and derivatives designated and effective as hedging instruments.

Majority of the Group's unlisted bonds are traded in China's inter-bank bond market.

As at 31 December 2013, RMB5,694 million trading securities of the Group and the Bank were pledged to third parties and stock exchanges under repurchase agreements and short-selling arrangements (31 December 2012: RMB2,378 million).

(All amounts expressed in millions of RMB unless otherwise stated)

19 DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative instruments are utilised by the Group for trading or hedging purposes:

Currency forwards are contracts between two parties to buy or sell certain currencies at a specified future date at a predetermined price. The party agreeing to buy the underlying currency in the future assumes a long position, and the party agreeing to sell the currency in the future assumes a short position. The price agreed upon is called the delivery price, which is equal to the forward price at the time the contract is entered into.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency at a predetermined price or to receive an interest payment based on a variable interest rate and pay a fixed interest rate or vice versa. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer (over the counter market).

The notional amounts of certain types of financial instruments provide a reference of the amounts recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following tables.

Group

	Contractual/ notional amount	Fair values Assets	Liabilities
As at 31 December 2013			
Foreign exchange contracts	1,462,736	12,723	(14,261)
Interest rate contracts and others	587,446	1,504	(2,414)
Total amount of derivative instruments recognised	2,050,182	14,227	(16,675)

Group

	Contractual/ notional amount	Fair values Assets	Liabilities
As at 31 December 2012			
Foreign exchange contracts	904,853	4,782	(5,090)
Interest rate contracts and others	490,258	1,696	(2,560)
Total amount of derivative instruments recognised	1,395,111	6,478	(7,650)

(All amounts expressed in millions of RMB unless otherwise stated)

19 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Bank

	Contractual/ notional amount	Fair values Assets	Liabilities
As at 31 December 2013			
Foreign exchange contracts	1,462,028	12,723	(14,246)
Interest rate contracts and others	587,235	1,502	(2,411)
Total amount of derivative instruments recognised	2,049,263	14,225	(16,657)

Bank

	Contractual/ notional amount	Fair values Assets	Liabilities
As at 31 December 2012			
Foreign exchange contracts	904,853	4,782	(5,090)
Interest rate contracts and others	490,258	1,696	(2,560)
Total amount of derivative instruments recognised	1,395,111	6,478	(7,650)

The tables above provide a breakdown of the contractual or notional amounts and the fair values of the Group's and the Bank's derivative financial instruments outstanding at year end. These instruments, comprising foreign exchange and interest rate derivatives allow the Group and the Bank and their customers to transfer, modify or reduce their foreign exchange and interest rate risks.

The Group and the Bank undertakes its transactions in foreign exchange and interest rates contracts with other financial institutions and customers. Management has established limits for these contracts based on counterpart types, industry sectors and countries. Related risks are regularly monitored and controlled by management.

Notional amounts of derivative financial instruments by original currency

Group

	As at 31 December 2013	As at 31 December 2012
RMB	1,075,990	761,104
US dollar	790,521	522,860
HK dollar	106,796	63,733
Others	76,875	47,414
Total	2,050,182	1,395,111

Bank

	As at 31 December 2013	As at 31 December 2012
RMB	1,075,990	761,104
US dollar	789,605	522,860
HK dollar	106,796	63,733
Others	76,872	47,414
Total	2,049,263	1,395,111

(All amounts expressed in millions of RMB unless otherwise stated)

19 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Hedge accounting

Included in the derivative financial instruments above are those designated as hedging instruments by the Group and Bank as follows:

Group and Bank

	Contractual/ notional amount	Fair values Assets	Fair values Liabilities
As at 31 December 2013			
Derivative financial instruments designated as hedging instruments in fair value hedges			
— Interest rate swaps	7,124	21	(252)
Total	7,124	21	(252)

Group and Bank

	Contractual/ notional amount	Fair values Assets	Fair values Liabilities
As at 31 December 2012			
Derivative financial instruments designated as hedging instruments in fair value hedges			
— Interest rate swaps	6,845	—	(501)
Total	6,845	—	(501)

The Group uses interest rate swaps to minimise its exposure to fair value changes of its fixed-rate bond investments by swapping fixed-rate bond investments from fixed rates to floating rates. The interest rate swaps and the corresponding bond investments have the same terms and management of the Group consider that the interest rate swaps are highly effective hedging instruments.

The following table shows the profit and loss effects in the fair value hedges:

Group and Bank

	Year ended 31 December 2013	2012
Gains/(Losses) on hedging instruments	270	(36)
(Losses)/gains on hedged items attributable to the hedge risk	(263)	33
Net gains/(losses) from fair value hedges	7	(3)

(All amounts expressed in millions of RMB unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers

Group

	As at 31 December 2013	As at 31 December 2012
Loans and advances to customers	3,266,368	2,947,299
Less: allowance for collectively assessed impairment losses	(57,123)	(55,187)
Less: allowance for individually assessed impairment losses	(16,182)	(12,484)
	3,193,063	2,879,628

Bank

	As at 31 December 2013	As at 31 December 2012
Loans and advances to customers	3,261,000	2,944,349
Less: allowance for collectively assessed impairment losses	(57,015)	(55,141)
Less: allowance for individually assessed impairment losses	(16,111)	(12,434)
	3,187,874	2,876,774

(b) Movements in allowance for losses on loans and advances

Group

	As at 31 December 2013		As at 31 December 2012	
	Collectively assessed	Individually assessed	Collectively assessed	Individually assessed
Balance at the beginning of the year	55,187	12,484	45,115	11,250
Net impairment allowances for loans charged to profit or loss (Note 10)	7,101	11,309	10,075	4,462
Impairment allowances for loans	7,101	12,927	10,075	8,353
Reversal of impairment allowances for loans	—	(1,618)	—	(3,891)
Recoveries of loans written-off in previous years	—	467	—	323
Unwind of discount on allowances during the year	—	(1,245)	—	(900)
Loans written off during the year as uncollectible	—	(11,810)	—	(2,650)
Other transfer (out)/in	(4,995)	4,995	—	—
Exchange difference	(170)	(18)	(3)	(1)
Balance at the end of the year	57,123	16,182	55,187	12,484

(All amounts expressed in millions of RMB unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(b) Movements in allowance for losses on loans and advances *(Continued)*

Bank

	As at 31 December 2013		As at 31 December 2012	
	Collectively assessed	Individually impaired	Collectively assessed	Individually impaired
Balance at the beginning of the year	55,141	12,434	45,092	11,250
Net impairment allowances for loans charged to profit or loss	7,039	11,276	10,052	4,412
Impairment allowances for loans	7,039	12,894	10,052	8,303
Reversal of impairment allowances for loans	—	(1,618)	—	(3,891)
Recoveries of loans written-off in previous years	—	467	—	323
Unwind of discount on allowances during the year	—	(1,235)	—	(900)
Loans written off during the year as uncollectible	—	(11,810)	—	(2,650)
Other transfer (out)/in	(4,995)	4,995	—	—
Exchange difference	(170)	(16)	(3)	(1)
Balance at the end of the year	57,015	16,111	55,141	12,434

Group

	As at 31 December 2013		As at 31 December 2012	
	Corporate	Individual	Corporate	Individual
Balance at the beginning of the year	58,868	8,803	49,740	6,625
Net impairment allowances for loans charged to profit or loss	11,316	7,094	11,683	2,854
Impairment allowances for loans	12,506	7,522	14,839	3,589
Reversal of impairment allowances for loans	(1,190)	(428)	(3,156)	(735)
Recoveries of loans written-off in previous years	336	131	188	135
Unwind of discount on allowances during the year	(1,035)	(210)	(782)	(118)
Loans written off during the year as uncollectible	(9,380)	(2,430)	(1,956)	(694)
Exchange difference	(183)	(5)	(5)	1
Balance at the end of the year	59,922	13,383	58,868	8,803

Bank

	As at 31 December 2013		As at 31 December 2012	
	Corporate	Individual	Corporate	Individual
Balance at the beginning of the year	58,838	8,737	49,727	6,615
Net impairment allowances for loans charged to profit or loss	11,265	7,050	11,666	2,798
Impairment allowances for loans	12,455	7,478	14,822	3,533
Reversal of impairment allowances for loans	(1,190)	(428)	(3,156)	(735)
Recoveries of loans written-off in previous years	336	131	188	135
Unwind of discount on allowances during the year	(1,035)	(200)	(782)	(118)
Loans written off during the year as uncollectible	(9,380)	(2,430)	(1,956)	(694)
Exchange difference	(183)	(3)	(5)	1
Balance at the end of the year	59,841	13,285	58,838	8,737

(All amounts expressed in millions of RMB unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(c) Individually assessed loans with impairment

Group

	As at 31 December 2013		As at 31 December 2012	
	Gross amount of impaired loans before allowance for impairment	Allowance for individually assessed impaired loans	Gross amount of impaired loans before allowance for impairment	Allowance for individually assessed impaired loans
Corporate	25,229	(10,166)	21,896	(9,672)
Individual	9,081	(6,016)	5,099	(2,812)
	34,310	(16,182)	26,995	(12,484)

Group

	As at 31 December 2013	As at 31 December 2012
Individually assessed impaired loans to loans and advances to customers	1.05%	0.92%

Bank

	As at 31 December 2013		As at 31 December 2012	
	Gross amount of impaired loans before allowance for impairment	Allowance for individually assessed impaired loans	Gross amount of impaired loans before allowance for impairment	Allowance for individually assessed impaired loans
Corporate	25,217	(10,160)	21,896	(9,672)
Individual	8,984	(5,951)	4,897	(2,762)
	34,201	(16,111)	26,793	(12,434)

Bank

	As at 31 December 2013	As at 31 December 2012
Individually assessed impaired loans to loans and advances to customers	1.05%	0.91%

(All amounts expressed in millions of RMB unless otherwise stated)

21 INVESTMENT SECURITIES

Group

	As at 31 December 2013	As at 31 December 2012
Securities — loans and receivables		
Debt securities — at amortised cost		
— Unlisted	119,761	30,399
Impairment allowance	(35)	(4)
Loans and receivables securities (net)	119,726	30,395
Securities — available-for-sale		
Debt securities — at fair value		
— Listed in Hong Kong	6,628	2,422
— Listed outside Hong Kong	45,281	46,845
— Unlisted	167,195	152,779
Debt securities	219,104	202,046
Equity securities and fund investments — at fair value		
— Listed in Hong Kong	44	181
— Listed outside Hong Kong	300	512
— Unlisted	1,805	1,869
Equity securities and fund investments	2,149	2,562
Securities — available-for-sale total	221,253	204,608
Include: Fair value of listed securities — available-for-sale	52,253	49,960
Securities — held-to-maturity		
Debt securities — at amortised cost		
— Listed outside Hong Kong	257,378	239,470
— Unlisted	413,237	359,145
Held-to-maturity investments	670,615	598,615
Include: Fair value of listed held-to-maturity investments	251,082	243,687

As at 31 December 2013, listed investment securities of the Group at fair value of RMB160,416 million (31 December 2012: RMB30,625 million) were pledged to third parties under repurchase agreements.

(All amounts expressed in millions of RMB unless otherwise stated)

21 INVESTMENT SECURITIES *(Continued)*

Bank

	As at 31 December 2013	As at 31 December 2012
Securities — loans and receivables		
Debt securities — at amortised cost		
— Unlisted	117,059	30,020
Loans and receivables securities	117,059	30,020
Securities — available-for-sale		
Debt securities — at fair value		
— Listed in Hong Kong	6,403	2,096
— Listed outside Hong Kong	45,156	46,819
— Unlisted	166,451	151,904
Debt securities	218,010	200,819
Equity securities and fund investments — at fair value		
— Listed in Hong Kong	—	10
— Listed outside Hong Kong	300	512
— Unlisted	746	731
Equity securities and fund investments	1,046	1,253
Securities — available-for-sale total	219,056	202,072
Include: Fair value of listed securities — available-for-sale	51,859	49,437
Securities — held-to-maturity		
Debt securities — at amortised cost		
— Listed outside Hong Kong	256,968	239,267
— Unlisted	412,121	358,291
Held-to-maturity investments	669,089	597,558
Include: Fair value of listed held-to-maturity investments	250,695	243,484

As at 31 December 2013, listed investment securities of the Bank at fair value of RMB159,698 million (31 December 2012: RMB30,536 million) were pledged to third parties under repurchase agreements.

As at 31 December 2013, the Group does not hold any bond issued by the PBOC (31 December 2012: RMB6,522 million). The related interest rate on such bonds as at 31 December 2012 ranged between 2.65%–2.70%.

Net gains arising from de-recognition of investment securities comprise of:

Group

	Year ended 31 December 2013	Year ended 31 December 2012
Net gains arising from de-recognition of investment securities — available-for-sale	159	329

(All amounts expressed in millions of RMB unless otherwise stated)

21 INVESTMENT SECURITIES *(Continued)*

The movements in allowance for impairment losses of investment securities are summarised as follows:

Group

	Loans and receivables	Available-for-sale	Held-to-maturity	Total
Allowance for impairment losses				
As at 1 January 2013	(4)	(1,443)	—	(1,447)
Provision for impairment	(31)	(55)	—	(86)
Transfer out(1)	—	208	—	208
Exchange differences	—	42	—	42
As at 31 December 2013	(35)	(1,248)	—	(1,283)

Bank

	Loans and receivables	Available-for-sale	Held-to-maturity	Total
Allowance for impairment losses				
As at 1 January 2013	—	(1,246)	—	(1,246)
Provision for impairment	—	(10)	—	(10)
Transfer out(1)	—	63	—	63
Exchange differences	—	40	—	40
As at 31 December 2013	—	(1,153)	—	(1,153)

Group

	Loans and receivables	Available-for-sale	Held-to-maturity	Total
Allowance for impairment losses				
As at 1 January 2012	—	(1,296)	—	(1,296)
Provision for impairment	(4)	(328)	—	(332)
Transfer out(1)	—	174	—	174
Amounts written off during the year as uncollectible	—	4	—	4
Exchange differences	—	3	—	3
As at 31 December 2012	(4)	(1,443)	—	(1,447)

Bank

	Loans and receivables	Available-for-sale	Held-to-maturity	Total
Allowance for impairment losses				
As at 1 January 2012	—	(1,256)	—	(1,256)
Provision for impairment	—	—	—	—
Transfer out(1)	—	3	—	3
Amounts written off during the year as uncollectible	—	4	—	4
Exchange differences	—	3	—	3
As at 31 December 2012	—	(1,246)	—	(1,246)

(1) Transfer out was caused by the disposal or redemption of those impaired securities.

(All amounts expressed in millions of RMB unless otherwise stated)

21 INVESTMENT SECURITIES *(Continued)*

Investment securities are analysed by issuer as follows:

Group

	As at 31 December 2013	As at 31 December 2012
Securities — loans and receivables		
— Governments and central banks	638	1,159
— Banks and other financial institutions	56,136	23,361
— Corporate entities	62,952	5,875
	119,726	30,395
Securities — available-for-sale		
— Governments and central banks	29,807	43,718
— Public sector entities	1,650	1,362
— Banks and other financial institutions	132,511	114,746
— Corporate entities	57,285	44,782
	221,253	204,608
Securities — held-to-maturity		
— Governments and central banks	282,040	254,814
— Public sector entities	14,463	12,822
— Banks and other financial institutions	247,135	210,712
— Corporate entities	126,977	120,267
	670,615	598,615

Bank

	As at 31 December 2013	As at 31 December 2012
Securities — loans and receivables		
— Governments and central banks	638	1,159
— Banks and other financial institutions	56,136	23,361
— Corporate entities	60,285	5,500
	117,059	30,020
Securities — available-for-sale		
— Governments and central banks	29,674	43,452
— Public sector entities	1,650	1,362
— Banks and other financial institutions	131,228	113,351
— Corporate entities	56,504	43,907
	219,056	202,072
Securities — held-to-maturity		
— Governments and central banks	282,040	254,814
— Public sector entities	14,463	12,822
— Banks and other financial institutions	246,414	210,171
— Corporate entities	126,172	119,751
	669,089	597,558

(All amounts expressed in millions of RMB unless otherwise stated)

21 INVESTMENT SECURITIES *(Continued)*

The certificates of deposit held and included in investment securities are analysed as follows:

Group and Bank

	As at 31 December 2013	As at 31 December 2012
Available-for-sale, at fair value		
— Unlisted	13,086	11,620

The maturity profile of certificates of deposit held by the remaining period as at year end to the contractual maturity dates are summarised as follows:

Group and Bank

	As at 31 December 2013	As at 31 December 2012
Within 3 months	1,440	2,372
3 months to 12 months	2,698	584
1 year to 5 years	8,948	8,664
	13,086	11,620

22 PROPERTY AND EQUIPMENT

Group

	Land and Buildings	Construction in Progress	Equipment	Transportation Equipment	Property Improvement	Total
Cost						
As at 1 January 2013	33,550	7,714	17,337	4,270	4,222	67,093
Additions	1,595	7,464	3,472	3,816	506	16,853
Disposals	(270)	(154)	(1,736)	(42)	(56)	(2,258)
Transfers in/(out)	1,607	(1,763)	—	—	156	—
As at 31 December 2013	36,482	13,261	19,073	8,044	4,828	81,688
Accumulated depreciation						
As at 1 January 2013	(7,926)	—	(11,833)	(485)	(1,313)	(21,557)
Charge for the year	(1,249)	—	(2,370)	(282)	(463)	(4,364)
Disposals	91	—	1,284	29	8	1,412
As at 31 December 2013	(9,084)	—	(12,919)	(738)	(1,768)	(24,509)
Net book value						
As at 31 December 2013	27,398	13,261	6,154	7,306	3,060	57,179

(All amounts expressed in millions of RMB unless otherwise stated)

22 PROPERTY AND EQUIPMENT *(Continued)*

***Group** (Continued)*

	Land and Buildings	Construction in Progress	Equipment	Transportation Equipment	Property Improvementt	Total
Cost						
As at 1 January 2012	28,997	6,861	15,701	972	3,544	56,075
Additions	2,734	3,235	3,281	3,339	392	12,981
Disposals	(266)	—	(1,645)	(41)	(45)	(1,997)
Transfers in/(out)	2,051	(2,382)	—	—	331	—
Investment property transfers in	34	—	—	—	—	34
As at 31 December 2012	33,550	7,714	17,337	4,270	4,222	67,093
Accumulated depreciation						
As at 1 January 2012	(6,862)	—	(10,898)	(402)	(896)	(19,058)
Charge for the year	(1,265)	—	(1,774)	(117)	(460)	(3,616)
Disposals	201	—	839	34	43	1,117
As at 31 December 2012	(7,926)	—	(11,833)	(485)	(1,313)	(21,557)
Net book value						
As at 31 December 2012	25,624	7,714	5,504	3,785	2,909	45,536

Bank

	Land and Buildings	Construction in Progress	Equipment	Transportation Equipment	Property Improvement	Total
Cost						
As at 1 January 2013	32,750	7,712	17,164	696	4,210	62,532
Additions	1,594	7,461	3,446	91	505	13,097
Disposals	(244)	(154)	(1,732)	(42)	(56)	(2,228)
Transfers in/(out)	1,607	(1,763)	—	—	156	—
As at 31 December 2013	35,707	13,256	18,878	745	4,815	73,401
Accumulated depreciation						
As at 1 January 2013	(7,781)	—	(11,717)	(421)	(1,310)	(21,229)
Charge for the year	(1,226)	—	(2,346)	(77)	(461)	(4,110)
Disposals	87	—	1,281	29	8	1,405
As at 31 December 2013	(8,920)	—	(12,782)	(469)	(1,763)	(23,934)
Net book value						
As at 31 December 2013	26,787	13,256	6,096	276	3,052	49,467

(All amounts expressed in millions of RMB unless otherwise stated)

22 PROPERTY AND EQUIPMENT *(Continued)*

Bank *(Continued)*

	Land and Buildings	Construction in Progress	Equipment	Transportation Equipment	Property Improvementt	Total
Cost						
As at 1 January 2012	28,382	6,861	15,556	623	3,534	54,956
Additions	2,549	3,233	3,246	114	390	9,532
Disposals	(266)	—	(1,638)	(41)	(45)	(1,990)
Transfers in/(out)	2,051	(2,382)	—	—	331	—
Investment property transfers in	34	—	—	—	—	34
As at 31 December 2012	32,750	7,712	17,164	696	4,210	62,532
Accumulated depreciation						
As at 1 January 2012	(6,740)	—	(10,803)	(388)	(896)	(18,827)
Charge for the year	(1,242)	—	(1,749)	(67)	(457)	(3,515)
Disposals	201	—	835	34	43	1,113
As at 31 December 2012	(7,781)	—	(11,717)	(421)	(1,310)	(21,229)
Net book value						
As at 31 December 2012	24,969	7,712	5,447	275	2,900	41,303

With exception to the Hong Kong branch and subsidiaries, all other land and buildings are located outside Hong Kong.

	As at 31 December 2013	As at 31 December 2012
Net book value of land and buildings of Hong Kong branch and subsidiaries	208	223

The Group recognised the leasehold land in Hong Kong branch and subsidiaries as finance lease and accounted for it as "land and buildings" and is depreciated over the shorter of the useful life of the buildings and the land's lease term.

(All amounts expressed in millions of RMB unless otherwise stated)

22 PROPERTY AND EQUIPMENT *(Continued)*

As at 31 December 2013, property and equipment for which registration was not completed amounted to RMB872 million (2012: RMB853 million). However, this registration process does not affect the rights of the Bank to these assets.

The net book value of land and buildings is analysed based on the remaining lease terms as follows:

Group

	As at 31 December 2013	As at 31 December 2012
Held in Hong Kong		
on long-term lease (over 50 years)	173	187
on medium-term lease (10–50 years)	35	36
on short-term lease (less than 10 years)	—	—
	208	223
Held outside Hong Kong		
on long-term lease (over 50 years)	18	20
on medium-term lease (10–50 years)	25,645	24,134
on short-term lease (less than 10 years)	1,527	1,247
	27,190	25,401
	27,398	25,624

Bank

	As at 31 December 2013	As at 31 December 2012
Held in Hong Kong		
on long-term lease (over 50 years)	173	187
on medium-term lease (10–50 years)	12	13
on short-term lease (less than 10 years)	—	—
	185	200
Held outside Hong Kong		
on long-term lease (over 50 years)	18	20
on medium-term lease (10–50 years)	25,057	23,502
on short-term lease (less than 10 years)	1,527	1,247
	26,602	24,769
	26,787	24,969

As at 31 December 2013, the net book value of aircraft and vessel leased out by the Group under operating lease arrangements was RMB7,018 million (31 December 2012:RMB3,497 million).

(All amounts expressed in millions of RMB unless otherwise stated)

23 OTHER ASSETS

Group

	As at 31 December 2013	As at 31 December 2012
Interest receivable	29,809	24,225
Settlement accounts	17,788	11,426
Other receivables	3,754	3,159
Less: impairment allowance[e]	(531)	(539)
Land use rights[a]	691	589
Leasehold improvement	619	676
Intangible assets[b]	770	774
Foreclosed assets	192	426
Rental deposits	236	228
Goodwill[f]	322	322
Investment properties[c]	194	182
Finance lease receivables[d]	88,254	68,999
Less: impairment allowance[e]	(1,406)	(829)
Others	4,546	2,186
	145,238	111,824

Bank

	As at 31 December 2013	As at 31 December 2012
Interest receivable	29,860	24,205
Settlement accounts	16,013	9,878
Other receivables	3,500	3,121
Less: impairment allowance[e]	(531)	(539)
Land use rights[a]	691	589
Leasehold improvement	614	672
Intangible assets[b]	736	749
Foreclosed assets	192	426
Rental deposits	233	225
Investment properties[c]	194	182
Others	2,739	2,182
	54,241	41,690

(a) The net book value of land use rights is analysed based on the remaining terms of the leases as follows:

Group and Bank

	As at 31 December 2013	As at 31 December 2012
Held outside Hong Kong		
on medium-term lease (10–50 years)	675	564
on short-term lease (less than 10 years)	16	25
	691	589

(All amounts expressed in millions of RMB unless otherwise stated)

23 OTHER ASSETS *(Continued)*

(b) Intangible assets

Group

	Software
Cost	
As at 1 January 2013	1,867
Additions	243
Disposals	(1)
As at 31 December 2013	2,109
Accumulated amortisation	
As at 1 January 2013	(1,093)
Amortisation expense	(247)
Disposals	1
As at 31 December 2013	(1,339)
Carrying amounts	770

Group

	Software
Cost	
As at 1 January 2012	1,482
Additions	394
Disposals	(9)
As at 31 December 2012	1,867
Accumulated amortisation	
As at 1 January 2012	(873)
Amortisation expense	(223)
Disposals	3
As at 31 December 2012	(1,093)
Carrying amounts	774

Bank

	Software
Cost	
As at 1 January 2013	1,812
Additions	223
Disposals	(1)
As at 31 December 2013	2,034
Accumulated amortisation	
As at 1 January 2013	(1,063)
Amortisation expense	(236)
Disposals	1
As at 31 December 2013	(1,298)
Carrying amounts	736

(All amounts expressed in millions of RMB unless otherwise stated)

23 OTHER ASSETS *(Continued)*

(b) Intangible assets *(Continued)*

Bank

	Software
Cost	
As at 1 January 2012	1,434
Additions	387
Disposals	(9)
As at 31 December 2012	1,812
Accumulated amortisation	
As at 1 January 2012	(852)
Amortisation expense	(214)
Disposals	3
As at 31 December 2012	(1,063)
Carrying amounts	749

(c) Investment properties

Group and Bank

	Year ended 31 December	
	2013	2012
Balance at the beginning of the year	182	196
Transfer to owner-occupied property	—	(34)
Gains on property revaluation	18	20
Effect of foreign currency exchange difference	(6)	—
Balance at the end of the year	194	182

The Group's investment properties are located in active real estate markets, and external appraisers make reasonable estimation of fair value using market prices of the same or similar properties from the real estate market.

Investment properties are held by Hong Kong Branch. The valuation of these investment properties as at 31 December 2013 were performed by RHL Appraisal Limited, independent qualified professional valuers not connected to the Group, based on open market price. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year.

As at 31 December of 2013, fair value hierarchies of the investment properties of the Group are as follows:

	Level 1	Level 2	Level 3	Fair value as at 31 December of 2013
Commercial property units located in Hong Kong	—	194	—	194

(All amounts expressed in millions of RMB unless otherwise stated)

23 OTHER ASSETS *(Continued)*

(c) Investment properties *(Continued)*

There were no transfers between Level 1 and 2 during the year.

The net book value of investment properties is analysed based on the remaining terms of the leases as follows:

Group and Bank

	As at 31 December 2013	As at 31 December 2012
Held in Hong Kong		
on long-term lease (over 50 years)	55	49
on medium-term lease (10–50 years)	139	133
	194	182

(d) Finance lease receivables

Group

	As at 31 December 2013	As at 31 December 2012
Minimum finance lease receivables		
Within 1 year (inclusive)	25,868	21,801
1 year to 5 years (inclusive)	64,779	45,674
Over 5 years	11,134	12,478
	101,781	79,953
Gross investment in finance leases	101,781	79,953
Unearned finance income	(13,527)	(10,954)
Net investment in finance leases	88,254	68,999
The net investment in finance leases is analysed as follows:		
Within 1 year (inclusive)	21,908	18,643
1 year to 5 years (inclusive)	56,198	38,875
Over 5 years	10,148	11,481
	88,254	68,999
The allowance for uncollectible finance lease receivable	(1,406)	(829)
Net finance lease receivables	86,848	68,170

(e) Impairment allowance

Group

	As at 1 January 2013	Amounts accrued	Write-off	As at 31 December 2013
Other receivables	(539)	(32)	40	(531)
Finance lease receivables	(829)	(577)	—	(1,406)
Total	(1,368)	(609)	40	(1,937)

(All amounts expressed in millions of RMB unless otherwise stated)

23 OTHER ASSETS *(Continued)*

(e) Impairment allowance *(Continued)*

Bank

	As at 1 January 2013	Amounts accrued	Write-off	As at 31 December 2013
Other receivables	(539)	(32)	40	(531)
Total	(539)	(32)	40	(531)

Group

	As at 1 January 2012	Amounts accrued	Write-off	As at 31 December 2012
Other receivables	(574)	(9)	44	(539)
Finance lease receivables	(517)	(312)	—	(829)
Total	(1,091)	(321)	44	(1,368)

Bank

	As at 1 January 2012	Amounts accrued	Write-off	As at 31 December 2012
Other receivables	(574)	(9)	44	(539)
Total	(574)	(9)	44	(539)

(f) Goodwill

Group

	As at 1 January 2013	Addition during the year	Decrease during the year	As at 31 December 2013	Impairment allowance
Bank of Communications International Trust Co., LTD.	200	—	—	200	—
BoComm Life Insurance Company Limited	122	—	—	122	—
Total	322	—	—	322	—

At the end of the year, the Group performed impairment tests on goodwill based on financial forecasts approved by management of the subsidiaries and the share prices of those listed financial institutions in similar types.

As indicated by the impairment tests, goodwill arising from business combinations is not impaired and thus, no impairment loss is recognised.

(All amounts expressed in millions of RMB unless otherwise stated)

24 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Group

	As at 31 December 2013	As at 31 December 2012
Loans from central banks	5,871	150
Deposits from other banks	248,541	263,905
Deposits from other financial institutions	507,567	445,177
Loans from banks and other financial institutions	209,216	204,197
Financial instruments sold under repurchase agreements	155,368	29,560
Total	1,126,563	942,989

Bank

	As at 31 December 2013	As at 31 December 2012
Loans from central banks	5,641	—
Deposits from other banks	249,518	262,432
Deposits from other financial institutions	510,158	449,323
Loans from banks and other financial institutions	144,757	150,088
Financial instruments sold under repurchase agreements	154,694	29,475
Total	1,064,768	891,318

25 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Group

	As at 31 December 2013	As at 31 December 2012
Derivative financial instruments (Note 19)	16,675	7,650
Short position of securities held for trading	1,164	2,433
Certificates of deposit issued	10,801	12,977
Total	28,640	23,060

Bank

	As at 31 December 2013	As at 31 December 2012
Derivative financial instruments (Note 19)	16,657	7,650
Short position of securities held for trading	1,164	2,433
Certificates of deposit issued	10,801	12,977
Total	28,622	23,060

Except for certificates of deposit issued which are designated as at fair value through profit or loss, the financial liabilities at fair value through profit or loss include financial liabilities held for trading and derivatives designated and effective as hedging instruments.

(All amounts expressed in millions of RMB unless otherwise stated)

25 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

Financial liabilities designated as at fair value through profit or loss

Group and Bank

	As at 31 December 2013	As at 31 December 2012
Difference between carrying amount and maturity amount		
Fair value	10,801	12,977
Amount payable at maturity	10,750	12,900
Total	51	77

For current and prior year, there were no significant changes in the fair value of the Group's and the Bank's financial liabilities designated as at fair value through profit or loss that were attributable to the changes in credit risk.

26 DUE TO CUSTOMERS

Group

	As at 31 December 2013	As at 31 December 2012
Corporate demand deposits	1,382,914	1,254,248
Corporate time deposits	1,418,855	1,269,520
Individual demand deposits	491,353	444,369
Individual time deposits	859,603	755,294
Other deposits	5,108	4,981
	4,157,833	3,728,412
Including:		
Pledged deposits held as collateral	594,655	399,290

Bank

	As at 31 December 2013	As at 31 December 2012
Corporate demand deposits	1,382,359	1,253,956
Corporate time deposits	1,418,198	1,268,985
Individual demand deposits	490,702	444,168
Individual time deposits	857,828	754,084
Other deposits	5,093	4,974
	4,154,180	3,726,167
Including:		
Pledged deposits held as collateral	594,308	398,866

27 CERTICIATES OF DEPOSIT ISSUED

Certificates of deposit were issued by Head Office and branches of the Bank in Frankfurt, Hong Kong, New York, Singapore, Sydney and Tokyo.

(All amounts expressed in millions of RMB unless otherwise stated)

28 OTHER LIABILITIES

Group

	As at 31 December 2013	As at 31 December 2012
Interest payable	59,812	50,757
Settlement accounts	17,178	27,004
Staff compensation payable	5,673	6,899
Business and other tax payable	3,604	3,603
Insurance contracts reserve	2,649	1,853
Deposits received for finance leases	6,288	4,948
Provision for outstanding litigation[(a)]	378	389
Provision for unsettled obligation[(a)]	89	92
Dividends payable	66	64
Others	17,698	15,160
Total	113,435	110,769

Bank

	As at 31 December 2013	As at 31 December 2012
Interest payable	59,364	50,338
Settlement accounts	16,847	26,674
Staff compensation payable	5,273	6,550
Business and other tax payable	3,421	3,517
Provision for outstanding litigation[(a)]	378	389
Provision for unsettled obligation[(a)]	89	92
Dividends payable	66	64
Others	13,816	12,243
Total	99,254	99,867

(a) The movements in the provision for outstanding litigation and unsettled obligation

Group and Bank

	As at 1 January 2013	Amounts accrued during the year	Amounts reversed during the year	Amounts paid during the year	As at 31 December 2013
Provision for outstanding litigation	389	63	(74)	—	378
Provision for unsettled obligation	92	—	(3)	—	89
	481	63	(77)	—	467

Group and Bank

	As at 1 January 2012	Amounts accrued during the year	Amounts reversed during the year	Amounts paid during the year	As at 31 December 2012
Provision for outstanding litigation	561	81	(253)	—	389
Provision for unsettled obligation	149	—	(49)	(8)	92
	710	81	(302)	(8)	481

(All amounts expressed in millions of RMB unless otherwise stated)

29 DEFERRED INCOME TAX

Deferred income taxes are calculated on all temporary differences using an effective tax rate of 25% for the year ended 31 December 2013 (for the year ended 31 December 2012: 25%) for transactions in PRC. Deferred income taxes are calculated on all temporary differences using an effective tax rate of 16.5% (for the year ended 31 December 2012: 16.5%) for transactions in Hong Kong.

The movements in the deferred income tax account are as follows:

Group

	Year ended 31 December	
	2013	2012 (Restated)
Balance at the beginning of the year	12,496	7,905
Credit to profit or loss	3,398	4,481
Credit/(charge) to other comprehensive income		
Change in fair value of available-for-sale financial assets		
— unhedged	1,321	111
Actuarial changes on pension benefits	(9)	(1)
Balance at the end of the year	17,206	12,496

Bank

	Year ended 31 December	
	2013	2012 (Restated)
Balance at the beginning of the year	12,434	7,825
Credit to profit or loss	3,249	4,408
Credit/(charge) to other comprehensive income		
Change in fair value of available-for-sale financial assets		
— unhedged	1,318	202
Actuarial changes on pension benefits	(9)	(1)
Balance at the end of the year	16,992	12,434

(All amounts expressed in millions of RMB unless otherwise stated)

29 DEFERRED INCOME TAX *(Continued)*

Deferred income tax assets and liabilities are attributable to the following items:

Group

	As at 31 December 2013	As at 31 December 2012
Deferred income tax liabilities		
Change in fair value of available-for-sale financial assets	(36)	(33)
Other temporary differences	(70)	(103)
	(106)	(136)
Deferred income tax assets		
Impairment allowances for loans	12,412	9,353
Impairment allowances for investments	310	345
Impairment allowances for other assets	232	245
Unpaid salaries and bonuses	942	1,216
Retirement supplementary pension payable	121	156
Outstanding litigation and unsettled obligation	117	121
Change in fair value of available-for-sale financial assets	1,763	373
Other temporary differences	1,415	823
	17,312	12,632
Net deferred income tax assets	17,206	12,496

Bank

	As at 31 December 2013	As at 31 December 2012
Deferred income tax liabilities		
Change in fair value of available-for-sale financial assets	(11)	(17)
Other temporary differences	(73)	(98)
	(84)	(115)
Deferred income tax assets		
Impairment allowances for loans	12,257	9,311
Impairment allowances for investments	292	315
Impairment allowances for other assets	237	296
Unpaid salaries and bonuses	877	1,162
Retirement supplementary pension payable	121	156
Outstanding litigation and unsettled obligation	117	121
Change in fair value of available-for-sale financial assets	1,766	388
Other temporary differences	1,409	800
	17,076	12,549
Net deferred income tax assets	16,992	12,434

(All amounts expressed in millions of RMB unless otherwise stated)

29 DEFERRED INCOME TAX *(Continued)*

The above net deferred income tax assets are disclosed separately on the statements of financial position based on different taxation authorities:

Group

	As at 31 December 2013	As at 31 December 2012
Deferred income tax assets	17,224	12,501
Deferred income tax liabilities	(18)	(5)

Bank

	As at 31 December 2013	As at 31 December 2012
Deferred income tax assets	17,000	12,434
Deferred income tax liabilities	(8)	—

The deferred tax credit to profit or loss comprises the following temporary differences:

Group

	Year ended 31 December	
	2013	2012 (Restated)
Impairment allowances for loans:		
Additional impairment allowances for loans	3,338	2,296
Prior year written-off amounts which are approved to be deductible in current year	(279)	(435)
Sub-total	3,059	1,861
Impairment allowances for investments	(35)	27
Impairment allowances for other assets	(13)	(62)
Outstanding litigation and unsettled obligation	(4)	(57)
Unpaid salaries and bonuses	(274)	(32)
Retirement supplementary pension payable	(26)	13
Other temporary differences	691	2,731
	3,398	4,481

(All amounts expressed in millions of RMB unless otherwise stated)

30 RETIREMENT BENEFIT OBLIGATIONS

The Group participates in various defined contribution retirement benefit plans organised by municipal and provincial governments in Mainland China under which it is required to make monthly contributions to these plans at rates ranging from 10% to 27% of the employees' basic salary for the period. The Group currently has no additional significant cost for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above. The Group's contributions to these pension plans are charged to profit or loss in the period to which they relate.

The Group pays supplementary retirement benefits to employees in Mainland China, who retired before 31 December 2008. The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. Such benefits, which are estimated by using key parameters such as inflation rate and mortality ratio, are discounted to their present values. The discount rate is the yield on government bonds at the end of reporting date, the maturity dates of which approximate to the terms of the Group's obligations. Actuarial gains and losses and changes in actuarial assumptions are recognised in other comprehensive income, and amendments to pension plan are recognised in profit or loss in the period of a plan amendment. The amounts recognised in the statement of financial position represent the present value of unfunded obligations.

Employees who retire after 1 January 2009 can voluntarily participate in an Annuity Plan. The Bank contributes to the Annuity Plan based on certain percentage of the employees' gross salary and recognised in profit or loss as incurred.

Retirement benefit obligations of the Group in locations other than Mainland China, which are immaterial to the Group, are made in accordance with the relevant local policies and regulations.

The amounts recognised in profit or loss is as follows:

	Year ended 31 December	
	2013	2012 (Restated)
Expenses incurred for retirement benefit plans	1,601	1,532
Expenses (reversed)/incurred for supplementary retirement benefits	(66)	104
Expenses incurred for corporate annuity plan	531	454
Total	2,066	2,090

	As at 31 December 2013	As at 31 December 2012
Statement of financial position obligations for		
— pension benefits	483	623

(All amounts expressed in millions of RMB unless otherwise stated)

30 RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

Amounts recognised in comprehensive income in respect of the supplementary retirement benefits are as follows:

	Year ended 31 December	
	2013	2012 (Restated)
Past service cost	(92)	82
Net interest expense	26	22
Components of defined benefit costs recognised in profit or loss (Included in Staff Costs)	(66)	104
Actuarial gains	(36)	(5)
Components of defined benefit costs recognised in other comprehensive income	(36)	(5)
Total	(102)	99

Movements in the unfunded obligations over the year are as follows:

	Year ended 31 December	
	2013	2012 (Restated)
Present value of unfunded obligations at the beginning of the year	623	570
Retirement benefits paid during the year	(38)	(46)
Net interest expense	26	22
Past service cost	(92)	82
Actuarial gains	(36)	(5)
Present value of unfunded obligations at the end of the year	483	623

The supplementary retirement benefits plan exposes the Group to actuarial risks such as interest risk, longevity risk and inflation risk. A decrease in the government bond yield will increase the present value of unfunded obligations. The present value of unfunded obligations is calculated by reference to the best estimate of the mortality of plan participants. An increase in the life expectancy of the plan participants will increase the plan's liability. The present value of unfunded obligations is also measured by future payment standards, which are determined by inflation rate. Hence, an increase in inflation rate will increase the present value of the unfunded obligations.

(All amounts expressed in millions of RMB unless otherwise stated)

30 RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

The principle actuarial assumptions regarding interest risk and inflation risk used by the Group are discount rate and inflation rate, which were 4.93% and 2.65% respectively as at 31 December 2013. In the meantime, assumptions regarding future mortality rate are set based on published statistics by China Insurance Regulatory Commission. As at 31 December 2013, an average longevity of a pensioner retiring at age 60 for male is 22.20 years while a pensioner retiring at age 55 for female is 29.52 years.

Significant actuarial assumptions for the determination of the unfunded obligation are discount rate, inflation rate and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by RMB38 million (increase by RMB43 million).
- If the expected salary growth increases (decreases) by 1%, the defined benefit obligation would increase by RMB43 million (decrease by RMB39 million).
- If the life expectancy increases (decreases) by one year for men and women, the defined benefit obligation would increase by RMB28 million (decrease by RMB28 million).

The sensitivity analysis presented above may not be representative of the actual change in the unfunded obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

In presenting the above sensitivity analysis, the present value of the unfunded obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the unfunded obligation liability recognised in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

The average duration of the supplementary retirement benefits plan at 31 December 2013 is 15.84 years (2012: 16.66 years).

The Group expects to make a contribution of RMB39 million (2012: RMB39 million) to the supplementary retirement benefits plan during the next financial year.

31 DEBT SECURITIES ISSUED

Details of the Group's and the Bank's subordinated debts and other debts issued

Group

	As at 31 December 2013	As at 31 December 2012
Fixed rate subordinated debt — 2022[(a)]	16,000	16,000
Fixed rate debt — 2013[(b)]	—	2,000
Fixed rate subordinated debt — 2019 [c)]	11,500	11,500
Fixed rate subordinated debt — 2024[(c)]	13,500	13,500
Fixed rate subordinated debt — 2026[(d)]	26,000	26,000
Fixed rate debt — 2014[(e)]	700	700
Fixed rate debt — 2015[(e)]	300	300
Fixed rate debt — 2023[(f)]	3,038	—
Fixed rate debt — 2018[(g)]	10,000	—
Fixed rate debt — 2016[(h)]	800	—
Fixed rate debt — 2018[(h)]	400	—
	82,238	70,000

(All amounts expressed in millions of RMB unless otherwise stated)

31 DEBT SECURITIES ISSUED *(Continued)*

Bank

	As at 31 December 2013	As at 31 December 2012
Fixed rate subordinated debt — 2022[a]	16,000	16,000
Fixed rate subordinated debt — 2019[c]	11,500	11,500
Fixed rate subordinated debt — 2024[c]	13,500	13,500
Fixed rate subordinated debt — 2026[d]	26,000	26,000
Fixed rate debt — 2014[e]	700	700
Fixed rate debt — 2015[e]	300	300
Fixed rate debt — 2018[g]	10,000	—
Fixed rate debt — 2016[h]	800	—
Fixed rate debt — 2018[h]	400	—
	79,200	68,000

During the years ended 31 December 2013 and 2012, the Group did not default on principal, interest or redemption amounts with respect to its debt securities issued.

(a) The Group issued subordinated debts amounting to RMB25 billion on 6 March 2007 in China's inter-bank bond market: The first type of the subordinated debts, which was in the principal amount of RMB16 billion with a maturity of 15 years, has a fixed coupon rate of 4.13% for the first ten years, payable annually. The Group has an option to redeem these debts at face value on 8 March 2017. If the Group does not exercise this option, these debts will bear interest at a fixed rate of the original coupon rate plus 3% for the remaining five years.
The second type of the subordinated debts, which was in the principal amount of RMB9 billion with a maturity of 10 years, has a fixed coupon rate of 3.73% for the first five years, payable annually. The Group has an option to redeem these debts at face value on 8 March 2012. If the Group does not exercise this option, these debts will bear interest at a fixed rate of the original coupon rate plus 3% for the remaining five years. On 8 March 2012, the Group exercised the redemption option and redeemed the principal amount of RMB9 billion of this type of subordinated debts.

(b) On 27 July 2010, Bank of Communication Financial Leasing Co., Ltd., a subsidiary of the Group issued a RMB2 billion term debt in China's inter-bank bond market, which has a maturity of three years and bears interest at the annual rate of 3.15%. The term debts have matured and been repaid during this year.

(c) The Group issued subordinated debts amounting to RMB25 billion on 1 July 2009 in China's inter-bank bond market: The first type of subordinated debts, which was in the principal amount of RMB11.50 billion with a maturity of 10 years, has a fixed coupon rate of 3.28% for the first five years, payable annually. The Group has an option to redeem these debts at face value on 3 July 2014. If the Group does not exercise this option, these debts will bear interest at a fixed rate of the original coupon rate plus 3% for the remaining five years.
The second type of subordinated debts, which was in the principal amount of RMB13.50 billion with a maturity of 15 years, has a fixed coupon rate of 4% for the first ten years, payable annually. The Group has an option to redeem these debts at face value on 3 July 2019. If the Group does not exercise this option, these debts will bear interest at a fixed rate of the original coupon rate plus 3% for the remaining five years.

(d) On 21 October 2011, the Group issued subordinated debts in China's inter-bank bond market, which was in the principal amount of RMB26 billion with a maturity of 15 years, has a fixed coupon rate of 5.75%, payable annually. The Group has an option to redeem these debts at face value on 23 October 2021.

(e) The Group issued term debts amounting to RMB1 billion on 8 March 2012 in Hong Kong. The first type of term debts, which was in the principal amount of RMB700 million with a maturity of 2 years, has a fixed coupon rate of 2.98%. The second type of term debts, which was in the principal amount of RMB300 million with a maturity of 3 years, has a fixed coupon rate of 3.10%.

(f) On 6 March 2013, Azure Orbit International Finance Limited, a subsidiary of the Group issued term debts in Hong Kong, which was in the principal amount of USD500 million with a maturity of 10 years, has a fixed coupon rate of 3.75%. The term debts are guaranteed by the Bank's Hong Kong Branch.

(g) The Group issued term debts on 26 July 2013 in China's inter-bank bond market, which was in the principal amount of RMB10 billion with a maturity of 5 years, has a fixed coupon rate of 4.37%, payable annually.

(h) The Group issued term debts amounting to RMB1.2 billion on 10 December 2013 in Taiwan, of which, RMB800 million with a maturity of 3 years and RMB400 million with a maturity of 5 years, have fixed coupon rate of 3.40% and 3.70% respectively.

32 SHARE CAPITAL AND CAPITAL SURPLUS

Group

	Number of shares (in millions)	Ordinary shares of RMB1 each (RMB million)	Capital surplus (RMB million)	Total (RMB million)
As at 1 January 2013	74,263	74,263	113,383	187,646
As at 31 December 2013	74,263	74,263	113,383	187,646

Bank

	Number of shares (in millions)	Ordinary shares of RMB1 each (RMB million)	Capital surplus (RMB million)	Total (RMB million)
As at 1 January 2013	74,263	74,263	113,412	187,675
As at 31 December 2013	74,263	74,263	113,412	187,675

Group

	Number of shares (in millions)	Ordinary shares of RMB1 each (RMB million)	Capital surplus (RMB million)	Total (RMB million)
As at 1 January 2012	61,886	61,886	69,465	131,351
Additional stock issued to specific investors[a]	12,377	12,377	43,918	56,295
As at 31 December 2012	74,263	74,263	113,383	187,646

Bank

	Number of shares (in millions)	Ordinary shares of RMB1 each (RMB million)	Capital surplus (RMB million)	Total (RMB million)
As at 1 January 2012	61,886	61,886	69,494	131,380
Additional stock issued to specific investors[a]	12,377	12,377	43,918	56,295
As at 31 December 2012	74,263	74,263	113,412	187,675

The shareholding structure of the Bank's as at 31 December 2013 and 2012 are as follows:

	Number of shares (in millions)	Approximated percentage of the Bank's issued share capital
RMB ordinary shares (A shares)	39,251	52.85%
Overseas listed foreign shares (H shares)	35,012	47.15%
Total number of shares	74,263	100.00%

(All amounts expressed in millions of RMB unless otherwise stated)

32 SHARE CAPITAL AND CAPITAL SURPLUS *(Continued)*

(a) Having been approved by the shareholders at the 2012 First Extraordinary General Meeting and obtained the relevant approvals from CBRC at Yin Jian Fu [2012] No. 222, <CBRC's Approval on Non-public Offering of Bank of Communications Co., Ltd on A Shares and H Shares>, the China Securities Regulatory Commission at Zheng Jian Xu Ke [2012] No. 1097, <Approval on Non-public Offering of Bank of Communications Co., Ltd> and [2012] No. 1098, <Approval on Issuing Additional Oversea Listing Shares of Bank of Communications Co., Ltd>, the Bank has made non-public offering on A shares and H shares during year 2012.

On 22 August 2012, the Bank issued 6,542 million A shares with nominal value of RMB1 per share at issuing price of RMB4.55 per share. The net proceed from the fund-raising was RMB29,668 million, net with issuance costs of which RMB6,542 million was recorded in "Share Capital" and RMB23,126 million was recorded in "Capital Surplus". Deloitte Touche Tohmatsu CPA Limited had verified and issued the capital verification report De Shi Bao (Yan) Zi (12) No. 0050 for the above shares issued.

On 27 August 2012, the Bank issued 5,835 million H shares with nominal value of RMB1 per share and issuing price of HK$5.63 per share. The net proceed from the fund-raising was RMB equivalent 26,627 million, net with issuance costs of which RMB5,835 million was recorded in "Share Capital" and RMB20,792 million was recorded in "Capital Surplus". Deloitte Touche Tohmatsu CPA Limited had verified and issued the capital verification report De Shi Bao (Yan) Zi (12) No. 0051 for the above shares issued. The registration of business alteration was done on 5 January 2013.

Transactions of the following natures are recorded in the capital surplus:

(I) share premium arising from the issuance of shares at prices in excess of their par value;
(II) donations received from shareholders; and
(III) ny other items required by the PRC regulations.

Capital surplus can be utilised to offset prior years' accumulated losses, for the issuance of stock dividend or for increasing share capital as approved by the shareholders.

As at 31 December 2013 and 2012, the Group and the Bank's capital surplus are listed as follows:

Group

	As at 1 January 2013	Additions	Utilisation	As at 31 December 2013
Share premium	112,769	—	—	112,769
Property revaluation gain designated by MOF	472	—	—	472
Donation of non-cash assets	145	—	—	145
Acquisition of non-controlling interests	(29)	—	—	(29)
Others	26	—	—	26
Total	113,383	—	—	113,383

Bank

	As at 1 January 2013	Additions	Utilisation	As at 31 December 2013
Share premium	112,769	—	—	112,769
Property revaluation gain designated by MOF	472	—	—	472
Donation of non-cash assets	145	—	—	145
Others	26	—	—	26
Total	113,412	—	—	113,412

(All amounts expressed in millions of RMB unless otherwise stated)

32 SHARE CAPITAL AND CAPITAL SURPLUS *(Continued)*

Group

	As at 1 January 2012	Additions	Utilisation	As at 31 December 2012
Share premium	68,851	43,918	—	112,769
Property revaluation gain designated by MOF	472	—	—	472
Donation of non-cash assets	145	—	—	145
Acquisition of non-controlling interests	(29)	—	—	(29)
Others	26	—	—	26
Total	69,465	43,918	—	113,383

Bank

	As at 1 January 2012	Additions	Utilisation	As at 31 December 2012
Share premium	68,851	43,918	—	112,769
Property revaluation gain designated by MOF	472	—	—	472
Donation of non-cash assets	145	—	—	145
Others	26	—	—	26
Total	69,494	43,918	—	113,412

33 RESERVES AND RETAINED EARNINGS

Pursuant to the relevant PRC regulations, the appropriation of profits to the statutory general reserve, the discretionary reserve and the distribution of dividends in each year are based on the recommendations of the Directors and are subject to the resolutions to be passed at the General Meeting.

Pursuant to the relevant PRC banking regulations, the Bank is required to transfer a certain amount of its net income to the statutory general reserve through its profit appropriation. It is determined based on the overall unidentified loss exposure, normally no lower than 1% of the ending balance of risk assets. The statutory general reserve is an integral part of equity interest but not subject to dividend distribution. Such statutory general reserve is recognised in the statement of financial position upon approval by the shareholders at the Annual General Meeting. Regulatory reserve of the Hong Kong branch required by the Hong Kong Monetary Authority is also included in above statutory general reserve.

Since 1 July 2012, pursuant to "Administrative Measures for the Provisioning of Financial Enterprises" (Cai Jin [2012] No. 20), the Group made general reserve for the risk assets as defined by the policy.

In accordance with the relevant PRC legislation, after the statutory reserve has been transferred from the net distributable profit of the Bank, discretionary reserve is recognised upon approval by the shareholders at the General Meeting.

(All amounts expressed in millions of RMB unless otherwise stated)

33 RESERVES AND RETAINED EARNINGS *(Continued)*

On 25 June 2013, the shareholders at the 2012 Annual General Meeting approved the following profit appropriation of 2012:

	Amount arising from the prior year, approved and processed in 2013
Statutory reserve	5,723
Statutory general reserve	27,326
Discretionary reserve	20,353
	53,402

On 30 March 2014, the Directors proposed the following profit appropriation, which is still subject to the approval by the shareholders at the Annual General Meeting:

	Year ended 31 December 2013
Statutory reserve	6,017
Statutory general reserve	8,111
Discretionary reserve	26,732
	40,860

As at 31 December 2013, the subsidiaries of the Bank provided statutory and discretionary reserves of RMB488 million (31 December 2012: RMB296 million), and statutory general reserve (consisting of statutory general reserve and trust compensation reserve) of RMB1,529 million (31 December 2012: RMB407 million).

Revaluation reserve for available-for-sale financial assets

The movements of the revaluation reserve for available-for-sale financial assets of the Bank are set out below:

	Year ended 31 December	
	2013	2012
At beginning of the year	(1,049)	(747)
Changes in fair value recorded in equity	(5,112)	(353)
Changes in fair value reclassified from equity to profit or loss	(157)	(60)
Income tax relating to components of other comprehensive income	1,318	111
At end of the year	(5,000)	(1,049)

(All amounts expressed in millions of RMB unless otherwise stated)

33 RESERVES AND RETAINED EARNINGS *(Continued)*

Retained Earnings

The movements of retained earnings of the Bank are set out below:

	Year ended 31 December	
	2013	2012 (Restated)
At beginning of the year	75,503	44,919
Profit for the year	60,168	57,221
Appropriation to statutory reserve	(6,017)	(5,723)
Appropriation to statutory general reserve	(20,353)	(9,917)
Appropriation to discretionary reserves	(27,326)	(4,808)
Dividends paid	(17,823)	(6,189)
At end of the year	64,152	75,503

34 DIVIDENDS

	Year ended 31 December	
	2013	2012
Stocks and cash dividends paid to shareholders of the Bank in the year	17,823	6,189

Under PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

(i) Making up cumulative losses from prior years, if any;
(ii) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank as determined under the relevant PRC accounting standards;
(iii) Allocations to statutory general reserve;
(iv) Allocations to the discretionary reserve if approved by the Annual General Meeting. These funds form part of the shareholders' equity.

The cash dividends are recognised in the consolidated statement of financial position upon approval by the shareholders at the General Meeting.

Based on the proposal on 28 March 2012 at the 12th meeting on the 6th Session of the Board of Directors and approved at the First Extraordinary General Meeting on 9 May 2012, the Bank transferred a total of RMB4,808 million to the statutory general reserve and RMB9,917 million to discretionary reserve. A cash dividend of RMB0.10 (before tax) per share, amounting to RMB6,189 million based on the total number of shares outstanding of 61.886 billion shares (RMB1 per share) as at 31 December 2011 was also approved. The actual distribution date of the above cash dividend was 18 June 2012.

Based on the proposal on 27 March 2013 at the 19th meeting on the 6th Session of the Board of Directors and approved at Annual General Meeting on 25 June 2013, the Bank transferred a total of RMB27,326 million to the statutory general reserve and RMB20,353 million to discretionary reserve. A cash dividend of RMB0.24 (before tax) per share, amounting to RMB17,823 million based on the total number of shares outstanding of 74.263 billion shares (RMB1 per share) as at 31 December 2012 was also approved. The actual distribution date of the above cash dividend was 31 July 2013.

On 30 March 2014, the 5th meeting of the 7th session of the Board of Directors of the Bank proposed to transfer a total of RMB8,111 million to the statutory general reserve and RMB26,732 million to discretionary reserve. A cash dividend of RMB0.26 (before tax) per share, amounting to RMB19,308 million based on the total number of shares outstanding of 74.263 billion shares (RMB1 per share) as at 31 December 2013 was also proposed. These proposals are still subject to the approval by the Shareholders' Meeting of the Bank.

(All amounts expressed in millions of RMB unless otherwise stated)

35 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

Financial guarantees and credit related commitments

The following tables indicate the contractual amounts of the Group's financial guarantees and credit related commitments which the Group has committed to its customers:

Group

	As at 31 December 2013	As at 31 December 2012
Letters of guarantee	376,222	326,767
Letters of credit	70,380	82,398
Acceptances	612,830	517,946
Other commitments with an original maturity of		
— Under 1 year	288,860	228,549
— 1 year and over	202,427	208,016
	1,550,719	1,363,676

Bank

	As at 31 December 2013	As at 31 December 2012
Letters of guarantee	376,195	326,739
Letters of credit	70,380	82,398
Acceptances	612,614	517,393
Other commitments with an original maturity of		
— Under 1 year	288,851	228,549
— 1 year and over	202,381	207,993
	1,550,421	1,363,072

Capital expenditure commitments

Group

	As at 31 December 2013	As at 31 December 2012
Authorised but not contracted for	154	381
Contracted but not provided for	2,880	3,952
	3,034	4,333

Bank

	As at 31 December 2013	As at 31 December 2012
Authorised but not contracted for	154	377
Contracted but not provided for	2,878	3,950
	3,032	4,327

(All amounts expressed in millions of RMB unless otherwise stated)

35 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

Operating lease commitments

Where the Group and the bank is the lessee, the future minimum lease payments on buildings and equipment under non-cancellable operating leases are as follows:

Group

	As at 31 December 2013	As at 31 December 2012
Within 1 year	1,907	1,907
Beyond 1 year and not more than 2 years	1,523	1,713
Beyond 2 years and not more than 3 years	1,249	1,389
Beyond 3 years and not more than 5 years	1,828	1,616
More than 5 years	1,231	1,435
	7,738	8,060

Bank

	As at 31 December 2013	As at 31 December 2012
Within 1 year	1,859	1,869
Beyond 1 year and not more than 2 years	1,491	1,692
Beyond 2 years and not more than 3 years	1,228	1,376
Beyond 3 years and not more than 5 years	1,793	1,599
More than 5 years	1,226	1,433
	7,597	7,969

The Group acts as lessor in operating leases principally through aircrafts and vessel leasing undertaken by its subsidiaries. The future minimum lease receivables on certain aircrafts and vessel under non-cancellable operating leases are as follows:

Group

	As at 31 December 2013	As at 31 December 2012
Within 1 year	765	365
Beyond 1 year and not more than 2 years	765	365
Beyond 2 years and not more than 3 years	765	365
Beyond 3 years and not more than 5 years	1,503	730
More than 5 years	2,940	1,752
	6,738	3,577

(All amounts expressed in millions of RMB unless otherwise stated)

35 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

Commitments on security underwriting and bond acceptance

The Bank is entrusted by the MOF to underwrite certain Certificates Type Treasury Bonds and Saving Type Treasury Bonds. The investors of Certificates Type Treasury Bonds and Saving Type Treasury Bonds have early redemption right while the Bank has the obligation to buy back those Certificates Type Treasury Bonds and Saving Type Treasury Bonds. The redemption price is the principal value of the Certificates Type Treasury Bond or Saving Type Treasury Bond plus unpaid interest till redemption date. As at 31 December 2013, the principal value of the Treasury Bonds the Bank had the obligation to buy back amounted to RMB42,361 million (31 December 2012: RMB31,013 million).

The original maturities of these bonds vary from 1 to 5 years.

The MOF will not provide funding for the early redemption of these Certificates Type Treasury Bonds and Saving Type Treasury Bonds on a back-to-back basis but will pay interest and principal at maturity.

As at 31 December 2013, there was no unexpired commitment on security underwriting of the Group which was irrevocable and announced to the public (31 December 2012 (restated): RMB1,800 million).

Legal proceedings

The Group is involved as defendants in certain lawsuits arising from its normal business operations. Management of the Group believes, based on legal advice, that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group. Provision for litigation losses as advised by in-house or external legal professionals is disclosed in Note 28. The total outstanding claims against the Group (defendant) by a number of third parties at the end of the years are summarised as follows:

Group and Bank

	As at 31 December 2013	As at 31 December 2012
Outstanding claims	1,153	1,261
Provision for outstanding litigation (Note 28)	378	389

36 COLLATERALS

Assets pledged are mainly collaterals under repurchase and short selling agreements with banks and other financial institutions.

Group

	Pledged Assets		Related Liabilities	
	As at 31 December 2013	As at 31 December 2012	As at 31 December 2013	As at 31 December 2012
Trading securities	5,694	2,378	4,806	3,286
Investment securities	161,602	30,334	151,726	28,707
	167,296	32,712	156,532	31,993

(All amounts expressed in millions of RMB unless otherwise stated)

36 COLLATERALS *(Continued)*

Bank

	Pledged Assets		Related Liabilities	
	As at 31 December 2013	As at 31 December 2012	As at 31 December 2013	As at 31 December 2012
Trading securities	5,694	2,378	4,806	3,286
Investment securities	160,884	30,245	151,052	28,622
	166,578	32,623	155,858	31,908

The Group accepts collaterals under reverse repurchase agreements, which are permitted for sale or re-pledge. As at 31 December 2013, the fair value of such collaterals amounted to RMB1,870 million (31 December 2012: RMB2,795 million). All pledges are conducted under standard and normal business terms. As at 31 December 2013 and 2012, the Group did not sell or re-pledge any collaterals received.

37 OTHER COMPREHENSIVE LOSS FOR THE YEAR

Group

	Years ended 31 December 2013		
	Before tax amount	Tax benefit (expense)	Net of tax amount
Other comprehensive loss			
Investment securities — available-for-sale	(5,276)	1,321	(3,955)
Changes in fair value recorded in equity	(5,048)	1,269	(3,779)
Changes in fair value reclassified from equity to profit or loss	(228)	52	(176)
Translation difference on foreign operations	(903)	—	(903)
Actuarial gains on pension benefits	36	(9)	27
Other comprehensive loss for the year	(6,143)	1,312	(4,831)

Group

	Years ended 31 December 2012 (Restated)		
	Before tax amount	Tax benefit (expense)	Net of tax amount
Other comprehensive loss			
Investment securities — available-for-sale	(413)	111	(302)
Changes in fair value recorded in equity	(353)	94	(259)
Changes in fair value reclassified from equity to profit or loss	(60)	17	(43)
Translation difference on foreign operations	(35)	—	(35)
Actuarial gains on pension benefits (restated)	5	(1)	4
Other comprehensive loss for the year	(443)	110	(333)

(All amounts expressed in millions of RMB unless otherwise stated)

38 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

Analysis of the balance of cash and cash equivalents

For the purposes of the consolidated statements of cash flows, cash and cash equivalents comprise the following balances with original maturities of less than or equal to 90 days used for the purpose of meeting short-term cash commitments:

	As at 31 December 2013	As at 31 December 2012
Cash and balances with central banks (Note 16)	161,240	133,039
Due from banks and other financial institutions (Note 17)	82,154	138,559
	243,394	271,598

39 PRINCIPAL SUBSIDIARIES

(a) Details of the principal subsidiaries

Name of subsidiaries	Place of incorporation and operation	Date of incorporation	Issued and fully paid up share capital	Proportion of ownership interest and voting power held by the Group	Principal activities
BOCOM Finance Limited	Hong Kong	13 Mar 1979	HK$90,000,000	100	Deposit taking and other financial services
Bank of Communications Trustee Limited	Hong Kong	13 Oct 1981	HK$50,000,000	100	Trustee service
BOCOM International Holdings Company Limited (former known as BOCOM Securities Company Limited)	Hong Kong	3 Jun 1998	HK$2,000,000,000	100	Securities dealing and brokerage
China BOCOM Insurance Company Limited (former known as China Communications Insurance Company Limited)	Hong Kong	1 Nov 2000	HK$400,000,000	100	General insurance and reinsurance
BOCOM International Asset Management Limited[1]	Hong Kong	18 May 2007	HK$5,000,000	100	Asset management
BOCOM International Securities Limited[1]	Hong Kong	18 May 2007	HK$510,000,000	100	Securities dealing and brokerage
BOCOM International (Asia) Limited[1]	Hong Kong	18 May 2007	HK$10,000,000	100	Securities dealing and brokerage
BOCOM International (Shanghai) Equity Investment Management Limited [1/2]	PRC	25 Oct 2010	USD10,000,000	100	Investment management and consulting
Bank of Communications Schroder Fund Management Co., Ltd. [2]	PRC	4 Aug 2005	RMB200,000,000	65	Fund management
Bank of Communications International Trust Co., LTD. [2]	PRC	18 Oct 2007	RMB3,765,000,000	85	Trust investment
Bank of Communications Financial Leasing Co., Ltd. [2]	PRC	20 Dec 2007	RMB6,000,000,000	100	Financial leasing
Dayi Bocom Xingmin Rural Bank Co.,Ltd. [2]	PRC	15 Aug 2008	RMB60,000,000	61	Commercial banking
BoComm Life Insurance Company Limited [2]	PRC	27 Jan 2010	RMB1,500,000,000	62.5	Life insurance
Anji Bocom Rural Bank Co.,Ltd. [2]	PRC	18 Mar 2010	RMB150,000,000	51	Commercial banking
Shihezi Bocom Rural Bank Company Limited [2]	PRC	5 May 2011	RMB70,000,000	70	Commercial banking
Bank of Communications (UK) Limited	UK	29 July 2011	USD100,000,000	100	Commercial banking
Qingdao Laoshan Bocom Rural Bank Company Limited [2]	PRC	16 Aug 2012	RMB150,000,000	51	Commercial banking

Note1: These companies are the subsidiaries of the Bank's subsidiaries. BOCOM International Asset Management Limited, BOCOM International Securities Limited, BOCOM International (Asia) Limited and BOCOM International (Shanghai) Equity Investment Management Limited are all subsidiaries of BOCOM International Holdings Company Limited.

Note 2: These subsidiaries incorporated in PRC are all limited liability companies.

(All amounts expressed in millions of RMB unless otherwise stated)

39 PRINCIPAL SUBSIDIARIES *(Continued)*

(b) Investment costs and balances with subsidiaries

	As at 31 December 2013	As at 31 December 2012
Investment cost	13,735	10,238
Due from banks and other financial institutions	11,861	3,986
Loans and advances to customers	5,714	4,847
Other assets	280	127
Due to banks and other financial institutions	(3,055)	(2,800)
Due to customers	(1,887)	(958)
Other liabilities	(294)	(44)
Total	26,354	15,396

(c) Composition of the Group's Principal Subsidiaries

Information about the composition of the Group's principal subsidiary at the end of the reporting period is as follows:

		Number of wholly-owned subsidiaries	
Principal activities	Principal place of business	31 December 2013	31 December 2012
Deposit taking and other financial services	Hong Kong	1	1
Trustee service	Hong Kong	1	1
Securities dealing and brokerage	Hong Kong	3	3
General insurance and reinsurance	Hong Kong	1	1
Asset management	Hong Kong	1	1
Investment management and consulting	PRC	1	1
Financial leasing	PRC	1	1
Commercial banking	UK	1	1
		10	10

		Number of non-wholly-owned subsidiaries	
Principal activities	Principal place of business	31 December 2013	31 December 2012
Fund management	PRC	1	1
Trust investment	PRC	1	1
Commercial banking	PRC	4	4
Life insurance	PRC	1	1
		7	7

(All amounts expressed in millions of RMB unless otherwise stated)

39 PRINCIPAL SUBSIDIARIES *(Continued)*

(c) Composition of the Group's Principal Subsidiaries (Continued)

The assets, liabilities, cash flows and profit or loss attributable to the non-controlling interests are not material to the Group. Hence, no further information of subsidiaries with non-controlling interests is presented.

(d) Changes of subsidiaries

On 1 February 2013 and 10 September 2013, the subsidiary of the Bank, Bank of Communications International Trust Co., Ltd., increased its registered capital by RMB1,176 million and RMB588 million respectively. The Bank injected RMB1,000 million and RMB500 million respectively and maintains its interests at 85%.

On 27 April 2013, the subsidiary of the Bank, Bank of Communications Financial Leasing Co., Ltd. increased its registered capital by RMB2,000 million. The Bank owns 100% of this subsidiary.

(e) Auditors of subsidiaries

For the year ended 31 December 2013 and 2012, Deloitte Touche Tohmatsu was the auditor of all principal subsidiaries incorporated in Hong Kong.

For the year ended 31 December 2013 and 2012, Deloitte Touche Tohmatsu Certified Public Accountants LLP was the auditor of all principal subsidiaries incorporated in PRC.

For the year ended 31 December 2013 and 2012, Bank of Communications (UK) Limited was audited by Deloitte LLP.

40 INVESTMENT IN AN ASSOCIATE

Group and Bank

	As at 31 December 2013	As at 31 December 2012
Investment cost	300	300
Share of post-acquisition profit	44	2
Investment in an associate	344	302

The Group's and the Bank's investment in an associate is Bank of Tibet Co., Ltd., which was registered in Tibet of the PRC and established at 30 December 2011. The registered capital of the entity is RMB1,500 million, and the principal activities of the entity are banking activities. The Group held 20% of equity interest in this associate as at 31 December 2013 (2012: 20%).

(All amounts expressed in millions of RMB unless otherwise stated)

40 INVESTMENT IN AN ASSOCIATE *(CONTINUED)*

Aggregate information of the associate of the Group:

	Year ended 31 December 2013	2012
Net profit for the year	210	20
Other comprehensive income for the year	—	—
Total comprehensive income for the year	210	20
The Group's share of total comprehensive income for the year	42	4

41 CONSOLIDATED STRUCTURED ENTITIES

The Group has consolidated certain structured entities which mainly are wealth management products. When assessing whether to consolidate structured entities, the Bank reviews all facts and circumstances to determine whether the Bank, as manager, is acting as agent or principal. These factors considered include scope of the manager's decision-making authority, rights held by other parties, remuneration to which it is entitled and exposure to variability of returns. For those wealth management products where the Group provides financial guarantee, the Group therefore has obligation to fund the losses, if any, in accordance with the guarantee agreements although the Group does not have any investment in those products. The Group concludes that these structured entities shall be consolidated.

As at 31 December 2013, the wealth management products managed and consolidated by the Group amounted to RMB290,315 million. The financial impact of any individual wealth management products on the Group's financial performance is not significant.

Interests held by other interest holders are included in due to customers.

42 UNCONSOLIDATED STRUCTURED ENTITIES

The Group involves with structured entities through investments in structured entities or sponsors structured entities that provide specialised investment opportunities to investors. Structured entities generally finance the purchase of assets by issuing units of the products. The Group did not control those structured entities and thus these structured entities were not consolidated.

As at 31 December 2013, those structured entities sponsored by the Group mainly include funds, trusts, asset management products and wealth management products. The Group earned commission income by providing management services to the investors of those structured entities, which was not material to the Group. Meanwhile, the Group involved in certain structured entities sponsored by the Group or other institutions through investments.

The following table summarises the size of these structured entities sponsored by the Group, the carrying values recognised in the consolidated statement of financial position of the Group's interests in unconsolidated structured entities and the Group's maximum exposure to loss as at 31 December 2013:

	Size	Interests	Maximum exposure to loss	Type of income
Funds	46,738	731	731	Commission income and investment income
Trusts and asset management products	282,252	91,571	91,571	Commission income and investment income
Wealth management products	254,200	—	—	Commission income
Total	583,190	92,302	92,302	

The Group's interests in unconsolidated structured entities are recognised in investment securities – loans and receivables and investment securities — available-for-sale.

(All amounts expressed in millions of RMB unless otherwise stated)

43 TRANSFERS OF FINANCIAL ASSETS

(a) Financial assets sold under repurchase agreements

Sales and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Group is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities, which the Group does not have the ability to use during the term of the arrangements, are not derecognised from the financial statements but regarded as "collateral" for the secured lending from these because the Group retains substantially all the risks and rewards of these securities. In addition, it recognises a financial liability for cash received. For all these arrangements, the counterparties have recourse not only to the transferred financial assets.

As at 31 December 2013 and 2012, the Group enters into repurchase agreements with certain counterparties. The proceeds from selling such securities are presented as "financial instruments sold under repurchase agreements" (see Note 24).

The following table provides a summary of carrying amounts related to transferred financial assets that are not derecognised and associated liabilities:

As at 31 December 2013	Financial assets at fair value through profit or loss	Investment securities available-for-sale	Investment securities held-to-maturity
Carrying amount of transferred assets	3,865	24,392	136,738
Carrying amount of associated liabilities	3,642	22,669	129,057

As at 31 December 2012	Financial assets at fair value through profit or loss	Investment securities available-for-sale	Investment securities held-to-maturity
Carrying amount of transferred assets	859	3,697	26,637
Carrying amount of associated liabilities	853	2,577	26,130

(b) Asset securitisation

The Bank enters into securitisation transactions in the normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors.

In November 2012, the Bank transferred a pool of credit assets portfolio recognised as loans and advances to customers with a carrying amount of RMB3,034 million into a structured entity named as "The First Phase of 2012 Bank of Communications Credit Asset-backed Securitisation Trust", which was set up by Zhonghai Trust Co., Ltd as the trustee. The structured entity issued certain credit asset-backed securities. The Bank obtained cash and subordinated tranche notes amount to RMB164 million issued by the structured entity in exchange. No gain or loss was recognised as the selling price equaled to the carrying amount of the assets transferred. Although the Bank does not own more than half of the voting power, the structured entity is part of the Group due to the Bank's 62% holding of the subordinated tranche notes issued by it.

The structured entity transferred some credit risk, prepayment and interest rate risk on the transferred credit assets to other investors while the Group retained some credit risk through holding the subordinated tranche notes. The terms of the transfer agreement prevented the structured entity from selling or transferring those loans unless default occurred on the credit assets and thus the Group has retained control of the transferred loans. As the Group neither transfers nor retains substantially all the risks and rewards of ownership of the transferred loans and it has retained control of them, it continues to recognise the transferred credit assets to the extent of its continuing involvement in them. As at 31 December 2013 and 2012, the carrying amount of the continuing involvement asset that the Group recognises in respect of its continuing involvement is RMB164 million and the carrying amount of the associated continuing involvement liabilities is RMB164 million.

(All amounts expressed in millions of RMB unless otherwise stated)

43 TRANSFERS OF FINANCIAL ASSETS *(Continued)*

(b) Asset securitisation *(Continued)*

When the Bank transfers credit assets as part of the securitisation transaction, it does not have the ability to use the transferred credit assets during the term of the arrangement. By setting up the structured entity, the credit assets securitised are isolated from other assets held by the Bank. As per contract for the first phase of 2012 Bank of Communications Credit Asset-backed Securitisation, the credit assets securitised are not part of liquidate assets when the Group is legally dissolved, revoked or declared bankrupt.

44 RELATED PARTY TRANSACTIONS

(a) Transactions with the MOF

As at 31 December 2013, the MOF holds 19,703 million (31 December 2012: 19,703 million) shares of the Bank which represents 26.53% (31 December 2012: 26.53%) of total share capital of the Bank. The Group enters into banking transactions with the MOF under normal course of business and they mainly include the purchase and redemption of investment securities issued by the MOF and the deposits from the MOF. The volumes and outstanding balances of the related party transactions at the year end, and related income and expenses for the years are summarised as follows:

(i) Treasury bonds issued by the MOF

	Year ended at 31 December	
	2013	2012
Purchase during the year	158,074	161,688
Redemption during the year	(137,788)	(141,865)
Interest income	10,316	9,255

	As at 31 December 2013	As at 31 December 2012
Outstanding balance of treasury bonds at the beginning of the year	253,502	231,223
Outstanding balance of treasury bonds at the end of the year	273,357	253,502
Maturity range of the bonds	1 year–50 years	1 year–50 years
Interest rate range of the bonds	1.43%–6.15%	1.40%–6.15%

(ii) Deposits

	As at 31 December 2013	As at 31 December 2012
Time Deposits	11,746	56,450
Maturity range of the deposits	3 months–6 months	3 months–12 months
Interest rate range of the deposits	2.86%–6.30%	3.05%–4.80%

(All amounts expressed in millions of RMB unless otherwise stated)

44 RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transactions with the MOF *(Continued)*

(iii) *Interest expense*

	Year ended at 31 December 2013	2012
Interest expense	1,315	1,215

(b) Transactions with National Council for Social Security Fund

As at 31 December 2013, National Council for Social Security Fund holds 10,311 million (31 December 2012: 10,311 million) shares of the Bank which represents 13.88% (31 December 2012: 13.88%) of total share capital of the Bank. The Group enters into transactions with National Council for Social Security Fund under normal course of business and they mainly include deposits which are carried out under normal commercial terms and paid at market rates.

The volumes and outstanding balances at the year end, and related interest expenses for the years are summarised as follows:

Deposits

	Year ended at 31 December 2013	2012
Outstanding balance at the beginning of the year	42,100	28,233
Deposited during the year	31,106	16,067
Repaid during the year	(14,606)	(2,200)
Outstanding balance at the end of the year	58,600	42,100
Interest expense	2,182	1,229

(c) Transactions with The Hongkong and Shanghai Banking Corporation Limited ("HSBC")

As at 31 December 2013, HSBC holds 13,886 million (31 December 2012: 13,886 million) shares of the Bank which represents 18.70% (31 December 2012: 18.70%) of total share capital of the Bank. Transactions between the Group and HSBC are carried out under normal commercial terms and paid at market rates. Details of transaction volumes and outstanding balances are summarised below:

(i) *Due from HSBC*

	Year ended at 31 December 2013	2012
Outstanding at the beginning of the year	2,865	2,317
Granted during the year	147,033	207,883
Repaid during the year	(149,420)	(207,335)
Outstanding at the end of the year	478	2,865
Interest income	10	28

(All amounts expressed in millions of RMB unless otherwise stated)

44 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Transactions with The Hongkong and Shanghai Banking Corporation Limited ("HSBC") *(Continued)*

(ii) Due to HSBC

	Year ended at 31 December	
	2013	2012
Outstanding at the beginning of the year	16,769	19,707
Deposited during the year	34,722	68,213
Repaid during the year	(26,329)	(71,151)
Outstanding at the end of the year	25,162	16,769
Interest expense	244	152

(iii) Investment securities issued by HSBC

	Year ended at 31 December	
	2013	2012
Interest income	42	42

	As at 31 December 2013	As at 31 December 2012
Outstanding balance	1,326	1,555

(iv) Derivative transactions

	As at 31 December 2013	As at 31 December 2012
Notional amount of derivative transactions	106,650	55,613
Fair value of derivative transactions	(404)	(319)

(d) Transactions with directors and senior management

The Group enters into transactions with directors and senior management under the normal course of business and they mainly include loans and deposits, which are carried out under commercial terms and paid at market rates. The volumes during and outstanding balances at the year ended 31 December 2013 and 2012 are summarised as follows:

(i) Loans

	Year ended 31 December	
	2013	2012
Outstanding at the beginning of the year	2	2
Granted during the year	1	—
Repayment during the year	(3)	—
Outstanding at the end of the year	—	2

(All amounts expressed in millions of RMB unless otherwise stated)

44 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Transactions with directors and senior management *(Continued)*

(i) Loans *(Continued)*

No allowance for impairment has been recognised in respect of loans granted to directors and senior management.

(ii) Deposits

	Year ended 31 December	
	2013	2012
Outstanding at the beginning of the year	9	9
Deposited during the year	4	3
Repaid during the year	(7)	(3)
Outstanding at the end of the year	6	9

(e) Transactions with associate

As at 31 December 2013, The Group holds 20% (31 December 2012: 20%) of total share capital of Bank of Tibet Co., Ltd. Transactions between the Group and Bank of Tibet Co., Ltd. are carried out under normal commercial terms and paid at market rates. Details of transaction volumes and outstanding balances are summarised below:

Due to Bank of Tibet Co., Ltd.

	Year ended at 31 December	
	2013	2012
Outstanding at the beginning of the year	—	—
Deposited during the year	4,307	700
Repaid during the year	(1,232)	(700)
Outstanding at the end of the year	3,075	—
Interest expense	37	9

45 SEGMENTAL ANALYSIS

The Group's senior management reviewed the Group's operation by the particular economic areas in which the Group's branches and subsidiaries provide products or services. The Group's operating segments are decided upon location of the assets, as the Group's branches mainly serve local customers.

The reportable operating segments derive their revenue primarily from the commercial banking services provided to customers and investing activities, including deposits/loans, bills, trade finance, money market placements and takings and securities investments. The operating segments are:

(i) Northern China — Including the following provinces: Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia;

(ii) North Eastern China — Including the following provinces: Liaoning, Jilin, Heilongjiang;

(iii) Eastern China — Including the following provinces: Shanghai (excluding Head Office), Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong;

(iv) Central and Southern China — Including the following provinces: Henan, Hunan, Hubei, Guangdong, Guangxi, Hainan;

(v) Western China — Including the following provinces: Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang;

(vi) Head Office;

(vii) Overseas — Including overseas subsidiaries and the following branches: Hong Kong, New York, Singapore, Seoul, Tokyo, Frankfurt, Macau, Ho Chi Mihn City, San Francisco, Sydney, London and Taipei.

There were no changes in the reportable segments during the year.

The revenue from external parties reported to the senior management is measured in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income.

As the Group's major revenue is derived from interest and the senior management relies primarily on net interest income to assess the performance of the segment, the total interest income and expense for all reportable segments will be presented on a net basis.

The measure of segment profit or loss reviewed by the Group's senior management is profit before tax. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense between the segments.

(All amounts expressed in millions of RMB unless otherwise stated)

45 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information

Group

	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Head Office	Overseas	Eliminations	Group Total
As at 31 December 2013									
Assets									
Cash and balances with central banks	12,037	4,402	25,215	17,021	7,606	803,762	26,513	–	896,556
Due from banks and other financial institutions	11,693	12,148	75,995	26,922	16,899	359,778	62,994	–	566,429
Financial assets at fair value through profit or loss	–	–	2	–	–	60,846	12,462	–	73,310
Loans and advances to customers	506,224	162,116	1,181,417	584,398	308,983	172,499	277,426	–	3,193,063
Investment securities – loans and receivables	105	52	4,761	4,262	57	110,489	–	–	119,726
Investment securities – available-for-sale	9	–	1,234	594	16	173,290	46,110	–	221,253
Investment securities – held-to-maturity	–	–	903	150	–	668,218	1,344	–	670,615
Investment in an associate	–	–	–	–	–	344	–	–	344
Other assets	542,880	141,971	871,955	445,669	192,300	321,862	98,787	(2,395,783)	219,641
Total assets	1,072,948	320,689	2,161,482	1,079,016	525,861	2,671,088	525,636	(2,395,783)	5,960,937
Liabilities									
Due to banks and other financial institutions	(325,675)	(22,797)	(347,513)	(119,118)	(33,256)	(171,733)	(106,471)	–	(1,126,563)
Financial liabilities at fair value through profit or loss	–	–	–	–	–	(11,514)	(17,126)	–	(28,640)
Due to customers	(704,233)	(272,889)	(1,592,514)	(878,557)	(445,875)	(2,014)	(261,751)	–	(4,157,833)
Certificates of deposit issued	–	–	–	–	–	(2,968)	(21,651)	–	(24,619)
Debts securities issued	–	–	–	–	–	(78,000)	(4,238)	–	(82,238)
Other liabilities	(43,512)	(24,960)	(197,104)	(66,635)	(38,961)	(2,040,388)	(103,783)	2,395,783	(119,560)
Total liabilities	(1,073,420)	(320,646)	(2,137,131)	(1,064,310)	(518,092)	(2,306,617)	(515,020)	2,395,783	(5,539,453)
Net on-balance sheet position	(472)	43	24,351	14,706	7,769	364,471	10,616	–	421,484
Acquisition cost of property and equipment and intangible assets	(1,690)	(1,004)	(4,218)	(4,647)	(1,241)	(1,756)	(3,303)	–	(17,859)

(All amounts expressed in millions of RMB unless otherwise stated)

45 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information *(Continued)*

Group

	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Head Office	Overseas	Eliminations	Group Total
Year ended 31 December 2013									
Interest income[1]	71,118	20,220	139,875	74,253	35,559	74,377	10,736	(166,846)	259,292
Interest expense[2]	(53,017)	(14,239)	(95,824)	(52,413)	(22,940)	(51,805)	(5,242)	166,846	(128,634)
Net interest income[3]	18,101	5,981	44,051	21,840	12,619	22,572	5,494	–	130,658
Fee and commission income	3,422	899	10,613	6,142	2,370	4,534	1,425	–	29,405
Fee and commission expense	(638)	(100)	(1,323)	(701)	(302)	(268)	(105)	–	(3,437)
Net fee and commission income	2,784	799	9,290	5,441	2,068	4,266	1,320	–	25,968
Dividend income	–	1	41	3	–	44	14	–	103
Net gains/(losses) arising from trading activities	688	7	377	292	40	(1,234)	(904)	–	(734)
Net gains/(losses) arising from de-recognition of investment securities	–	58	34	2	–	(19)	84	–	159
Insurance business income	–	–	1,321	–	–	–	36	–	1,357
Share of profit of an associate	–	–	–	–	–	42	–	–	42
Other operating income	1,168	421	3,026	1,593	783	248	278	–	7,517
Total operating revenue	22,741	7,267	58,140	29,171	15,510	25,919	6,322	–	165,070
Impairment losses on loans and advances to customers	(1,132)	(350)	(14,379)	(1,786)	(531)	(1)	(231)	–	(18,410)
Insurance business expense	–	–	(1,150)	–	–	–	(23)	–	(1,173)
Other operating expense	(9,343)	(3,501)	(22,408)	(12,295)	(6,071)	(9,738)	(2,222)	–	(65,578)
Profit before tax	12,266	3,416	20,203	15,090	8,908	16,180	3,846	–	79,909
Income tax	(3,099)	(808)	(5,113)	(3,818)	(2,244)	(1,490)	(876)	–	(17,448)
Net profit for the year	9,167	2,608	15,090	11,272	6,664	14,690	2,970	–	62,461
Depreciation and amortisation	(667)	(356)	(1,876)	(845)	(528)	(830)	(78)	–	(5,180)
[1]Include									
External interest income	33,308	10,385	79,345	38,962	20,270	67,884	9,138	–	259,292
Inter-segment interest income	37,810	9,835	60,530	35,291	15,289	6,493	1,598	(166,846)	–
[2]Include									
External interest expense	(28,827)	(6,863)	(45,339)	(24,894)	(9,058)	(8,918)	(4,735)	–	(128,634)
Inter-segment interest expense	(24,190)	(7,376)	(50,485)	(27,519)	(13,882)	(42,887)	(507)	166,846	–
[3]Include									
External net interest income	4,481	3,522	34,006	14,068	11,212	58,966	4,403	–	130,658
Inter-segment net interest income/(expense)	13,620	2,459	10,045	7,772	1,407	(36,394)	1,091	–	–

(All amounts expressed in millions of RMB unless otherwise stated)

45 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information *(Continued)*

Group

	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Head Office	Overseas	Eliminations	Group Total
As at 31 December 2012									
Assets									
Cash and balances with central banks	16,702	3,910	26,052	14,206	7,615	735,925	12,436	–	816,846
Due from banks and other financial institutions	42,897	13,418	84,614	82,602	8,233	241,177	48,022	–	520,963
Financial assets at fair value through profit or loss	–	–	–	405	–	42,765	8,991	–	52,161
Loans and advances to customers	483,205	148,911	1,097,640	540,186	273,578	122,171	213,937	–	2,879,628
Investment securities – loans and receivables	176	75	209	544	69	29,322	–	–	30,395
Investment securities – available-for-sale	8	1	1,604	575	12	165,142	37,266	–	204,608
Investment securities – held-to-maturity	–	–	773	–	–	596,488	1,354	–	598,615
Investment in an associate	–	–	–	–	–	302	–	–	302
Other assets	438,259	116,580	728,202	348,003	155,181	339,035	64,003	(2,019,402)	169,861
Total assets	981,247	282,895	1,939,094	986,521	444,688	2,272,327	386,009	(2,019,402)	5,273,379
Liabilities									
Due to banks and other financial institutions	(288,252)	(13,914)	(335,429)	(109,758)	(45,358)	(69,111)	(81,167)	–	(942,989)
Financial liabilities at fair value through profit or loss	–	–	–	–	–	(5,399)	(17,661)	–	(23,060)
Due to customers	(641,369)	(247,009)	(1,456,617)	(790,006)	(369,334)	(1,844)	(222,233)	–	(3,728,412)
Certificates of deposit issued	–	–	–	–	–	–	(9,572)	–	(9,572)
Debts securities issued	–	–	(2,000)	–	–	(68,000)	–	–	(70,000)
Other liabilities	(43,685)	(21,482)	(112,666)	(68,735)	(24,106)	(1,791,177)	(75,450)	2,019,402	(117,899)
Total liabilities	(973,306)	(282,405)	(1,906,712)	(968,499)	(438,798)	(1,935,531)	(406,083)	2,019,402	(4,891,932)
Net on-balance sheet position	7,941	490	32,382	18,022	5,890	336,796	(20,074)	–	381,447
Acquisition cost of property and equipment and intangible assets	(1,656)	(594)	(6,870)	(2,207)	(2,120)	(363)	(286)	–	(14,096)

(All amounts expressed in millions of RMB unless otherwise stated)

45 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information *(Continued)*

Group

	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Head Office	Overseas	Eliminations	Group Total
Year ended 31 December 2012 (Restated)									
Interest income[1]	72,380	19,109	137,119	69,356	31,541	61,675	9,202	(159,786)	240,596
Interest expense[2]	(55,300)	(13,521)	(94,269)	(47,803)	(20,992)	(43,640)	(4,731)	159,786	(120,470)
Net interest income[3]	17,080	5,588	42,850	21,553	10,549	18,035	4,471	–	120,126
Fee and commission income	2,791	664	8,073	5,022	1,385	4,948	1,243	–	24,126
Fee and commission expense	(670)	(91)	(1,225)	(623)	(228)	(316)	(91)	–	(3,244)
Net fee and commission income	2,121	573	6,848	4,399	1,157	4,632	1,152	–	20,882
Dividend income	–	–	36	–	–	9	35	–	80
Net gains/(losses) arising from trading activities	424	86	643	301	67	(388)	136	–	1,269
Net gains/(losses) arising from de-recognition of investment securities	–	–	1	–	3	341	(16)	–	329
Insurance business income	–	–	708	–	–	–	33	–	741
Share of profit of an associate	–	–	–	–	–	4	–	–	4
Other operating income	871	206	1,503	952	499	272	454	–	4,757
Total operating revenue	20,496	6,453	52,589	27,205	12,275	22,905	6,265	–	148,188
Impairment losses on loans and advances to customers	(760)	(449)	(10,514)	(1,566)	(691)	(4)	(553)	–	(14,537)
Insurance business expense	–	–	(610)	–	–	–	(20)	–	(630)
Other operating expense	(8,273)	(3,238)	(19,617)	(10,687)	(4,917)	(8,612)	(2,466)	–	(57,810)
Profit before tax	11,463	2,766	21,848	14,952	6,667	14,289	3,226	–	75,211
Income tax	(2,921)	(712)	(5,627)	(3,843)	(1,701)	(1,320)	(615)	–	(16,739)
Net profit for the year	8,542	2,054	16,221	11,109	4,966	12,969	2,611	–	58,472
Depreciation and amortisation	(574)	(313)	(1,497)	(751)	(482)	(762)	(117)	–	(4,496)
[1]Include									
External interest income	33,042	9,464	77,769	37,193	17,735	57,677	7,716	–	240,596
Inter-segment interest income	39,338	9,645	59,350	32,163	13,806	3,998	1,486	(159,786)	–
[2]Include									
External interest expense	(29,926)	(6,334)	(42,814)	(21,262)	(7,999)	(7,906)	(4,229)	–	(120,470)
Inter-segment interest expense	(25,374)	(7,187)	(51,455)	(26,541)	(12,993)	(35,734)	(502)	159,786	–
[3]Include									
External net interest income	3,116	3,130	34,955	15,931	9,736	49,771	3,487	–	120,126
Inter-segment net interest income/(expense)	13,964	2,458	7,895	5,622	813	(31,736)	984	–	–

(All amounts expressed in millions of RMB unless otherwise stated)

45 SEGMENTAL ANALYSIS *(Continued)*

Geographical information

	Year ended 31 December			
	2013		2012	
	Revenue	Non-current assets[1]	Revenue	Non-current assets[1]
PRC	294,533	60,503	269,219	48,788
Other countries	2,608	120	2,683	131
Total	297,141	60,623	271,902	48,919

Note 1: Non-current assets include property and equipment, land use rights, intangible assets, prepaid rental expenses, leasehold improvement, investment property and goodwill etc. It excludes financial assets, deferred income tax assets and rights arising under insurance contracts.

Business Information

The Group is engaged predominantly in banking and related financial activities. It comprises corporate banking, retail banking, treasury and other classes of business. Corporate banking mainly comprises corporate loans, bills, trade finance, corporate deposits and remittance. Retail banking mainly comprises individual loans, individual deposits, credit card and remittance. Treasury mainly comprises money market placements and takings, investment securities, and securities sold under repurchase agreements. The "Others" business segment mainly comprises items which cannot be categorised in the above business segments.

Group

	Year ended 31 December 2013				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	74,011	25,332	30,695	620	130,658
Internal net interest income/(expense)	2,216	8,194	(10,410)	—	—
Net interest income	76,227	33,526	20,285	620	130,658
Net fee and commission income	14,996	9,207	198	1,567	25,968
Dividend income	—	—	—	103	103
Net gains/(losses) arising from trading activities	94	141	(1,001)	32	(734)
Net gains arising from de-recognition of investment securities	—	—	159	—	159
Insurance business income	—	—	—	1,357	1,357
Other operating income	700	6,097	185	535	7,517
Impairment losses on loans and advances to customers	(11,316)	(7,094)	—	—	(18,410)
Insurance business expense	—	—	—	(1,173)	(1,173)
Other operating expense					
— depreciation and amortisation	(1,594)	(2,766)	(86)	(734)	(5,180)
— others	(25,126)	(32,765)	(1,544)	(963)	(60,398)
Share of profit of an associate	—	—	—	42	42
Profit before tax	53,981	6,346	18,196	1,386	79,909
Capital expenditure	5,656	10,060	311	1,832	17,859
Total assets	2,705,877	678,175	2,548,512	28,373	5,960,937
Total liabilities	(2,984,897)	(1,359,811)	(1,191,545)	(3,200)	(5,539,453)

(All amounts expressed in millions of RMB unless otherwise stated)

45 SEGMENTAL ANALYSIS *(Continued)*

Business Information *(Continued)*

Group

	Year ended 31 December 2012 (Restated)				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	71,065	22,762	25,830	469	120,126
Internal net interest income/(expense)	755	8,481	(9,236)	—	—
Net interest income	71,820	31,243	16,594	469	120,126
Net fee and commission income	10,647	8,572	25	1,638	20,882
Dividend income	—	—	—	80	80
Net gains/(losses) arising from trading activities	849	(4)	427	(3)	1,269
Net gains arising from de-recognition of investment securities	—	—	329	—	329
Insurance business income	—	—	—	741	741
Other operating income	478	3,654	367	258	4,757
Impairment losses on loans and advances to customers	(11,683)	(2,854)	—	—	(14,537)
Insurance business expense	—	—	—	(630)	(630)
Other operating expense					
— depreciation and amortisation	(1,274)	(2,607)	(8)	(607)	(4,496)
— others	(23,193)	(27,651)	(1,047)	(1,423)	(53,314)
Share of profit of an associate	—	—	—	4	4
Profit before tax	47,644	10,353	16,687	527	75,211
Capital expenditure	6,339	6,473	20	1,264	14,096
Total assets	2,421,169	610,869	2,219,762	21,579	5,273,379
Total liabilities	(2,676,580)	(1,213,526)	(994,442)	(7,384)	(4,891,932)

There were no large transactions with a single external customer that the Group mainly relying on.

46 RECLASSIFICATION OF COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year presentation.

47 SUBSEQUENT EVENTS

On 16 January 2014, the Bank's Hong Kong branch issued a medium-term note in Hong Kong in the principal amount of USD700 million with a maturity of 3 years (redeem on 15 January 2017), which has a fixed coupon rate of 2.125%, payable annually. The note has been listed on the Hong Kong Stock Exchange starting 16 January 2014.

On 21 March 2014, the Bank issued a note in Hong Kong in the principal amount of RMB1.5 billion with a maturity of 2 years (redeem on 20 March 2016), which has a fixed coupon rate of 3.3%, payable annually. The note has been listed on the Hong Kong Stock Exchange starting 21 March 2014.

Supplementary Unaudited Financial Information

(All amounts expressed in millions of RMB unless otherwise stated)

(All amounts expressed in millions of RMB unless otherwise stated)

1 LIQUIDITY RATIOS

The liquidity ratios that the Bank submitted to the Regulators are calculated in accordance with the formula promulgated by CBRC.

Group

	As at 31 December 2013	As at 31 December 2012
Liquidity ratios:	47.83%	38.10%

Bank

	As at 31 December 2013	As at 31 December 2012
Liquidity ratios:	47.62%	37.93%

2 CURRENCY CONCENTRATIONS

Group

	US dollar	HK dollar	Others	Total
As at 31 December 2013				
Spot assets	453,607	113,078	38,698	605,383
Spot liabilities	(308,945)	(137,014)	(61,671)	(507,630)
Forward purchases	653,941	66,785	487,449	1,208,175
Forward sales	(644,686)	(9,736)	(492,431)	(1,146,853)
Net option position	(1,120)	7	(9)	(1,122)
Net long/(short) position	152,797	33,120	(27,964)	157,953
Net structural position	12,386	7,430	2,225	22,041

Group

	US dollar	HK dollar	Others	Total
As at 31 December 2012				
Spot assets	389,160	98,890	34,333	522,383
Spot liabilities	(319,921)	(130,508)	(36,479)	(486,908)
Forward purchases	437,706	97,358	21,213	556,277
Forward sales	(432,050)	(87,816)	(20,956)	(540,822)
Net option position	(1,895)	107	(15)	(1,803)
Net long/(short) position	73,000	(21,969)	(1,904)	49,127
Net structural position	6,106	4,115	2,378	12,599

The net options position is calculated using the model user approach as set out by CBRC. The net structural position of the Group includes the structural positions of the Bank's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

— Investments in fixed assets and premises, net of depreciation charges;
— Capital and statutory reserves of overseas branches;
— Investments in overseas subsidiaries and related companies; and
— Loan capital.

(All amounts expressed in millions of RMB unless otherwise stated)

3 CROSS-BORDER CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as cross-border claims.

Cross-border claims include loans and advances to customers, balances and placements with banks and other financial institutions, trade bills and certificates of deposit and investment securities.

Cross-border claims have been disclosed by different countries or geographical areas. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account of any risk transfers. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	Bank and other financial institutions	Public sector entities	Others	Total
As at 31 December 2013				
Asia Pacific excluding Mainland China	71,194	28,801	193,370	293,365
— of which attributed to Hong Kong	43,300	25,573	171,346	240,219
North and South America	33,464	945	19,547	53,956
Africa	—	—	5	5
Europe	14,788	3,128	1,276	19,192
	119,446	32,874	214,198	366,518

	Bank and other financial institutions	Public sector entities	Others	Total
As at 31 December 2012				
Asia Pacific excluding Mainland China	35,538	10,450	148,722	194,710
— of which attributed to Hong Kong	11,713	4,117	136,641	152,471
North and South America	28,328	8,131	17,330	53,789
Africa	2	—	—	2
Europe	10,688	3,565	357	14,610
	74,556	22,146	166,409	263,111

4 OVERDUE AND RESCHEDULED ASSETS

(a) Gross amount of overdue loans

Group

	As at 31 December 2013	As at 31 December 2012
Gross loans and advances to customers which have been overdue for:		
— within 3 months	14,313	15,771
— between 3 and 6 months	7,284	4,599
— between 6 and 12 months	9,888	4,997
— over 12 months	14,642	10,856
	46,127	36,223
Percentage:		
— within 3 months	0.44%	0.54%
— between 3 and 6 months	0.22%	0.16%
— between 6 and 12 months	0.30%	0.17%
— over 12 months	0.45%	0.37%
	1.41%	1.24%

(All amounts expressed in millions of RMB unless otherwise stated)

4 OVERDUE AND RESCHEDULED ASSETS *(Continued)*

(a) Gross amount of overdue loans *(Continued)*

Bank

	As at 31 December 2013	As at 31 December 2012
Gross loans and advances to customers which have been overdue for:		
— within 3 months	14,301	15,763
— between 3 and 6 months	7,277	4,598
— between 6 and 12 months	9,881	4,793
— over 12 months	14,548	10,856
	46,007	36,010
Percentage:		
— within 3 months	0.44%	0.53%
— between 3 and 6 months	0.22%	0.16%
— between 6 and 12 months	0.30%	0.16%
— over 12 months	0.45%	0.37%
	1.41%	1.22%

Group and Bank

	As at 31 December 2013	As at 31 December 2012
Gross amounts for due from banks and other financial institutions		
— within 3 months	—	—
— between 3 and 6 months	—	—
— between 6 and 12 months	—	—
— over 12 months	12	12
	12	12
Percentage:		
— within 3 months	—	—
— between 3 and 6 months	—	—
— between 6 and 12 months	—	—
— over 12 months	0.01%	0.01%
	0.01%	0.01%

As at 31 December 2013 and 2012, balances of overdue trade bills which have been included in the gross overdue loans and advances to customers are:

Group and Bank

	As at 31 December 2013	As at 31 December 2012
— within 3 months	8	—
— between 3 and 6 months	—	—
— between 6 and 12 months	4	29
— over 12 months	30	55
	42	84

(All amounts expressed in millions of RMB unless otherwise stated)

4 OVERDUE AND RESCHEDULED ASSETS *(Continued)*

(b) Overdue and rescheduled loans

Group and Bank

	As at 31 December 2013	As at 31 December 2012
Total rescheduled loans and advances to customers	2,255	2,807
Including: rescheduled loans and advances to customers overdue above 3 months	748	860
Percentage of rescheduled loans and advances to customers overdue above 3 months in total loans	0.02%	0.03%

5 SEGMENTAL INFORMATION OF LOANS

(a) Impaired loans by geographical area

Group

	As at 31 December 2013		As at 31 December 2012	
	Impaired loans	Allowances for individually assessed impaired loans	Impaired loans	Allowances for individually assessed impaired loans
PRC domestic regions				
— Northern China	3,019	(1,443)	3,430	(1,692)
— North Eastern China	2,095	(803)	1,986	(884)
— Eastern China	23,781	(11,402)	15,593	(6,846)
— Central and Southern China	3,979	(1,691)	3,888	(2,028)
— Western China	1,183	(644)	1,630	(769)
	34,057	(15,983)	26,527	(12,219)
Hong Kong, Macau, Taipei and overseas countries	253	(199)	468	(265)
	34,310	(16,182)	26,995	(12,484)

Bank

	As at 31 December 2013		As at 31 December 2012	
	Impaired loans	Allowances for individually assessed impaired loans	Impaired loans	Allowances for individually assessed impaired loans
PRC domestic regions				
— Northern China	3,019	(1,443)	3,430	(1,692)
— North Eastern China	2,095	(803)	1,986	(884)
— Eastern China	23,767	(11,395)	15,593	(6,846)
— Central and Southern China	3,979	(1,691)	3,888	(2,028)
— Western China	1,183	(644)	1,627	(768)
	34,043	(15,976)	26,524	(12,218)
Hong Kong, Macau, Taipei and overseas countries	158	(135)	269	(216)
	34,201	(16,111)	26,793	(12,434)

(All amounts expressed in millions of RMB unless otherwise stated)

5 SEGMENTAL INFORMATION OF LOANS *(Continued)*

(b) Overdue loans and advances to customers by geographical area

Group

	As at 31 December 2013			As at 31 December 2012		
	Overdue loans	Allowances for individually assessed impaired loans	Allowances for collectively assessed impaired loans	Overdue loans	Allowances for individually assessed impaired loans	Allowances for collectively assessed impaired loans
PRC domestic regions						
— Northern China	4,734	(1,409)	(58)	4,118	(1,626)	(30)
— North Eastern China	2,678	(740)	(26)	1,980	(784)	(9)
— Eastern China	30,072	(11,099)	(256)	22,654	(6,308)	(1,197)
— Central and Southern China	6,140	(1,637)	(62)	5,298	(1,870)	(39)
— Western China	2,060	(628)	(21)	1,565	(581)	(12)
	45,684	(15,513)	(423)	35,615	(11,169)	(1,287)
Hong Kong, Macau, Taipei and overseas countries	443	(196)	—	608	(231)	—
	46,127	(15,709)	(423)	36,223	(11,400)	(1,287)
Fair value of collaterals	4,734	(1,409)	(58)	15,238	—	—

Bank

	As at 31 December 2013			As at 31 December 2012		
	Overdue loans	Allowances for individually assessed impaired loans	Allowances for collectively assessed impaired loans	Overdue loans	Allowances for individually assessed impaired loans	Allowances for collectively assessed impaired loans
PRC domestic regions						
— Northern China	4,734	(1,409)	(58)	4,118	(1,626)	(30)
— North Eastern China	2,678	(740)	(26)	1,980	(784)	(9)
— Eastern China	30,046	(11,099)	(256)	22,647	(6,308)	(1,197)
— Central and Southern China	6,140	(1,637)	(62)	5,298	(1,870)	(39)
— Western China	2,060	(628)	(21)	1,562	(580)	(12)
	45,658	(15,513)	(423)	35,605	(11,168)	(1,287)
Hong Kong, Macau, Taipei and overseas countries	349	(132)	—	405	(181)	—
	46,007	(15,645)	(423)	36,010	(11,349)	(1,287)
Fair value of collaterals	4,734	(1,409)	(58)	15,230	—	—

(All amounts expressed in millions of RMB unless otherwise stated)

6 LOANS AND ADVANCES TO CUSTOMERS

(a) The economic sector risk concentration analysis for loans and advances to customers (gross)

	As at 31 December 2013			As at 31 December 2012		
		%	Amount covered by collaterals		%	Amount covered by collaterals
Hong Kong						
Corporate loans						
Manufacturing						
— Petroleum and chemical	—	—	—	—	—	—
— Electronics	874	0.49	14	1,280	0.82	17
— Textile and clothing	440	0.25	8	383	0.25	10
— Other manufacturing	2,542	1.44	431	3,885	2.50	258
Electricity, gas and water production and supply	1,090	0.62	—	405	0.26	—
Construction	10,569	5.98	663	7,679	4.94	265
Transportation, storage and postal service	12,267	6.94	6,670	13,515	8.70	3,060
Telecommunication, IT service and software	356	0.20	—	244	0.16	—
Wholesale and retail	81,597	46.15	8,870	64,032	41.22	7,416
Accommodation and catering	412	0.23	256	159	0.10	6
Financial institutions	21,747	12.30	4,613	15,097	9.72	3,723
Real estate	12,114	6.85	9,722	9,334	6.01	8,551
Services	—	—	—	—	—	—
Education	4	0.00	—	1	0.00	—
Others	12,592	7.13	1,439	20,099	12.94	1,004
Total corporate loans	156,604	88.58	32,686	136,113	87.62	24,310
Individual loans						
Mortgage loans	9,746	5.51	9,742	10,321	6.64	10,317
Short-term working capital loans	34	0.02	31	60	0.04	55
Credit card advances	121	0.07	—	130	0.08	—
Others	10,297	5.82	9,690	8,724	5.62	8,205
Total individual loans	20,198	11.42	19,463	19,235	12.38	18,577
Gross amount of loans and advances before allowance for impairment	176,802	100.00	52,149	155,348	100.00	42,887
Outside Hong Kong	3,089,566			2,791,951		

The economic sector risk concentration analysis for loans and advances to customers is based on the Group's internal rating system.

The ratio of collateral loan to the total loan of the Group is 48% as at 31 December 2013 (31 December 2012: 46%).

(All amounts expressed in millions of RMB unless otherwise stated)

6 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(b) Allowance on loans and advances by loan usage

Group

	As at 31 December 2013		As at 31 December 2012	
	Impaired loans	Allowance for individually assessed impaired loans	Impaired loans	Allowance for individually assessed impaired loans
Corporate	25,229	(10,166)	21,896	(9,672)
Individuals	9,081	(6,016)	5,099	(2,812)
	34,310	(16,182)	26,995	(12,484)
Fair value of collateral	11,295	N/A	9,208	N/A

Bank

	As at 31 December 2013		As at 31 December 2012	
	Impaired loans	Allowance for individually assessed impaired loans	Impaired loans	Allowance for individually assessed impaired loans
Corporate	25,217	(10,160)	21,896	(9,672)
Individuals	8,984	(5,951)	4,897	(2,762)
	34,201	(16,111)	26,793	(12,434)
Fair value of collateral	11,289	N/A	9,208	N/A

Collateral held against such loans mainly include cash deposits and mortgages over properties.

The amount of new provisions charged to statement of profit or loss and other comprehensive income, and the amount of loans and advances written off during the years are disclosed below:

Group

	As at 31 December 2013			As at 31 December 2012		
	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years
Corporate	11,316	(9,380)	336	11,683	(1,956)	188
Individuals	7,094	(2,430)	131	2,854	(694)	135
	18,410	(11,810)	467	14,537	(2,650)	323

Bank

	As at 31 December 2013			As at 31 December 2012		
	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years
Corporate	11,265	(9,380)	336	11,666	(1,956)	188
Individuals	7,050	(2,430)	131	2,798	(694)	135
	18,315	(11,810)	467	14,464	(2,650)	323

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